



Department of Statistics

Working Group for the Revision of the standards for statistics on informality

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Conceptual Framework for Statistics on Informal Economy

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Abbreviations and Acronyms

FS	Formal Sector
GDP	Gross Domestic Product
ICLS	International Conference of Labour Statisticians
ICSaW-18	The International Classification of Status at Work 2018
ICSE-18	The International Classification of Status in Employment 2018
ICSE-18-A	The International Classification of Status in Employment according to type of Authority
ICSE-18-R	The International Classification of Status in Employment according to type of economic Risk
ICSE-93	The International Classification of Status in Employment 1993
ILO	International Labour Organization
IS	Informal Sector
ISCO	International Standard Classification of Occupations International Standard Industrial Classification of all economic activities
ISIC	International Standard Industrial Classification of all economic activities
NPISH	Non-Profit Institutions Serving Households
OECD	Organisation for Economic Co-operation and Development
OS	Own-use production sector
SDG	Sustainable Development Goal
SNA	The System of National Accounts
19th ICLS resolution I	The resolution concerning statistics of work, employment and labour underutilization adopted at the 19th International Conference of Labour Statisticians

1 Introduction and underlying concepts

1.1 Introduction

1. This paper presents an outline of the proposed framework for statistics on informality. The paper is based on the discussions that took place during the second meeting of the International Labour Organization (ILO) Working Group for the Revision of the standards for statistics on informality in 2020 (ILO, 2021). The paper can be viewed as an update or continuation of the discussion paper *Conceptual Framework for Statistics on Informality* (ILO, 2020a) which was presented and discussed at the second meeting. The paper reflects some of the points raised during the meeting in particular around the need to provide oversights of the structure of the conceptual framework, the link between informal employment, ICSE-18 and the different sectors, the possibility for contributing family workers to have formal jobs but also includes subsequent development work. In general this paper should be viewed as a dynamic paper that will be continuously updated reflecting the latest developments with the aim to present it and discuss it at the 3rd working group meeting.
 2. As decided at the 2nd working group a number of sub-groups will be established around the issues of dependent contractors and informality, the supplementing indicator framework, the boundary of market production and subsistence workers and finally regarding the separation between multiple household market enterprises within the same households. This version of the conceptual framework do not reflect the outcome of these discussion. The output from these sub-groups will be integrated in a revised version of this paper to be presented and discussed at the 3rd WG-meeting.
 3. The framework, as described in this paper, outlines a possible structure for the statistical standards that are intended to replace the Resolution concerning statistics of employment in the informal sector (ILO, 1993) and the Guidelines concerning a statistical definition of informal employment (ILO, 2003). It also provides descriptions and definitions of the key concepts to be included as well as the relationship between them. The framework as described in this paper is by no means complete: further development and refinement will be needed, but is presented here with the objective to generate discussion, comments and other inputs in order to further improve the proposal.
 4. The paper is constructed around five different parts. The first part gives an overview of the structure for a new conceptual framework and its different statistical components. It introduces the underlying concept of informal productive activities as well as the concept of the informal economy and informal market economy, the different statistical components of informal employment, the informal sector, informal productive activities in relation to formal jobs and the formal sector. It also introduces the idea of additional essential categories of informal productive activities outside the informal market economy.
 5. The second part describes and proposes conceptual and operational definitions of the informal sector, the formal sector and the own-use production sector. It also explains the link between these three different sectors and the concept of work, as well as the link to the institutional sectors as defined by the System of National Accounts (SNA).
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6. The third part focuses on informal employment and the operational definition of informal jobs, which is based on the International Classification of Status in Employment (ICSE-18). It includes a discussion of different operational definitions for independent workers and the different aggregate categories of dependent workers. This part is further supported by the two documents *Country practices for measuring informal sector and informal employment* (ILO, 2020b) and *Informality and the measurement of Dependent contractors* (ILO, 2020c) that includes a more in-depth analysis of informal jobs held by respectively employees and dependent contractors.
7. The fourth part discusses the issue of how forms of work other than employment can be related to the framework for statistics on informality. It proposes a broad approach that acknowledges that informal productive activities exist outside employment, while focusing on essential categories of informal productive activities such as subsistence workers and unpaid trainees that can complement the statistical components included in the informal market economy.
8. The last part presents the possibility of introducing a second dimension with the aim of providing a further contextualization to the dichotomy between informal and formal productivities. It also introduces an outline for an indicator framework that provides information regarding the structure and composition of informality within a country as well as linking it to policy making. This aspect is further elaborated in the paper *Contextualising informal employment, an indicator framework* (ILO, 2020d).
9. The paper also includes a number of “statements” marked with cursive text. These parts can be viewed as a first attempt to begin to outline the essential elements in a new resolution.

1.2 Reference concepts

10. Statistics on informality are concerned with the informal nature of a) productive activities defined as work carried out by persons and b) the productive activities carried out by enterprises.
11. The units that are relevant for the production of statistics on work relationships are persons, jobs or work activities and economic units.
12. The concept of economic unit is aligned with that defined in the System of National Accounts (SNA 2008) and distinguishes between:
 - i. market units (i.e. corporations, quasi-corporations and household market enterprises);
 - ii. non-market units (i.e. government and non-profit institutions serving households);
 - iii. and households that produce goods or services for own final use (domestic households).
13. Productive activities carried out by persons is aligned with the definition of work in the Resolution concerning statistics of work, employment and labour underutilization (19th ICLS resolution I) and includes activities within the SNA production boundary as well as activities outside the SNA production boundary but inside the SNA general production boundary. Work can be further distinguished between:
 - i. own-use production work

- ii. employment work
 - iii. unpaid trainee work
 - iv. volunteer work
 - v. other work activities
14. All productive activities defined as work can be linked to a specific job or work activity. The concepts of jobs or work activities is aligned to those defined in the Resolution concerning statistics on work relationships (ILO, 2018) and is defined as a set of tasks and duties performed, or meant to be performed, by one person for a single economic unit. (Para 8, ILO 2018). The term job is used in relation to employment while work activity is used in relation to forms of work other than employment.
 15. Productive activities carried out by economic units is aligned with the definition in the System of National Accounts (SNA) and include processes or activities carried out under the control and responsibility of the economic unit and that use inputs of labour, capital, goods and services to produce outputs of goods or services (Para 5.5, SNA, 2008).
 16. Since persons frequently perform work for more than one economic unit, and the informal nature of the productive activities may differ for each unit, statistics on informality refer primarily to productive activities carried out by or for particular economic units.

1.3 Informal productive activities

17. *For statistical purposes the concept of informal productive activities is defined as all productive activities carried out by persons and economic units that are – in law or in practice – not covered by formal arrangements.*
18. The concept of informal productive activities is a conceptual underlying core concept, which calls for the measurement of its different statistical components. It recognizes that informal productive activities i.e. productive activities not covered by formal arrangements are carried out by economic units as well as by persons. When carried out by persons this is to be considered as informal work where the concept of work is aligned to the 19th ICLS resolution I. When carried out by economic units this would be informal productive activities where the concept of productive activities of economic units is aligned with productive activities as defined in the System of National Accounts (SNA) (Para 5.5, SNA, 2008). Informal production carried out by economic units thereby includes informal work carried out by persons for the economic unit as well as other activities, processes and inputs to the production not covered by formal arrangements.
19. The underlying concept of informal productive activities builds on the 15th ICLS resolution concerning statistics of employment in the informal sector and the 17th ICLS Guidelines concerning a statistical definition of the informal employment that recognizes informality comprises informal enterprises and workers in informal employment. This recognition is also acknowledged in the non-statistical concept of the informal economy which refers to all economic activities carried out by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. (ILO, 2015, para. 2 (a)). The uniting factor for these different but highly related concepts is captured by

the underlying concept of informal productive activities carried out by economic units and workers, understood in terms of productive activities that are not covered in practice by formal arrangements.

20. Informal productive activities is not be intended to be measured in it is totality. The concept is broad and includes all productive activities carried out by persons (i.e. work) as well as all production taking place in all forms of economic units (including inputs of labour, capital, goods and services to produce outputs) if the activities are not defined as formal. It should rather be viewed as an encompassing conceptual foundation from which the different statistical components are derived, thus pointing towards which statistical components of the informal productive activities should be statistically quantified and described. Some of these statistical components should be measured regularly due to a high policy interest, while other components might be measured with less frequency and some are only be relevant for special purposes and should only be measured if there is such a need.
21. Productive activities performed by persons (i.e. work or, in SNA terms, “labour inputs”) can be viewed as smaller underlying conceptual unit than jobs, work activities or economic units. It can be viewed as an important underlying concept, but not necessary a statistical or analytical unit as such. However, the concept of productive activities creates flexibility and the possibility to recognize informal production independently of whether it is carried out by a worker in an informal or formal job, in an informal or formal economic unit, or by a household. At the same time, it links the concept of informality to the concepts of production, jobs and workers as well as to economic units.
22. The inclusion of productive activities that are not for pay or profit does not, of itself, represent a change compared to the current standards and the definition of informal employment in the Guidelines concerning a statistical definition of informal employment. Informal employment as defined in the guidelines includes all productive activities within the SNA production boundary. The concept of informal employment as defined in the guidelines thus includes not only work for pay and profit but also own-use production of goods, organization-based volunteer work, unpaid trainee work and direct volunteer work producing goods, at least conceptually. These activities would continue to be part of the concept of informal productive activities. The main difference is that the concept of informal productive activities is expanded to also include productive activities outside the SNA production boundary but inside the general production boundary, thus making the concept aligned to the broad concept of work defined in the 19th ICLS resolution I.
23. The concept of informal productive activities as defined is an encompassing concept that goes beyond the concepts of informal sector and informal employment and therefore expand the current scope as defined in the 15th ICLS resolution and 17th ICLS guidelines. Informal production carried out by workers includes all activities defined as work that are not covered by formal arrangements. It therefore also includes productive activities defined as forms of work other than employment such as own-use production work, volunteer work, unpaid trainee work and other work activities, thus recognizing the changes that have taken place with the adoption of 19th ICLS resolution I concerning statistics of work, employment and labour underutilization (19th ICLS resolution I). In addition the concept of informal productive activities do not only include informal production that takes place within informal jobs or work activities (which by definition would only include informal productive activities) but also includes production in relation to formal jobs or work activities in the situation where some of the productive activities carried out by the worker can be considered formal while others are informal.

24. From the perspective of production carried out by economic units, informal productive activities expands the boundary and go beyond the informal sector and would conceptually include productive activities that take place within households if they are not covered by formal arrangements. They would also include informal productive activities carried out by economic units in the formal sector if some of the productive activities can be considered formal while others are informal. In other words, all types of economic units have the potential to carry out informal productive activities.

1.3.1 Formal arrangements

25. The distinction between informal and formal productive activities in the above definition relies on the concept of formal arrangements. Formal arrangements are the key element in the definition and can be understood in terms of procedures established by the government to regulate the actions and functions of economic units and workers, as well as protecting their legal rights. Being covered by formal arrangements implies that the productive activities are recognized by the legal administrative framework of a country in practice and therefore are associated with a degree of protection as well as obligation. Not being covered implies an increased economic or/and personal risk carried by the worker and the economic unit. An essential aspect is that this coverage needs to be "in practice", understood as effective recognition of and access to the formal arrangements and compliance with any obligations. If this is not the case, and the coverage of formal arrangements only reflects a legal coverage but without any effective access to it then the worker or the economic unit carrying out the productive activities, would face a similar exposure to economic and personal risks as if they were not covered by law, in particular if there is a lack of enforcement within a given country.

26. The formal arrangements could refer to regulations and laws such as:

- regulations that stipulate the responsibilities and obligations of the economic units and the workers for example in relation to volunteer work and unpaid trainee work,
- commercial laws that regulate the productive activities carried out by economic units and their engagement in commercial contracts, safeguard of their intellectual and physical property etc.,
- procedures to report economic activities such as fiscal obligations in order, for example, to pay taxes or to cover employees by social security,
- coverage by labour laws and regulations such as annual paid leave, paid sick leave, minimum wage, hours of work and social security laws,
- procedures that regulate access to the institutional infrastructure such as banks, markets or governmental supporting mechanism.

27. Commercial laws, labour legislation, social protection and other protective measures that regulate the action and functions of economic units and workers are all put in place with the aim of protecting and regulating the activities taking place within the economic unit and to reduce the economic and personal risks carried by the worker. The formal recognition of an economic unit as a producer of goods or services and of the workers carrying out the productive activities is a condition for being covered by these arrangements and regulations not only in law but also in practice. Commercial laws protect the producing economic unit by regulating the functions, rights and actions of enterprises as well as the

commercial transactions between them, protecting the intellectual property, enforcing and regulating contractual agreement and ensuring fair competition. Procedures to report economic activities such as fiscal obligations commit the owner of the enterprise to keep a complete set of accounts, report and pay taxes and cover employees for social security. Labour laws regulate the working time, minimum wage and promote the health, safety and welfare of the workers, reduce the personal risk of becoming sick or injured due to the work, thus reducing the personal risk associated with the work.

28. Different forms of social protection and access to employment benefits including paid annual leave and paid sick leave reduces the economic risk to which the worker is exposed in the case of lack of work related income due to external shocks such as becoming sick, injured, unemployed or reaching old age and thereby reduce. A formal recognition of the enterprise would in many cases also be a condition to access markets for example in the public sector or in the formal sector more generally, as well as for accessing financing and credits through banks and the possibility to increase skills through formal training institutions. An economic unit or worker carrying out productive activities that are not formally recognized may have little or no access to these institutional settings and thus have to rely on self-support and other alternative arrangements.
29. Different regulatory frameworks are put in place by governments to regulate and enable the actions and the functions of economic units and workers. They cover production mainly intended for pay or profit but can also include production carried out with a different purpose. For example, regulatory frameworks for non-profit or charitable organizations might be put in place to ensure the sustainability of volunteer organizations where the state can support and facilitate their activities. Basic protections for volunteer workers and unpaid trainees might exist to ensure the right to a healthy and safe work environment.

2 The informal economy

30. *The informal economy constitutes of all informal productive activities carried out by persons and economic units.*
31. The concept of the informal economy has never been statistically defined. It has, however, been defined for policy purposes in the Resolution concerning decent work and the informal economy (ILO, 2002) and in Recommendation No. 204 concerning the Transition from the Informal to the Formal Economy (ILO, 2015). The resolution and recommendation define the informal economy as all economic activities carried out by workers and economic units that are – in law or in practice- not covered or insufficiently covered by formal arrangements. The concept of informal economy as defined in R204 can be viewed from three different perspectives. The workers that carry out informal activities, the enterprises that carry out informal activities and from the perspective of the total informal production including transactions.
32. The introduction of the broad concept of work and the more restricted definition of employment in the 19th ICLS resolution I do, to some extent, challenge the concept of the informal economy as defined in R204 due to the inclusion of all activities within the SNA general production boundary. It is clear that the intention behind the concept in R204 of informal economy is to capture informal employment, economic units in the informal sector and the total production of the informal sector including transaction. However, with the more narrow definition of employment, the identification of different

forms of work and the inclusion of activities outside the SNA production boundary but inside the SNA general production boundary within the concept of work the concept of informal economy either become too narrow (i.e. do not include informal activities outside employment that still would form part of the economy of a country) or a broad concept that conceptually includes all informal productive activities. The latter approach creates a broad umbrella concept aligned to the concept of work that encompasses all informal productive activities independent on whether these activities is intended for own use or for the use of others, whether it is for pay or profit and whether it is a production of goods or services. Similar to informal productive activities the informal economy would not be a meaningful statistical concept to measure in itself. Instead, it is an umbrella concept that includes the different relevant statistical components on its most aggregated level while the concept of informal productive activities links the components together.

2.1 Informal market economy

33. *For statistical purposes, the concept of the informal market economy is defined as all productive activities, carried out by workers and economic units for pay or profit that are – in law or in practice – not covered by formal arrangements.*
34. The underlying concept of informal productive activities needs to be further categorized in order to become statistically and analytically relevant. Or when viewed from the perspective of the informal economy, the informal economy needs to be further de-composed to become relevant. This de-composition of the informal economy, or categorization of informal productive activities, can be done in different steps thus moving to increasingly more concrete and measurable concepts. The concept of informal *market* economy can be viewed as a first step in such a de-composition.
35. The concept of informal market economy includes all informal productive activities for pay or profit independently of where the productive activities take place. In other words, the informal market economy includes the informal productive activities carried out in relation to informal jobs as well as formal jobs (if partly informal productive activities are taking place). Similarly, it includes the informal production (and transactions) carried out by enterprises in the informal sector as well as in the formal sector (if the production is for pay or profit). From a statistical point of view the concept includes the statistical components of informal employment, the informal sector, partly informal activities taking place in relation to formal employment and the formal sector, and the total production including transactions in the informal market economy as a contribution to GDP. In other words the statistical concept of informal market economy would to a large extent reflect the intention behind the definition of the informal economy as defined by R204.
36. The more restricted definition of informal market economy have a high relevance for policy makers as an overarching concept covering informal productive activities taking place in relation to employment and among enterprises producing for the market, which aligns with the policy objective of formalizing the informal economy. At the same time, the concept of informal market economy do not include all informal productive activities taking place within the informal economy of a country, such as own-use production work, volunteer work or unpaid trainee work that are carried out for an economic unit that is not producing for the market for pay or profit.
37. The use of the concepts of informal productive activities, informal economy and informal market economy allows a broad conceptual recognition that informal productive activities can take place

outside the informal/formal sector and outside employment i.e. within the informal economy but outside the informal market economy while maintaining a clear statistical and policy focus on the informal activities that take place for pay and profit, i.e. the informal market economy.

38. The different statistical concepts of informal sector, formal sector and household own-use production sector are all essential for the identification of informal productive activities carried out by economic units within the informal market economy. The informal sector comprises of economic units with informal market-oriented production, and thus is included in the informal market economy, as well as all workers contributing to that production irrespective of the form of work (e.g. an unpaid trainee contributing to the production of an informal enterprise). The formal sector includes formal economic units with formal productive activities. However, informal market production might also take place in formal economic units and would form part of the informal market economy. Finally, there is the household own-use production sector, which includes households with informal productive activities but where the production is not mainly intended for the market. The difference in the main intended destination of the production of these economic units places them outside the informal market economy. At the same time households producing goods mainly for own consumption, may also sell a surplus on the market, which could be significant in countries with high rates of subsistence activity. This market activity conducted by own-use producers could be separately identified as a contribution to the informal market economy if there is such a need.
39. From the perspective of the productive activities carried out by persons, and therefore defined as work the boundary set by the concept of informal market economy needs to be assessed on the basis of the different forms of work and for the type of economic unit the work is carried out. Productive activities defined as employment would be within the scope of the informal market economy since they are carried out for pay or profit. Informal productive activities in relation to employment can be carried out in relation to an informal job (in which case all productive activities by definition would be informal) but may also take place within a formal job if some of the productive activities carried out are informal. Informal productive activities in relation to employment would be independent of the type of economic unit for which the work is carried out. In other words, an employed person carrying out informal productive activities would be included in the informal market economy regardless of whether the work is carried out for an economic unit in the informal sector, formal sector or own-use production sector (e.g. a domestic worker carrying out work for a household). Informal productive activities carried out by persons for a non-market economic unit and in forms of work other than employment would be outside the concept of informal market economy but would still be recognized as informal productive activities. The only exception to this would be forms of work other than employment carried out for an economic unit in the informal sector, which would be part of the production taking place within the informal sector and therefore within the informal sector from the perspective of the economic unit.
40. The exclusion of work activities not for pay or profit from the informal market economy implies the exclusion of some informal productive activities that still would be of high policy relevance for accessing and addressing informality within a country and where it would be a need for a provision of more regular data. Groups of workers such as subsistence food stuff producers and unpaid trainees would be within the informal economy but outside the informal market economy. In countries where these categories of informal productive activities are significant there would be a strong need to

complement the concept of informal market economy with these essential categories of informal productive activities to create a more coherent picture of the structure of informality within the country and to meet policy needs. The underlying concept of informal productive activities and the concepts of informal economy and informal market economy can be used to organize the different statistical components as can be viewed in table 1. From the perspective of the worker informal employment complemented by formal employment with partly informal activities constitute the informal productive activities carried out by workers for pay or profit within the informal market economy. Persons carrying out informal productive activities not for pay or profit is placed outside the informal market economy but within the informal economy. Among these informal productive activities essential categories are identified to complement the estimation of informal employment and partly informal activities within formal employment.

41. From the perspective of economic units the informal market economy consists of economic units within the informal sector as well as market producing enterprises within the formal sector with partly informal production. These economic units can engage persons in employment to contribute to this production as well as unpaid trainees and volunteers. In case of the latter these persons engaged by for example an economic unit in the informal sector, would contribute to the production taking place within the informal market economy even though they as persons do not carry out the work for pay or profit.
42. Households producing for own final use including direct volunteer work is outside the informal market economy but inside the informal economy due to that the production is not intended for pay or profit. This would include the informal production of goods as well as services that is not carried out for pay or profit.

Table 1. Overview of conceptual framework

	<u>Informal productive activities</u>							
<u>Production</u>	For pay or profit					Not for pay or profit		
<u>Workers</u>	Liable to become formal or already formal					Partial regulated or not at all but liable to be regulated		
	Informal work							
	Formal employment with partly informal activity*		Informal Employment			<ul style="list-style-type: none"> • Own use, • Unpaid trainee, • Volunteer work carrying out informal productive activities [Essential categories] 		
	Either main or secondary formal jobs with partly informal activity*		Either main or secondary informal jobs					
Carry out the work for Economic units in:	Formal sector	Households with paid domestic workers	Formal Sector	Informal Sector	Households with paid domestic workers	Informal Sector**	Formal sector	Households
<u>Economic units</u>	Liable to become formal or already formal					Partial regulated or not at all but liable to be regulated		
	Informal production							
	Formal sector with partly informal production for pay or profit*			Informal sector		Household producing for own final use incl. direct volunteer work, non-formal NPI		
<u>Labour input</u>	Informal employment Informal unpaid trainee work Informal volunteer work			Informal employment Informal unpaid trainee work Informal volunteer work		Own-use production work Informal employment Informal volunteer work		
Relation to 2008 SNA	SNA production boundary					Goods	Services	
	SNA general production boundary							
<u>Type of production</u>	Informal market Economy					Informal non-market economy		
	Informal Economy							

*To not pay taxes (tax evasion). Non-declared transactions for part of the production declared in physical units, not just minimizing its value added.

** Would contribute to the production of the informal sector and hence the informal market economy

43. The framework and its different statistical components allows the measurement and assessment of the informal market economy and informal productive activities from different perspectives with slightly different objectives. Statistics on the size of the informal sector, its composition, production inputs (including labour inputs) and outputs could contribute to creating more exhaustive estimates for the purposes of national accounts such as estimation of value added, the construction of input-output tables, estimates on the contribution of informal sector activities to gross domestic product

(GDP) and the productivity of the informal sector. This could be complemented with informal productive activities carried out by formal enterprises as well as transfers and cross-border trade in the informal market economy and with the production of goods for own final use by households.

44. Statistics on informal employment and informal jobs are essential to describe the structure of the employment in the informal market economy, the characteristics of its workers, and the characteristics of their job. This allows the identification of specific vulnerable and exposed groups of workers which is key requirement for designing and evaluating government policies and programs aimed at promoting employment and formalizing informal jobs. These statistics could be complemented by identifying workers carrying out informal productive activities as part of formal jobs as well as essential categories of workers carrying out informal productive activities other than for pay or profit outside the informal market economy but within the informal economy. This would enable the provision of a more comprehensive picture of the structure of informal productive activities within a country.
45. The framework also creates the possibility to conduct more sectorial analysis across different forms of work if there is such a need. This could include aspects such as informal compared to formal care work across the different forms of work, or informal and formal work within the agriculture sector or among paid and unpaid trainees.
46. The broader concept of informal productive activities creates a dichotomy between those activities that are informal and those that are formal. This is essential and typically a precondition for access to what can broadly be described as the institutional infrastructure that aims to enable and support productive activities as well as the formal arrangements intended to reduce economic risks in case of (temporary or permanent) loss of work, as well as the personal risk associated with carrying out the productive activities.
47. The institutional infrastructure and the degree of protection vary, however, between countries and may also vary within a country depending, for example, on the form of work, the specific productive activities carried out, industry, occupation or category of status at work. Workers who do carry out formally recognized productive activities might nevertheless have very limited protection against economic and personal risks, while workers who carry out productive activities that are not formally recognized might have access to some limited protection. The dichotomy of formal versus informal does not on its own provide information about this aspect which can be viewed as a second dimension to the framework. Information regarding the degree of protection against economic risk and personal risk as well as the degree of access to the institutional infrastructure such as markets, financial capital, formal training institutions and other governmental or private settings aiming at supporting and enabling the production would therefore be a critical supplement to the dichotomy of formal/informal.

2.1.1 Informal market economy and related concepts.

48. The concept of informal market economy is surrounded by a number of slightly overlapping and to some extent related but conceptually different statistical concepts with different objectives. This includes concepts such as the non-observed economy, illegal production, underground production, “black economy” etc. These different concepts and their relation have been described in the 2002 Handbook on Measuring the Non-Observed Economy (OECD, 2002).

49. The **non-observed economy** is an SNA term used to describe activities that for different reasons are not captured in regular statistical enquiries. The non-observed economy is therefore a pragmatic term that describes all activities that are not regularly measured and included in the SNA. The types of activities within the non-observed economy will vary between countries depending on the capacity and coverage of the production of official statistics. According to the OECD handbook, activities most likely to be part of the non-observed economy are, underground, illegal, informal sector or undertaken by households producing for own-final use. However, whether these activities would be included or not in a given country would depend on the statistics produced in the country. In the case that a country for example is, measuring the production of the informal sector regularly then the informal sector in that country, from an SNA perspective, would not be part of the non-observed economy. The relationship between the non-observed economy and the informal market economy would thus depend on whether countries are measuring the informal market economy, in particular the informal sector with some regularity or not.
50. **Underground production** includes productive activities that are legal but are deliberately concealed from public authorities to avoid payment of taxes, social security contributions, meeting legal standards or complying with administrative procedures. The concept of the informal market economy, and in particular informal employment and the informal sector, includes to some extent the concept of underground production. A small business that has not been registered in order to avoid paying taxes, or a worker hired “off the records” to avoid complying with labour laws, would be included in the statistical concepts of informal market economy. However, the statistical concepts of informal market economy and its different components are fundamentally different concepts in essence and in scope, and go beyond underground production. There might be several different reasons why a specific type of production take place in the informal sector. It can, for example, be because the production is at such a low scale that registration is not required, or because the producers are unable to comply with existing regulations as this would impose an impossible economic burden. It can be due to tradition and culture or the fact that the regulatory system in a country is limited, irrelevant or bureaucratic and expensive. While undeclared production is typically a way to increase profit, informality is rather an issue of being the only option and means to sustain a livelihood.
51. **Illegal production and illicit activities** are defined as those productive activities that generate goods and services forbidden by law or that are unlawful when carried out by unauthorized producers. From a policy perspective, illegal activities are typically excluded from the informal economy, which is also explicitly mentioned in recommendation 204 concerning the transition from the informal to the formal economy (para 2 (b), ILO, 2015). The reason for the exclusion of illegal production from the informal economy from a policy perspective is obvious. There would be no interest in formalizing illegal production, rather the objective would be to abolish this type of production. From a statistical point of view the concept of illicit production is a separate concept to informal productive activities. In practice however, this is a boundary that is not explicitly checked when measuring informal employment or the informal sector. Illegal production is part of the concept of employment and the production of economic units and would as such be included within the measurement of informality. This is, however, a theoretical discussion. In practice, it is likely that relatively few illegal productive activities are picked up in surveys with the objective to measure the labour market. The overlap is therefore probably limited, and measurement of illegal production would demand a different approach and methodology including modelling and estimation strategies. From that point of view it is reasonable from a

conceptual as well as in practice consider illicit production as being outside the statistical boundary of the informal economy as can be viewed in table 2.

52. **Undeclared production** includes all production of goods and services that is deliberately concealed from public authorities to avoid payment of taxes, social security contributions or other laws. Undeclared production would include underground production as well as illicit and illegal production and work. The non-illicit production and work that are undeclared would similar to underground production to some extent overlap with the informal market economy. An employee that carries out work for an enterprise and where the work is not declared for taxes, no social insurance etc. is paid by the employer, would be an informal employee and would carry out undeclared work. The expansion of the informal market economy to also include partly informal productive activities carried out in formal jobs for formal enterprises increases the overlap between undeclared production and informality due to that these undeclared/party informal productive activities also are to be consider as part of the informal market economy. However, the concepts of undeclared production and work do still differ from the concept of informality. Undeclared production would for example also include tax elusion which affect the amount of value added of market transactions, either by understated the value of the transaction as such or by overstate associated costs with the production. This would be consider formal productive activities that are partly undeclared (see table 2). On the other hand the informal market economy would include informal productive activities that are not included in the concept of undeclared activities. This would for example be the case when the production of the economic unit is at such a low scale that registration and declaration of the activities are not required. The economic unit would in these situations not deliberate conceal the informal production but is simply not required to declare it. Undeclared work would also include Illegal production and illicit activities as can be seen in table 2. As been discussed in relation to Illegal production and illicit activities this is not included in the concept of the informal market economy and informal productive activities. This adds to the discrepancy between undeclared work and the informal market economy and also underlines the differences in policy objectives and measurement methods for the different concepts.

Table 2. Informal economy, informal market economy, illegal economy and other undeclared market production.

	Illicit Production [goods and services whose mere possession or consumption is subject of criminal law]	Under declared market value transactions of ordinary goods or services*	Informal productive activities [production not covered by formal arrangements (and not declared as ordinary goods or services)]			
Producer	For pay or profit	For pay or profit	For pay or profit			Not for pay or profit
Workers	Not possible to become formal	Already Formal (Formal jobs without informal productive activities)	Liable to become formal or already formal (Informal Employment or; Formal Jobs with partly informal activity)			Partial regulated or not at all but liable to be regulated (Own use Unpaid trainee Volunteer work)
Economic units	Unincorporated criminal enterprises	Formal Sector	Formal sector	Informal Sector	Households with paid domestic workers	Household producing for own final use incl. direct volunteer work
Type of production	Undeclared market production distinct from informal economy		Informal market Economy			Informal non-market economy
	Illegal economy		Informal Economy			

* To pay less taxes (tax elusion). This affect the amount of value added of market transactions, either by understated the value of the transaction as such or by overstate associated costs.

53. The different concepts as described above are conceptually differentiated and are measured for different purposes and objectives. They can be viewed as different crosscutting dimensions of the total economy of a country, meeting different needs and user demands. They do to some extent overlap but have clearly different objectives and different conceptual bases. The broad overarching concept of informal economy, the underlying concept of informal productive activities and the more focused concept of informal market economy and its different statistical components are distinctively different in scope, purpose and essence and therefore concepts in their own right that should not be used interchangeably with the other surrounding concepts.

3 Statistical definition of the three types of sector

54. *Two aspects of an economic unit need to be established to identify the informal sector, formal sector and household own-use production sector:*
- i. the intended destination of the production; and*
 - ii. the formal status of the economic unit.*
55. *The intended destination reflects whether the production is mainly intended for the market with the purpose of generating a profit.*
56. *Types of production that are not intended for the market with the purpose of generating a profit include:*
- a) production that is mainly for own-final use,*
 - b) production mainly intended for the market but with a non-profit purpose, and*
 - c) non-market production for the use of other households.*
57. *The formal status of the economic unit reflects whether the unit is formally recognized by government authorities as a distinct separate producer of goods or services and thus covered by formal arrangements.*
58. *Depending on the formal status of the economic unit and the intended destination of the production, all economic units can be allocated to one of the following sectors:*
- I. The informal sector*
 - II. The formal sector*
 - III. Own-use production sector*
59. The Resolution concerning statistics of employment in the informal sector (ILO, 1993) explicitly defines the informal sector. The formal sector is not explicitly defined but can be derived on the basis of the definition of the informal sector. The resolution also recognizes that there are economic activities that fall outside the scope of both the informal and formal sectors but does not explicitly define this. With the introduction of the concept of informal employment in the Guidelines concerning a statistical definition of informal employment (ILO, 2003) it became necessary to define this third type of production unit. Thus “households” was introduced and defined as “households producing goods exclusively for their own final use and households employing paid domestic workers” (Annex, (b), ILO, 2003). The three different types of economic unit, or sectors, can be viewed as a categorization of all economic units that carry out productive activities. This categorization is based on the dimensions of whether or not the production is market oriented, and whether or not the economic unit is formally recognized:
60. The first dimension for identifying the three different sectors is whether the production is market oriented or not. Economic units in the informal sector are characterized by the fact that the production
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that takes place is mainly intended for the market with the purpose of creating income or profit. Production that is not intended for the market or that does not have the main purpose of creating a profit would include:

61. The threshold of “mainly” intended for the market is a change compared to the threshold used in the Resolution concerning statistics of employment in the informal sector (ILO, 1993), which includes a threshold of some market production, thus only excluding those economic units that are producing exclusively for own-final use from the informal sector. This change is an alignment to the threshold used in the SNA 2008 that defines market producers as establishments where all or most of the production is market production (SNA 2008 Para 6.133), while producers for own final use produce goods and services mostly for own final consumption (SNA 2008 Para 2.40). Similar to SNA 2008, the 19th ICLS resolution I also uses the threshold of mainly intended for the market as a distinction between unincorporated household market enterprises (which is the term used in the 19th ICLS Resolution I) and households that produce goods or services mainly for own final use (ILO, 2013, para. 6 (c)). Using a threshold of production mainly intended for the market as part of defining the informal sector and separating it from the own-use production sector align the definition of the informal sector with the concept of market producers as defined in the SNA 2008 and in the 19th ICLS resolution I.
62. The change of threshold reduces the scope of informal sector but its impact would depend on the share of own-use producers of goods with some market production within a given country¹. At the same time it creates a more homogeneous informal sector from the perspective of the underlying intention of the production. It includes production that has the primary objective of generating income and employment and excludes production that is mainly intended for own-final use but where, for example, a small surplus is sold. It is likely that the latter form of production largely shares characteristics with production exclusively for own-final use, which is also one of the arguments why these two types of production have been categorized together in the SNA as well as in the 19th ICLS resolution I.
63. The second dimension for the identification of the three different sectors is the formal status of the economic unit. This reflects whether the economic unit is formally recognized by the legal administrative framework in the country as a as a producing unit distinct from the household and therefore covered by formal arrangements that gives access to benefits and carries obligations for the production. Economic units in the informal sector are characterized by the fact that they do not have a formal status as a market producer and therefore are not covered by such formal arrangements. Economic units that are formally recognized as distinct producers of goods and services constitute the formal sector.
64. Being formally recognized as a producing economic unit, is a precondition for having de-facto coverage and effective access to the different formal arrangements put in place to protect the activities of the economic unit as a producer as well as for regulating its actions. Not being formally recognized as a separate producer would imply that the productive activities would not be formally recognized by what

¹ For an assessment of the impact see: *Issues to be addressed in the revision of the standards for statistics on informality*, chapter 5.2, ILO, 2019

can broadly be described as the legal administrative framework of the country, and thus not be covered by the formal arrangements put in place to regulate and support the productive activities. It therefore follows that if the economic unit is not formally recognized, then the productive activities carried out by the economic unit are not formally recognized, regulated or protected either. This creates a strong link between the definition of the informal sector and the encompassing concept of informal productive activities. By identifying the informal sector and production in the informal sector, a large part of the informal production intended for the market carried out by enterprises would be measured. There would, however, still be informal productive market activities taking place within the formal sector, e.g. in the case of a formal enterprise carrying out partly formal and informal productive market activities by engaging informal employees. These informal productive activities would also have to be estimated in order to comprehensively capture the informal market production carried out by enterprises in the informal market economy.

65. A challenge in determining whether an economic unit is covered by formal arrangements, is to identify criteria that reflect the requirement that it should be formally recognized “in practice” as well as in law. This challenge creates a degree of imbalance between the assessment of informality for enterprises and for workers, in particular employees, since the assessment of informality for employees is to a greater extent based on the “in practice” dimension. This issue is not easily resolved but the different operational criteria used for defining the dimension of formal recognition of the economic unit as a distinct market producer can at least be defined to reflect the in practice situation to the extent possible. This aspect is discussed further in relation to the operational definitions.
66. Based on the two dimensions the three different sectors can be conceptually derived as three mutually exclusive categories as can be seen in table 3.

Table.3 Conceptual derivation of the three sectors

Formally recognized status	Production mainly intended for the market with the purpose of receiving a profit	
	Yes	No
Yes	Formal sector	Formal sector
No	Informal sector	Own-use production sector

67. The conceptual definition of the informal sector as economic units producing goods or services for the market, but without formal recognition as market producers, creates a strong link between the statistical concept of the informal sector and the concept of informal productive activities, thereby clarifying the statistical meaning of the term “informal” when measuring the informal sector. This is a shift compared to the current conceptual definition of the informal sector, which is partly based on the characteristics of economic units, such as small size, and low levels of organization. These types of characteristic are typically to be found among enterprises in the informal sector but can also be shared with formal enterprises, such as formal household market enterprises. To more clearly link the conceptual definition of the informal sector to the absence of recognition of market production creates

clarity in the conceptual distinction between the formal sector and informal sector and between formal enterprises and informal household market enterprises.

68. The three different sectors or types of economic unit are also linked to the work carried out by persons. Workers can carry out different forms of work that can be respectively informal or formal for economic units in the informal sector, formal sector as well as for households. This is an important aspect to capture statistically, both from the perspective of formalization and for measuring production and productivity within any of the three sectors. Assessing the extent of formalization would typically call for different measures depending, for example, on whether informal employment is addressed in the informal sector, formal sector or among households. To measure production and productivity within any of the three sectors, it would be essential to go beyond just employment and also identify the contribution, for example, of unpaid trainees and volunteers in respectively the informal sector, formal sector and own-use production sector.

3.1 Operational definitions

69. The operationalization of the definitions for the three sectors is structured around the two dimensions of intended destination of the production and whether the economic unit is formally recognized as a distinct producer of goods or services. This ensures three mutually exclusive operational definitions where the same set of operational criteria can be used to identify the three different types of economic units relevant for compiling the three sectors i.e. informal household market enterprises, formal economic units, household producing for own-final use or for the use of other households.

3.1.1 Informal sector

70. *For statistical purposes, the informal sector is defined as comprising all informal household market enterprises. Informal household market enterprises are producers of goods and services mainly intended for the market that are not formally recognized by government authorities as distinct market producers and thus not covered by formal arrangements. They are characterized by:*

A) *Not having a formal status as a market producer by:*

- i. not being owned and/or controlled by the government; and*
- ii. not being legally recognized as separate legal entities from their owners; and*
- iii. not keeping a complete set of accounts for tax purposes; and*
- iv. not being registered in a nationally established system of registration used for granting access to benefits and that carries obligations; and*
- v. not employing one or more persons to work as an employee with a formal job (as defined in chapter 3.3.2)*

B) *That the intended destination of the production is:*

- vi. mainly for the market with the purpose of generating an income or profit for the owner(s) of the enterprise*

71. The informal sector comprises of informal household market enterprises i.e. economic units that: a) are not formally recognized as producers of goods and services distinctively separated from the owner and the owner's household and b) are mainly producing for the market. Based on this definition a set of operational criteria can be identified that allows the identification of economic units with these characteristics.
72. If an economic unit does not meet any one of these six criteria it is excluded from the informal sector. Criteria one to five ensure that economic units in the informal sector are not formally recognized as distinct separate producers of goods and services thus reflecting the first dimension of the definition. Economic units that are formally recognized as producers of goods and services or that have a legal identity separated from the persons who own or control them, are excluded from the informal sector and categorized in the formal sector. The sixth criterion ensures the second dimension and specifies that the production should be mainly intended for the market, thus excluding from the informal sector those economic units without a formal status that are producing mainly for own-final use or other non-market use. Such units would include, for example, households producing goods or services mainly for the consumption of the household, or that have non-profit production in relation to direct volunteer work. Each of the six operational criteria needs to be further defined in order to provide clear input on how the criteria should be operationalized by countries:

3.1.1.1 *Operational definitions of the criteria for defining the informal sector*

73. ***i. Owned and/or controlled by the government:*** *Economic units that are owned and controlled by the general government would include units that are part of the central government, state governments and local governments as well as economic units owned and operated by the state with the purpose to produce goods and services for the population, such as state health care, defence, public order and safety. This excludes situations where the government might control access to the market or similar, but do not own and control the economic units carrying out the production.*
74. Economic units that are owned and controlled (fully or partly) by the general government would clearly be formally recognized units with legal identities separated from the persons controlling them and thus covered by formal arrangements. These units are therefore outside the scope of the informal sector. It would not be sufficient that the general government controls the access to the market, for example by providing licenses to trade or grant access to a market place. This kind of measures would not directly impact on the formal status of the production as such (unless other criteria such as registration or keeping a complete set of account follows from this) and would not imply any kind of ownership by the general government of the economic units carrying out the production.
75. ***ii. Legally recognized at law as distinct legal entities from their owners:*** *Economic units that are incorporated, and therefore constitute recognized legal entities that are separated from their owner(s), are formally recognized producers of goods and services and therefore by definition not informal household market enterprises.*
76. The terms used and the benefits and obligations that follow from constituting an incorporated enterprise or corporation (in SNA terms) will depend on the specific legal forms and requirements in the country. However, it would imply a separation of assets and income between the owner and the enterprise and a limited legal liability in relation to, for example, any debts or other obligations held

by the enterprise. It would also carry the obligation of being registered and, typically, of maintaining and providing complete accounting records for tax purposes.

77. ***iii. Keeping a complete set of accounts for tax purposes:*** *Enterprises that keep a complete set of accounts (incl. balance sheets, assets, liabilities, flows of income and capital between the enterprise and the owner) for the purpose of aligning to tax regulations or other relevant regulations are defined as formally recognized enterprises and thus excluded from the informal sector.*
78. Enterprises keep different forms of accounts ranging from a more informal overview of the costs and incomes of the enterprise to a complete set of accounts that enable an identification of the financial flows, assets etc. related to the enterprise. In addition, the types of accounts that enterprises are obliged to keep would in many cases vary depending on aspects such as the type of legal form of the enterprise, the size of the turnover, whether or not the enterprise wants to derive VAT etc. In order for an enterprise to qualify as being formal (and hence excluded from the informal sector) on the basis of keeping accounts it would be necessary that the accounts are a complete set of accounts that includes balance sheets, assets, liabilities, flows of income and capital between the enterprise and the owner which would allow an in practice distinction between the economy of the enterprise and the economy of the household of the owner. This aspect relates to the identification of quasi-corporations, which are, according to the SNA, unincorporated enterprises that function as if they were corporations. Quasi-corporations according to the SNA are characterized by the fact that there is a complete set of accounts, which allows a clear separation between the economy of the quasi-corporation and its owner(s). Quasi-corporations are treated as corporations (i.e. incorporated enterprises) by the SNA due to their similarities with corporations.
79. Enterprises with a limited set of accounts would not meet the requirement of keeping a complete set of accounts even though they are fulfilling the legal requirements. However, it should be borne in mind that the definition of the informal sector also includes the criterion of registration. An enterprise with a limited set of accounts but that is registered would be excluded from the informal sector based on registration. In practice keeping a complete set of accounts is typically used to identify enterprises that are not registered (or where information regarding registration is missing) but that still can be considered as formal. From this perspective, it seems relevant to have a high threshold for the type of accounts that need to be kept by an enterprise in order to be considered formal.
80. Keeping a complete set of accounts is typically done to comply with national laws (to be able to report revenues, taxes etc.) which creates a strong correlation between having a complete set of accounts and, for example, being registered. At the same time, a household enterprise with a complete set of accounts may or may not be recognized and covered by the formal arrangements in the country. The act of keeping a complete set of accounts *for tax purposes* links to compliance with regulations and the enterprise can thus be regarded as being embedded in the administrative and legal framework of the country, which excludes them from the informal sector. In practice quasi-corporations must by definition be registered in order to lodge their accounts with the government and thereby be considered as corporations in the accounts. The key issue is thus not whether the accounts exist, but whether they are submitted to the relevant authorities. Keeping accounts for tax purposes therefore creates a strong link to the criterion of registration as well as with informality/formality. It also creates a criterion that reflects the -in practice-situation as it can be viewed as an indication that the owner of

the enterprise is effectively complying with fiscal regulations. In addition, the strengthening of the criterion provides further recommendations on how the criterion should be operationalized in surveys and thereby underlines that it is not sufficient to “just have some accounts” in order to be excluded from the informal sector.

81. From a strict conceptual point of view, adding that the accounts should be kept for aligning to tax regulation implies that not all quasi-corporations as defined by the SNA, necessarily would be excluded from the informal sector. This would, for example, be the case when a complete set of accounts is kept in an unincorporated and non-registered enterprise with no other objective than allowing the owner to keep track of the economic performance of the enterprise. These types of cases are likely to be rare and the deviation between the criterion and the definition in the SNA can be expected to be marginal. Adding to that in practice, the national accounts would not treat them as quasi-corporations because there are typically a lack of data about them.
82. *iv. Registered in a governmentally established system of registration used for granting access to benefits and that carries obligations: Registration implies formal recognition of the economic unit as a market producing entity separated from the owner’s household, irrespective of whether this separation is a de facto legal separation or financial separation. Depending on national circumstances, the registration may refer to a register(s) in the given country used for granting access to benefits such as VAT deductions, obtaining a legal identity for enterprises, or for carrying obligations such as paying business tax and keeping accounts.*
83. The criterion of registration overlaps with the other criteria. Government units and incorporated enterprises would be registered economic units. Enterprises that keep a complete set of accounts for tax purposes would likely be registered enterprises. However, the criterion also excludes unincorporated registered enterprises that do not have a complete set of accounts for tax purposes, from the informal sector. For these enterprises, the registration can be viewed as formal recognition that market production is taking place in a separate unit, even though the financial flows assets etc. of the enterprise cannot be clearly separated from the economy of the owner and the owner’s household and the owner carries any liability. The enterprise might still have benefits and protection from being registered, such as legal protection of the company name, the intellectual properties, easier access to capital etc. It might also carry obligations such as a requirement to keep a limited set of accounts, or to keep a complete set of accounts for tax purposes in the event that the turnover or income increases above a given threshold, or if the owner wants to deduct VAT. At the same time, effective access to benefits and the legal requirement might be limited for some registered enterprises. Moreover, some registered enterprises might not effectively meet their obligations.
84. To some extent, this situation creates an imbalance in the sense that the criterion of registration is used to reflect the “in practice” situation of formal enterprises. This issue is not easily resolved. However, its impact can at least be limited by requiring the criterion of registration to be based on registrations used in the country for granting access to different benefits such as establishing the legal identity, protection of the company name, deduction of VAT and that impose obligations such as payment of taxes. Such a criterion can be applied independently of the extent to which these benefits, rights and obligations are effectively taken up by all registered enterprises.

85. It follows from all this that the type(s) of registration used for operationalization by a country should be established by national authorities within the country. A guiding principle could be that the registration should be attached to benefits and obligations and that not being registered in the given register or registers implies a lack of legal identity for the enterprise and the lack of a complete set of accounts for tax purposes. Regulation or registration enacted by local authorities such as a permit to operate a business or to obtain a trade license should not be considered sufficient, since such regulation may vary over time and between different parts of the country, and may not establish the legal identity of the enterprise or entail registration for taxation purposes or access to benefits.
86. ***v. Employ one or more persons to work as an employee with a formal job(s) as defined in as defined in chapter 3.3.2:*** *Enterprises that employ one or more persons under the condition that meets the requirement of a formal job held by employees as defined in chapter 3.3.2 are considered to be formally recognized enterprises and thus cannot be informal household market enterprise. Enterprises that employ one or more persons to work under the condition to meet the requirements of an informal job may be defined as formal enterprises or informal enterprises, depending on other characteristics.*
87. Defining an enterprise as formal if at least one employee hired by the enterprise holds a formal job (but without categorizing the enterprise as informal if one employee holds an informal job), allows the existence of informal jobs in the formal sector but removes the possibility for the existence of formal jobs in the informal sector. From the perspective of the employee, this would imply that if the job of the employee is defined as formal then by definition the enterprise in which he or she works is defined as being formal. However, if the employee is defined as having an informal job, then the definition of whether the enterprise is formal or informal relies on the criteria related to the definition of the informal sector and formal sector.
88. The existence of formal employees in the informal sector is a conceptual and analytical challenge in the 17th ICLS guidelines as well as difficult to attach to a real situation. It is difficult to perceive a situation where an employer contributes, for example, to social security on behalf of the employee, without a legal recognition of the enterprise. In addition, the existence of statistical datasets with significant numbers in this specific category is likely in large part to be a consequence of difficulties in identifying the type of enterprise when collecting information through employees, or due to the use of incompatible criteria for defining respectively the informal sector and informal jobs held by employees. The pragmatic approach to define enterprises as formal if they employ at least one employee with a formal job removes this specific category and limits the difficulties of categorizing the enterprise when the information is collected directly from the employees. It rests on the assumption that an employer that commits in practice to pay relevant taxes, social security benefits and comply with labour laws and regulation would de facto imply that the enterprise is formal. For example, employers' contributions to social insurance, which is an important criterion for defining informal employment among employees, would typically require registration of not only the employee, but also the enterprise.
89. ***vi the production being mainly intended for the market with the purpose of generating an income or profit for the owner(s) of the enterprise.*** *This criterion ensures that the main purpose of an informal household market enterprise is to generate income and employment for the persons concerned. Economic units with production mainly intended for own final use, or whose market production that is*
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not intended to be a source of income or profit (non-profit production), are therefore excluded from the informal sector.

90. The use of the term “mainly” aligns the concept of market production with the definitions used in the SNA and the 19th ICLS resolution I. Market producers in the SNA 2008 are defined as establishments where all or most of the output is market production (SNA 2008 Para 6.133), while producers for own final use produce goods and services mostly for own final consumption (SNA 2008 Para 2.40). From the perspective of the SNA, the changed threshold implies that non-market-oriented units and non-market service providers are excluded from the informal sector. A similar threshold is also used in the 19th ICLS resolution I to separate employment from own-use production work and for the distinction between unincorporated household market enterprises and households that produce goods or services mainly for own final use (ILO, 2013, para. 6 (c)). The use of a threshold based on the main intended purpose of production excludes households producing for own final use from the informal sector. Own-use production work as defined in the 19th ICLS resolution I would by definition, therefore, not take place within the informal sector.
91. How the term “mainly” should be operationalized is not further specified in the 19th ICLS resolution I. Work to explore this aspect is still being undertaken in relation to the implementation of that resolution and the measurement of the different forms of work, in particular with respect to the boundary between employment and own-use production work. The conclusions from this work will provide important inputs to further discussions on how the boundary should be operationalized and the subsequent development of relevant recommendations for household surveys.

3.1.1.2 Additional clarifications around the definition of informal household market enterprises

92. In addition to the operational criteria for identifying the informal sector there are some additional clarifications around informal household market enterprises that will contribute to the statistical understanding of the informal sector. This includes the kind of production that can be carried out by an informal household market enterprise, the link to the SNA sectors and the distinction between different household market enterprises within the same household.
93. *Informal household market enterprises can engage in any kind of productive activities in so far they are mainly intended for the market. All productive activities carried out by an informal household market enterprise are by definition informal productive activities*
94. The productive activities taking place in an informal household market enterprise are by definition informal productive activities. If the enterprise is not formally recognized as a market producer of goods or services, then the productive activities in themselves would not be formally recognized either.
95. Production in the informal sector is not limited to certain kinds of production or places of production. Informal household market enterprises can engage in all kinds of activities such as agriculture, manufacturing, construction, retail, transportation and so forth, as long as the production meets the criterion of being mainly intended for the market with the purpose of generating an income or profit. This implies the expectation that agricultural activities should be included in the measurement of the informal sector using the same criteria as those used for defining the informal sector for non-agriculture activities.

96. The 15th ICLS resolution concerning statistics on employment in the informal sector includes the flexibility for countries to choose whether agricultural activities should be included in the measurement of the informal sector. This flexibility was deemed necessary due to the practical challenges and the additional costs that arise when including agricultural activities. The issue of the inclusion of agriculture activities in the measurement of the informal sector is a practical issue rather than a conceptual issue. It is clear from a conceptual and analytical point of view that including agricultural activities is necessary to enable the comprehensive measurement of the informal sector. The methodological challenges of including agricultural activities could be reduced by further development of tools, based on countries' experiences that take into account the difficulties encountered in including them. The changed threshold for market production to *mainly* will also have an important impact on this methodological work. It is likely that the collection of data is especially challenging when targeting production that is mainly for own-final use but where some of the production is intended for the market. Excluding this type of production from the informal sector might therefore contribute to reducing the difficulties that come with including agricultural activities in the measurement of the informal sector.
97. *Informal household market enterprises and thus the informal sector can be viewed as a sub-sector to the household sector as defined by the SNA. Informal household market enterprises share characteristics with households as defined by the SNA and there is no clear separation in practice between the economy and liability of the informal market enterprise and the owners.*
98. A household market enterprise (or household unincorporated market enterprise in SNA terms) is characterized by being an unincorporated market producer of goods and services for which there is no clear separation of assets between the household as a consumer and the household as a producer. Any liability for debts of the enterprise would be unlimited for the owners of the enterprise, thus putting the assets of the household at risk (para 4.155-4.157, SNA, 2008). Household market enterprises may or may not have a formally recognized status as a producer reflected by the criterion of registration. Household market enterprises that have a formal status as a market producer would be defined as a formal household market enterprise while household market enterprises that are not formally recognized as market producers would be informal household market enterprises and constitute the informal sector. Informal household market enterprises and the informal sector can therefore be viewed as a sub-sector to the household sector as defined by the SNA. Informal household market enterprises and formal market enterprises correspond to the SNA concept of household unincorporated market enterprises within the household sector.
99. *Informal household market enterprises can be owned and operated by one person only or in partnership with members of the same household or other households. Different market activities carried out by a single person within a household or a group of partners (within the same household or different households) are defined as one single informal household market enterprise, while different unrelated market activities carried out by different household members are defined as separate informal household market enterprises.*
100. The financial flows, assets etc. of an informal household market enterprise are, by definition, not clearly separated from the economy of the household (or households in case of multiple partners). The separation between different informal household market enterprises within a given household is
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therefore by nature challenging. From the perspective of the SNA, an enterprise is an institutional unit in its capacity as a producer that can be engaged in a range of different productive activities (Para. 5.12008, SNA, 2008). From that perspective, all productive activities in the household would form part of the household enterprise and all market-oriented activities would form part of the household market enterprise. Such a definition would, however, be statistically problematical since it creates a situation where several different and potentially unrelated activities carried out by different persons would be included in the same household market enterprise. For the purposes of classification by economic activity, a prioritization between activities would therefore be needed for example, based on value added, or as a proxy time worked. This would create heterogeneous industries in cases where the secondary activities are very different from the principal activities. If for example, one person in the household produces crops for sale and another operates a taxi, then these activities would be included in the same household market enterprise and the industry of that enterprise would depend on which activity is defined as the principal activity, either by value of the output or time worked to produce it.

101. There is therefore a need to allow for the existence of multiple informal household market enterprises within a single household. A pragmatic approach to distinguish between these different enterprises is to assign different market activities carried out by a single household member or a group of household members (with or without partners from other households) to one single household market enterprise, while different horizontal market activities carried out by different household members would be defined as separate household market enterprises. This approach is already recognized as a possibility in the Resolution concerning statistics on employment in the informal sector. If there is a need to further separate the different activities carried out by the same person or persons then these can be further divided into activity units. More methodological work is needed to determine how these boundaries can be identified in practice in a survey. In addition, there might also be a need to allow for the possibility that an independent worker who carries out work for an informal household market enterprise can have multiple jobs in that enterprise. This aspect is further discussed in chapter 3.1.2 and could be relevant if the person carries out multiple unrelated activities.

3.1.2 The formal sector

102. *The formal sector comprises all economic units that are formally recognized as producers of goods and services and thus are covered by formal arrangements. These units are characterized by:*

- A) Having a formal status as a distinct producer of goods or services by:*
- i. being owned and/or controlled by the government; or*
 - ii. being recognized at law as separate legal entities from their owners; or*
 - iii. keeping a complete set of accounts for tax purposes; or*
 - iv. being registered in a nationally established system of registration; or*
 - v. producing for the market and employing one or more persons to work as an employee with a formal job(s) as defined in chapter 3.3.2.*
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B) independent on the intended destination of the production thus including:

- vi. market production for profit or non-profit and non-market production for the use of others*

103. The formal sector comprises of. economic units that: a) are formally recognized as producers of goods and services distinctively separated from the owner and the owner's household and b) independent of the type of production (market oriented, non-market oriented etc.) carried out. In that sense it mirrors the criteria used to exclude economic units with a formal status from the informal sector.
104. The formal sector includes government units, corporations (incorporated enterprises), enterprises with a complete set of accounts for tax purposes, formally registered household market enterprises, and formally registered non-profit organizations. These economic units are characterized by being formally recognized as distinct producers of goods or services separate from the owner and the owners household. The separation from the owner and the owner's household can be more or less explicit depending on the characteristics of the unit. While a corporation has a separate legal identity from the owner, a formal household market enterprise only has a formal recognition of being a distinct enterprise but without a clear separation of the economy and liabilities between the enterprise and the owners' household.
105. In addition, the formal sector includes economic units producing goods and services for the market that employ at least one person to work as an employee with a formal job. This additional criterion ensures that employees with formal jobs either work in the formal sector (if they work for an economic unit with market production), or for a household producing for own final use (in the case of a domestic worker working as an employee with a formal job). Moreover, it is difficult to see how an enterprise could employ and employee on a formal basis if the enterprise is not registered in some way with the authorities. There may, however, be cases where workers are formally engaged as domestic workers of households but are in practice working in informal household market enterprises.

3.1.2.1 Additional clarifications around economic units in the formal sector

106. *The production taking place would typically be formal productive activities but could also include informal productive activities.*
107. The only type of production that, by definition, is excluded from the formal sector is production by households for own-final use. All other types of production, i.e. market production for profit or non-profit and non-market production for the use of others, can be included in the formal sector if they are produced in economic units formally recognized as producers. The formal sector therefore consists of multiple sectors as defined by the SNA.
108. The productive activities taking place in a formal economic unit would in many cases be formally recognized productive activities, i.e. the activities are recognized as such by the legal administrative framework in the country, and thus covered by formal arrangements. However, informal productive activities can also take place within a formal economic unit. This would be the case when only part of the productive activities in a formal enterprise are formally recognized, such as when a formal enterprise hires an employee under conditions that make the job held by the employee informal, or when partly informal productive activities take place within formal jobs. For example, when an employee is formally hired to work ten hours per week but has an agreement to work ten additional

undeclared hours for which no social contributions are made or, in case of sickness, not compensated for, this would be considered as an informal activity within a formal job. Informal productive activities carried out by formal economic units in the formal sector is a complement to the informal production carried out within the informal sector by informal household market enterprises and compiled would constitute all informal market production carried out by economic units within the informal market economy.

3.1.3 Household own-use production sector (HOP sector).

109. *The household own-use production sector comprises all households producing goods or services that are not mainly intended for the market with the purpose of generating an income or profit.*

These units are characterized by:

A) *Not being formally recognized as market producers of goods or services as defined in chapter 2.1.2.*

B) *The production that takes place is mainly being intended for;*

I. own-final use; or

II. the use of others without the purpose of generating an income or profit for the producing household(s)

110. The third sector includes economic units (i.e. households) that: a) are formally recognized as producers of goods and services distinctively separated from the owner and the owner's household and b) are producing goods or services for own-final use or for use by other households but without the purpose of generating an income or profit.

111. The household own-use production sector (HOP-sector) completes the categorization of economic units by including productive activities produced by the household or undertaken by family members outside the household that are mainly intended to be consumed by the household or by family members living outside the household. In other words, all households and the production that takes place within the households for the purpose of being consumed by the household would be categorized in this sector. This is independent of whether the household is also carrying out production for the market which would either fall within the formal sector or informal sector depending on how it meets the criteria for the informal sector and formal sector.

3.1.3.1 Additional clarifications around economic units in the HOP sector

112. *Two subsectors of the household own-use production sector may be identified if feasible and relevant in the national context:*

a) Non-profit organizations that are not formally recognized by the legal administrative framework of the country

b) Households producing for own final use or for the direct use of other households

Identification of the two subsectors of Household production sector requires additional information on the degree of organisation of the non-profit production carried out for the use of other households

113. The proposed definition places own-use production work as defined in the 19th ICLS resolution I in the HOP-sector. However, households may produce goods and services not only for own-final use but also for the use of others without the purpose of generating an income or profit for household members of the producing household. These productive activities are defined as volunteer work according to the 19th ICLS resolution I. A definition of the HOP-sector that only recognized production intended for own final use would be too narrow to include this type of production. Non-profit production intended for the use of others and that is not formally recognized is excluded from both the formal sector and the informal sector and would then be excluded from the HOP-sector as well. This type of production includes direct volunteer work as well as organization based volunteer work as defined in the 20th ICLS resolution I and where the organization is not formally recognized (and therefore categorized in the formal sector). The inclusion of direct volunteer work within the household own-use production sector is in line with the treatment of volunteer work within the SNA which also places direct volunteer work within SNA Household sector (UNSD, 2018, p13). However, the inclusion of organization-based volunteer work is less straight forward. This would constitute of non-formal Third or Social economy institutions (TSE-institutions) where the organizations have an internal organizational, meaningful organizational boundaries and permanence (UNSD, 2018, p18) but where the organization is not registered or have a legal identity. The inclusion of non-formal TSE-institutions stretches the boundaries of the HOP-sector and implies that for example part of the SNA NPISH sector becomes part of the HOP-sector (as can be seen in table 5). This could call for a further sub-categorization of the HOP-sector if there is a specific need to separately identify non-formal TSE-institutions in relation to informal productive activities for example as part of compiling the TSE-sector or for a distinction between non-formal NPI's and formal NPI's . The identification of the two sub-sectors would require additional information regarding whether the degree of organization related to the volunteer work is sufficient to fulfil the requirements of a TSE institution as defined in the Satellite account on non-profit and related institutions and volunteer work (UNSD, 2018).

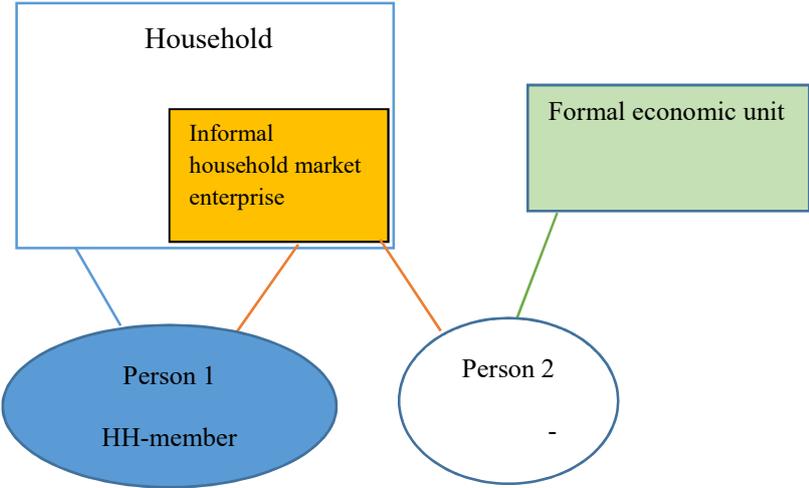
3.2 The three sectors and work

114. Economic units within the three different sectors can engage workers to carry out different forms of work. The economic unit can be viewed as the starting point for the identification of jobs (the term used in relation to employment) and work activities (the corresponding term used for forms of work other than employment) as defined in ICSaW-18 (ILO, 2018a) as well as for the definition of informal/formal jobs and work activities. Almost all persons carry out own-use provision of services to be consumed by the household and some also produce goods to be consumed by the household. Consequently, all households (almost certainly) will have an economic unit relating to those own-use production activities (namely the household).
115. Figure 1 shows an example of a household comprising members that produce goods and services for own-final use. In addition, HH-member 1 operates a market-oriented enterprise that is not formally recognized as an economic unit distinct from the household. Thus, a second economic unit must be

recognized, namely an informal household market enterprise. By recognizing this second economic unit we can also recognize that HH-member 1 carries out productive activities (i.e. work), for the two different economic units (the household and the informal household market enterprise). The work carried out for the household to which the person belongs would be own-use production work, while the work carried out for the informal household market enterprise would be defined as employment as it is carried out for pay or profit. That the work is carried out for two different economic units implies that there are two separate work relationships. The HH-member would have one **job** in relation to the activities defined as employment, related to the work carried out for the informal household market enterprise, and one **work activity** capturing the provision of services produced for and consumed by the household. In addition to the above there may be other individuals with a relationship to the economic units, while household members may also have working relationships with economic units separate to the household (e.g. by carrying out additional forms of work such as employment, volunteer work, unpaid trainee work for economic units other than their own household).

- 116. In the case of non-household members, imagine there is a second person that is not a household member (see figure 1), engaged to work for the informal household market enterprise. Depending on whether or not these productive activities carried out by person 2 are remunerated, and of the underlying objective of the productive activities from the perspective of person 2, this could be in the form of employment, volunteer work or unpaid trainee work. Separately, person 2 is also engaged in carrying out work for a formal economic unit. This second work relationship for person 2 could also be in the form of employment (and would thus be considered a job either informal or formal), volunteer work or unpaid trainee work. The point that this highlights is that within households there can be multiple economic units and multiple work relationships and these can cover both household members and others living outside the household. Correctly specifying these relationships in a mutually exclusive manner will enable clear measurement and meaningful analysis.

Figure 1. Economic units and the different forms of work



117. In addition to the two different levels of statistical unit: the economic unit, and the job or work activity, conceptually there are also units at a third level: productive activities. An economic unit carries out a number of different productive activities which might be formal, informal or partly informal and partly formal. Similarly, a person that carries out work for an economic unit would have one job (if employment) or work activity (if form of work other than employment) in that economic unit. This job or work activity includes a number of different tasks and duties for this economic unit, which can be formal, informal or partly informal and partly formal. This underlying concept of productive activity opens up the possibility to recognize that formal economic units as well as workers with a formal job or work activity can carry out informal productive activities if some of the productive activities are formal while others are informal.
118. Further to the above, we can specify the relationship of different forms of work to the three types of economic unit. Employment, unpaid trainee work and volunteer work can take place in an economic unit in the formal sector, in an informal household market enterprise or in a household producing for own-final use. The type of economic unit i.e. whether it is informal, formal or a household producing for own-final use does not define the form of work that can be carried out for that unit. The only exception is own-use production work, which by definition only takes place in households producing for own-final use (i.e. the household economic unit that all household by definition have). This implies that the measurement of all productive activities carried out by workers in, for example, the formal sector would require the identification not only of activities defined as employment but also of those activities defined as unpaid trainee work and volunteer work, as can be seen in table 4. Or looking at it from the perspective of forms of work, employment, for example, can be found in the formal sector, informal sector as well as in the own-use production sector (as a domestic employee).

Table 4. The three types of production units and the different forms of work

Type of production unit	Form of work				
	Employment	Unpaid trainee work	Volunteer work	Own-use production work	Other work activities
Formal				*	
Informal				**	
Households producing for own final use					

* By definition not possible

** By definition not possible

120. The use of three different types of production unit does not only have conceptual value but also analytical value. It enables the measurement of the contribution of a given sector to GDP, the

frequency of the different forms of work in a given sector as well as the distribution of a given form of work within the different sectors. This represents two different perspectives. One perspective is to use the sector as an analytical unit in itself, including to identify the different forms of work and the types of production taking place within a given sector. The number of employed persons, volunteers and unpaid trainees would have relevance, for example, to calculate the productivity of the informal sector or to understand the structure and time spent on work activities in households producing for own final use. The other perspective is the distribution of a specific type of work in the different sectors, for example informal and formal employment by the three different sectors, which is essential information from a policy perspective.

3.3 The informal sector and the SNA institutional sectors

121. An institutional unit is defined by the SNA as an “economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities” (PARA 4.1 SNA 2008). This includes corporations, quasi-corporations (that are not legal entities but act like corporations and have separate accounts), government units, non-profit institutions and persons or groups of persons in the form of households. (Chapter 4 SNA 2008.). All institutional units can according to the SNA be categorized in one of the five different institutional sectors depending on the type of unit that controls the institutional unit and the type of production that takes place as can be seen in table 5. The five different sectors are a) Non-financial corporation sector; b) Financial corporation sector c) General government sector; d) NPI serving household sector; e) Household sector.

Table 5. The informal, formal and HOP sectors and the SNA sectors

	SNA sectors							
	a) Non-financial corporation sector and b) Financial corporation sector		c) General government sector	d) NPISH sector	e) Household sector			
Type of SNA institutional unit	Corporations	Quasi-corporations	Government units	NPISH	Households			
Type of production	Market production	Market production	Non-market production	Non-market production	Market production	Market production	Non-market production incl. production for own final use	
Operational definition as part of identifying the formal status	Incorporated enterprise	Have a complete set of account for tax purposes	By definition a formally recognized status	Formal status of the NPISH	Registered enterprise	Not registered enterprise	Production for own final use or non-market production for the use of others	
							Goods	Services
SNA production boundary								
SNA general production boundary								
Forms part of	FS 1	FS 2	FS3	FS4	H O P	FS5	IS	HOP2

122. The definitions of the informal sector, formal sector and own-use production sector are not intended to enable an identification of the different SNA sectors. Additional information would need to be collected if the objective were to create the five SNA sectors. The distinction between, for example, the non-financial and the financial corporation sectors is an example of this. This distinction is not relevant for the identification of the formal sector, informal sector, and own-use production sector (which is also why the two sectors have been combined in Table 5). Incorporated enterprises (or corporations in SNA terms) are formal enterprises independently of whether they are in the financial or non-financial corporation sector. However, as can be seen in Table 5, there is a clear link between the SNA sectors and the distinction between the formal sector, informal sector and own-use production sector. The informal sector is a sub-sector of the SNA household sector. The formal sector constitutes the non-financial corporation sector, financial corporation sector, general government sector, a sub-sector of the NPISH sector, and a third sub-sector of the SNA household sector. The own-use production sector includes a sub-sector of the NPISH sector and a sub-sector of the SNA household sector. From the point of view of the SNA, the sub-division of the SNA household sector into three different sub-sectors becomes the key element to link the SNA sectors to the formal sector, informal sector and own-use production sector.
123. As can be seen in table 5, **FS1-FS5** corresponds to the formal sector. This includes:
- FS1: Corporations, as part of the non-financial and financial sector.
 - FS2: Quasi-corporations, as part of the non-financial and financial sector
 - FS3: Government units
 - FS4: NPISH that are formally recognized
 - FS5: Formal household market enterprises
124. **FS1 Corporations as part of the non-financial and financial sector;** Corporations, according to the SNA, are enterprises engaged in market production that are recognized by law as separate legal entities from their owners who enjoy limited liability. Corporations or incorporated enterprises are clearly formal enterprises and can be identified as part of the operational definition of the formal sector.
125. **FS2 Quasi-corporations, as part of the non-financial and financial sector:** The SNA defines quasi-corporations as unincorporated enterprises that have sufficient information to compile a complete set of accounts and are operated as if they were separate corporations and whose de facto relationship to their owners is that of a corporation to its shareholders. From an SNA perspective the essential aspect is that quasi-corporations act as corporations and that there is a clear and complete separation between the economy of the owner's household and the enterprise. This separation enables the inclusion of quasi-corporations in the SNA at a similar level of detail as corporations. The objective with the categorization of the informal sector, formal sector and own-use production sector is different, however. Here the underlying issue is rather whether the economic unit is formally recognized as a producing unit separated from the owner's household and not necessarily whether the economy of that unit is clearly identifiable. The narrower criterion of having a complete set of accounts *for tax purposes*, used in the operational definition of the formal sector, clarifies and strengthens the link between quasi-corporations as part of the formal sector. This minor conceptual difference creates a

theoretical gap and it could be argued that not all quasi-corporations as defined by the SNA are identified and included in the formal sector when using the narrower criterion. It is, however, likely that this difference in practice will be minor not at least taking into account the use of registration as criteria. A quasi-corporation, as defined by the SNA, in the informal sector would be a non-registered enterprise that keeps a complete set of accounts for own-purposes only. These cases are likely to be relatively rare and it is therefore reasonable to assume that quasi-corporations as defined by the SNA in practice would be defined as formal enterprises.

126. **FS3 Government units and the General government sector:** Government units are, according to the SNA, non-market producing legal entities established by political processes that have legislative, judicial or executive authority over other institutional units. Government units are clearly formal units and thus part of the formal sector.
 127. **FS4: Non-profit institutions with no market production serving households:** Non-profit institutions without market production serving households that are not controlled by the government are by the SNA defined as belonging to the non-profit institutions serving households sector (NPISH sector) and thus outside the SNA household sector. According to the SNA this includes legally constituted Non-profit organizations as well as organisations who are recognised by the society but lack a formal legal status (Para 4.85a SNA 2008). The latter types of organizations would still need to have an internal organization, meaningful organizational boundaries and a degree of permanence (UNSD, 2018, p18) 2008) in order to be regarded as a non-profit institution. Non-profit organization units are outside the scope of the informal sector due to the non-market production but may or may not still be considered as formal economic units. Non-profit institutions that have a separated legal identity or that are formally recognized as producers through, for example, being registered would be categorized as part of the formal sector. Non-profit organizations that are not legally or formally recognized would form part of the own-use production sector due to the lack of market production and formal recognition. From the perspective of informal sector, formal sector and own-use production sector this would be regarded as households producing for other households with no purpose of generating an income and profit, independently of whether there is a degree of organization involved. If deemed necessary, this particular sub-category could be separately identified.
 128. **FS5 Formal household market enterprises as part of the household sector;** Unincorporated enterprises with market production that are registered but that do not keep a complete set of accounts that allows a clear separation between the economy of the household and the economy of the enterprise would not be considered a separate institutional unit by the SNA. The production of these household market enterprises would therefore be considered as part of the production of the household and categorized in the SNA household sector. From an informal/formal sector perspective, these household market enterprises would be defined as formal household market enterprises and thereby part of the formal sector. Registration can be viewed as a formal recognition that market production is taking place in an acknowledged separate unit, despite there being no clear separation between the economy of the enterprise and the economy of the household or households that own it, and the fact that any liabilities (similar to quasi-corporations) are carried by the owner or owners. The registration of the household market enterprise would imply that the enterprise is formally recognized
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as an enterprise by the formal institutions in the country and would therefore in practice be covered by formal arrangements.

129. **IS: The informal sector** is, from the perspective of the SNA, a sub-sector of the SNA household sector as can be seen in table 5. This would include producers of goods and services that are mainly intended for the market but where the economic unit is not recognized as a formally separated enterprise by being incorporated, registered, keeping a complete set of accounts for tax purposes or having one or more formal employees. These household market enterprises would be considered as part of the household sector by the SNA and the market production that is taking place would from the SNA perspective be part of the institutional unit of the household. From an informal sector perspective, the production of the goods and services that is taking place is mainly intended for the market and the purpose, like formal enterprises, is to generate a profit and income for the owner(s). However, the market production that is taking place is not recognized as such by the legal administrative framework in the country, since the production is not connected to an acknowledged and recognized economic unit in the form of a corporation or quasi-corporation or registered household market enterprise. Similar to the situation of a formal household market enterprise, there is no clear and complete separation between the economy of the enterprise and the economy of the household or households that own it, and any liabilities are carried by the owner or owners. In addition, however, the market production and the unit producing it, is not a registered separate unit.
130. **OS: The own-use production sector** is partly a sub-sector of the SNA household sector and partly of the NPISH sector as can be seen in table 5. This includes the production of households that is mainly intended for own final use and non-market production for the use of other households (i.e. direct volunteer work). Production by the household mainly intended to be consumed by the household members or family members outside the household, is (similar to the production carried out by informal household market enterprises and formal household market enterprises) considered by the SNA to be part of the production taking place within the institutional unit of the household. This includes the production of goods which is within the SNA production boundary as well as the provision of services which is outside the SNA production boundary but inside the SNA general production boundary. The definitions of the formal sector and the informal sector also place the production carried out by households that are not formal and not mainly intended for the market outside both the formal informal sectors and categorize it in a third type of sector. In addition, non-market production by households that is intended for other households and that is not considered formal is also placed within this sector. This is independent of whether the production is carried out by one household or multiple households and the level of organization of the production as long as it is not formally recognized. For example, volunteer work carried out by a group of persons would be categorized in the own-use production sector, independently of whether this work has a degree of organization as long as the production is not attached to an organization that constitutes a separate legal identity or is formally recognized by being registered and therefore considered formal. If there is such a need this can be separately identified as a sub-category to the own-use production sector.

4 Informal productive activities and work

131. Informal productive activities carried out by persons constitutes informal work. It is a broad concept, potentially including all activities defined as work according to the 19th ICLS resolution I, and thus

including all activities within the general production boundary as defined by the 2008 SNA, that are not covered by formal arrangements and therefore informal.

Informal work consists of all productive activities performed by persons that are – in law and practice - not covered by formal arrangements.

132. Informal work includes informal productive activities carried out by persons for pay or profit as well as informal productive activities defined as work but that is not carried out for pay or profit. Productive activities not carried out for pay or profit are to some extent already in the scope of informal productive activities as currently defined in the Guidelines concerning a statistical definition of informal employment (ILO, 2003). Informal employment, as defined in these guidelines, includes not only activities for pay or profit (employment according to the 19th ICLS) but also own-use production of goods, organization-based volunteer work and unpaid trainee work, thus recognizing that all activities within the SNA production boundary can be informal. Following the 19th ICLS resolution I these types of productive activities are now recognized as different forms of work. However, the definition of work in the 19th ICLS resolution I is broader and also includes own-use provision of services and direct volunteer work providing services. In other words, work and informal work as a concept not only includes productive activities within the SNA production boundary (which was the boundary of the previous definition of employment) but also includes productive activities outside the SNA production boundary but inside the SNA general production boundary.
133. Informal productive activities as an underlying concept can be viewed from the perspective of the economic unit or from the perspective of the worker. The two different perspectives are overlapping in the sense that all productive activities carried out by workers forms part of the production of the economic unit for which the work is carried out, as defined by ICSaW-18 (ILO, 2018a). This creates a link between the informal productive activities carried out by workers i.e. informal work, and informal productive activities carried out by economic units i.e. informal production.
134. The uniting factor that makes the productive activities taking place in an economic unit or carried out by a worker informal is the lack of effective coverage of formal arrangements that regulate them and give effective entitlement to benefits and protection. In relation to work defined as employment, this would include formal arrangements such as coverage by labour laws and social security laws, such as effective access to annual paid leave, paid sick leave, guaranteed minimum wage, regulated hours of work, contribution and access to social insurance. It would also include commercial laws that regulate the productive activities carried out by economic units, procedures to report economic activities such as fiscal obligations in order, for example, to pay taxes or to cover employees for social security. While it is relatively, clear how “formal arrangements” should be understood in relation to employment this might be more challenging in relation to forms of work other than employment. There might exist more limited regulatory frameworks in some countries for certain forms of work other than employment (e.g. in relation to some basic protection for unpaid trainees) or for certain work activities within a given form of work (e.g. in relation to organization based volunteer work that might include some basic protection for the volunteers or in relation to own-use production work, for example the responsibilities and obligations that follows from engaging a domestic worker to assist with the household services or for certain type of productive activities within a form of work (e.g. caring for own children while being compensated by the government). At the same time, there are productive

activities carried out by persons that might be unregulated and where there is no or little interest in regulating it, for example in relation to direct volunteer work when a person helps a neighbour or own-use provision of services when for example preparing a meal for your family.

135. A concept of informal work would be an overarching concept not intended to be measured in its totality. It would define informal productive activities, within the SNA general production boundary, carried out by persons as informal work. This would create a broad concept that allows the identification of the essential components that need to be measured regularly to provide the statistics needed for policy purposes. This would include informal employment which forms part of the informal market economy but could also include other essential categories such as unpaid trainee work or subsistence foodstuff production. It therefore recognizes that informal productive activities are a broader concept than employment.
136. An essential aspect in the identification of informal work would be the identification of informal jobs and informal work activities. All activities can be attached to a job or a work activity as defined in ICSaW-18 (2018a, ILO), and all work relationships are attached to an economic unit. If the job or work activity are considered informal then it follows that all activities carried out by the worker in relation to that job or work activity, would be informal productive activities. The identification of informal jobs or informal work activities is therefore crucial in the identification of informal work, which creates a strong link between informal work and informal jobs/work activities.
137. At the same time, there are informal productive activities carried out by persons, within formal jobs or formal work activities. This would be the situation of a worker with a formal job or work activity who carries out partly formal productive activities and partly informal productive activities. The identification of all informal productive activities within one form of work, such as employment for example, would therefore require not only the identification of informal jobs but also of informal productive activities taking place in relation to formal jobs

4.1 Informal employment

138. *Statistics on informal employment aim at establishing:*

- i. *Whether the productive activities defined as employment are in law and in practice covered by formal arrangements and the formal status of the economic unit for which this work is carried out.*
- ii. *The level of access to institutional settings and the degree of protection against economic risks in case of external shocks and personal risks associated with the activities carried out by the employed worker*

139. The policy need for regular provision of data regarding informal employment is already well established. Informal employment is part of the SDG 2030 (SDG 8.3.1) and is at the core of the policy concept of the informal economy and the ILO Transition from the Informal to the Formal Economy Recommendation 204, (ILO, 2015). The issue of informal employment is strongly linked to decent work as recognized in the Resolution concerning decent work and the informal economy (ILO, 2002) as well as to the fundamental principles and rights at work (ILO, 1998). Addressing informal employment

becomes necessary in order to reduce decent work deficits and to ensure the fundamental principal and rights at work. Informal employment would also be at the centre of the statistical framework and would constitute the main form of work within the informal market economy.

140. All productive activities defined as employment are attached to a job, and all jobs are linked to a worker and the economic unit for which the work is performed, as defined in ICSE-18 (ILO, 2018a). The two different agents i.e. the worker and the economic unit, and their relationship are all essential components for defining informal employment. If a job is not formally recognized or acknowledged and not effectively covered by formal arrangements, then it follows that all productive activities associated with the job are not covered either. Both independent and dependent workers will then carry the risks associated with the activities. For independent workers, this implies that the economic risks of the enterprise are carried by the independent worker and the household of the independent worker, and implies that there is a lack of an effective coverage by, for example, commercial laws thus exposing the worker to more financial and economic risks associated with the activities than independent workers with formal jobs. For dependent workers, there would be economic risks in case of permanent or temporary loss of job-related income for example due to sickness, injury and old age. For both independent workers and dependent workers, holding an informal job would also imply increased personal risks due, for example, to non-compliance with regulations and laws put in place to ensure the health, safety and welfare of the workers.
141. A formally recognized job and the effective access to benefits and protections also implies that the work is performed for a formal economic unit. It is difficult to perceive a situation where a worker could have a formal job i.e. a job that gives effective access to the coverage of formal arrangements, but where the economic unit is an informal household market enterprise as previously defined. The formal status of the economic unit therefore becomes an essential part of the definition of informal employment.
142. Effective access to formal arrangements in relation to employment implies effective access to the formal arrangements put in place to regulate the actions and functions of the workers as well as to protect the worker against economic risks in case of external shocks and personal risks associated with carrying out the productive activities. This includes rights, benefits and obligations as defined in commercial laws, fiscal laws, labour laws, social protection etc. Different forms of social protection and access to employment benefits such as paid annual leave and paid sick leave reduce the economic impact of external shocks such as becoming sick, injured, unemployed or reaching old age and thereby reduce the economic risk that the worker is exposed to. Labour laws that regulate the working time and ensure the health, safety and welfare of workers reduce the personal risk of becoming sick or injured due to the work, thus reducing the personal risk associated with the work. Effective access to formal arrangements also includes effective access to the institutional settings that are put in place to enable and support the activities. This could include access to markets, to capital or to economic stimuli and relief for independent workers (as business owners) capital for independent workers as well as other forms of supporting mechanisms. From a policy perspective, this is an essential aspect: the aim of formalization is not only to push for formalization of jobs but also to ensure that protection against personal and economic risk follows from that.

143. Different countries, however, have different formal arrangements and different levels of protection. Depending on the country, a worker that does have effective coverage by formal arrangements might nevertheless have very limited protection against economic and personal risks, while workers with an informal job might nevertheless have some limited protection. The degree of protection might also vary within a country depending, for example, on the status in employment, industry or occupation. This aspect can be viewed as a second dimension that provides a further context to the dichotomy between informal and formal jobs. The two dimensions combined (i.e. the informal/formal dichotomy and a contextualization of the formal arrangements to which the worker effectively has access) contribute to a better understanding of the economic and personal risks to which the workers are exposed. This would be an essential supplement to the concepts of employment and labour underutilization and constitute key dimensions when designing and evaluating economic and social policies aimed at promoting employment, improving working conditions, reducing gender gaps, poverty reduction and decent work deficits.

4.1.1 Informal employment conceptual definition

144. *Informal employment is defined as any activity carried out by a person to produce goods or provide services for pay or profit that is not effectively covered by formal arrangements. Informal employment comprises activities carried out in relation to an informal job defined as:*

- i. Independent workers that own or co-own an informal household market enterprise.*
- ii. Dependent contractors that own or co-own an informal household market enterprise or whose activities are not registered by the worker or the economic unit on which the worker is dependent*
- iii. Employees if their employment relationship is not in practice, formally recognized by the employer in relation to the legal administrative framework of the country and associated with effective access to formal arrangements.*
- iv. Contributing family workers that are not formally recognized in relation to the legal administrative framework of the country and associated with effective access to formal arrangements.*

145. Following the definition of employment as defined in the 19th ICLS resolution I and the underlying concept of informal productive activities the concept of informal employment includes those productive activities carried out for pay or profit that are not – in law or practice - effectively covered by formal arrangements. The concept of informal employment do operationally comprise of its different statistical components. These components are naturally constructed around the concept of an informal job, which by definition would imply informal productive activities. The operational definition of an informal job in its turn is built upon the different categories of status in employment as defined by The International Classification of Status in Employment (ICSE-18) (ILO, 2018a). This creates a link between the conceptual definition of informal employment, the operational definition of informal employment and ICSE-18.

146. ICSE-18 is a statistical classification of jobs based on the relationship between the worker and the economic unit in which the worker is employed. ICSE-18 can be organized according to the type of authority that the worker exercises and according to the type of economic risk to which the worker is exposed. When organized according to type of authority this creates a dichotomy at aggregated level independent workers and dependent workers. Independent workers are defined as workers who own the economic unit for which they work and control its activities, while dependent workers are workers who do not have complete authority or control over the economic unit for which they work. (Para 12, 13, ILO, 2018a).
147. For independent workers, the formal/informal status of the job will follow from the informal/formal status of the economic unit that the person owns and controls. If the economic unit is an informal household market enterprise, then the productive activities carried out by the owner of the enterprise, by definition, will be informal productive activities and the job will be an informal job. The enterprise would, in that case, not be a formally recognized enterprise and the set of tasks that is carried out by the owner of the enterprise would not be within a formally recognized job. When the economic unit is a formal enterprise, then the productive activities carried out by the worker who owns and operates the formal enterprise would be either fully or partly formal. Although some productive activities may be carried out on an informal undeclared basis, the job held by the owner of a formal enterprise would be a job that is formally recognized through the formal recognition of the economic unit the independent workers own or co-own. The operational definition of informal/formal jobs for independent workers therefore relies on the informal/formal status of the enterprise that they own and control.
148. The situation of dependent workers in employment is different. Dependent workers in employment include employees, contributing family workers and dependent contractors. They are characterized by the fact that they do not have complete authority or control over the economic unit for which they work. The criteria for defining informal jobs among these categories of workers therefore need to be different from independent workers and reflect, not only the formal status of the economic unit, but also the nature of the relationship between the worker and the economic unit of which they depend.
149. For employees, formal employment implies that the employer has to effectively and formally recognize the job held by the employee in relation to the legal administrative framework of the country and thus, in practice, provide the employee with effective access to and coverage of the formal arrangements. It is not sufficient that the employer recognize the employment relationship in relation to the employee only, if the employer do not in practice meet the formal obligations defined by labour laws, regulations and collective bargaining agreements in the country and ensure a degree of protection for the employee.
150. The formal status of the economic unit for which the employee carries out the work, is also an essential aspect in this regard. An employer that owns an informal household market enterprise would not be able to formally recognize the work relationship of the employee and would therefore not be able to provide effective access to and coverage of formal arrangements for the hired employee. An employer of a formal economic unit, however, may or may not formally and effectively recognize the job held by the employee and the employee, therefore, may or may not be effectively covered by formal arrangements. An employee with an informal job can therefore work for an informal household market

enterprise, a formal economic unit or a household producing for own final use as can be seen in table 6.

151. Contributing family workers would in many countries be characterized by not being covered by any formal arrangements and therefore have informal jobs. This has also been the argument for why contributing family workers by default have been defined as having informal jobs in the 17th ICLS guidelines concerning a statistical definition of informal employment. However, there are examples of countries where contributing family workers have the possibility to register and to contribute to for example social insurance. It could be argued that in these situations the job of the contributing family workers should be considered formal due to that the job is formally recognized by the legal administrative framework of the country and that a degree of protection for the contributing family worker follows from this. In countries where such a measure does not exist, contributing family workers would in practice still have informal jobs by default. The introduction of the possibility for contributing family workers to under some circumstances have formal jobs have an important gender dimension as well as an important policy impact as well as a gender dimension. Globally women are overrepresented among contributing family workers (ILO, 2018b), however, at the moment there is no statistical recognition that the jobs held by these workers can be formalized, despite that some countries do have measures aiming at achieving this. A contributing family worker in employment would by definition carry out work for a market producing economic unit. A contributing family worker with an informal job can therefore by definition only work for an informal household market enterprise or a formal economic unit while a contributing family worker with a formal job would have to carry out the work for a formal enterprise.
152. Dependent contractors form a new category of status in employment that was introduced with ICSE-18. Dependent contractors are dependent workers in employment but with a slightly different situation compared to the other two categories of dependent workers. They have similar contractual arrangements to owner-operators of unincorporated enterprises, but they are dependent workers due to their organizational and/or economic dependence on another economic unit that benefits from their production. From that perspective, they can be viewed as being in an “in-between” situation and it is therefore not entirely clear on what conceptual basis an operational definition should rest. It could be argued that the formal status of the job depends on the economic unit of the dependent worker as well as on the economic unit on which the dependent contractor is dependent. Thus, in cases where dependent contractors have registered their activity with relevant authorities as an unincorporated enterprise they should be considered as being in formal employment. If this is not the case, their employment would be considered informal unless the activity is registered in some way by the economic unit on which the worker is dependent, or by the workers themselves, through schemes that have been developed at national level to afford social protection to workers in various “new “ or emerging forms of employment.²
153. The definition of informal employment based on ICSE-18 according to degree of authority creates a link between the definition of informal-/formal jobs, the category of status in employment and the

² Examples of such arrangements are discussed for example in Eichhorst et al 2013 and in Behrendt & Nguyen, 2018.

sector (informal, formal, HOP) of the economic unit for which the work is carried out. For independent workers the definition of informal-/formal jobs follows from the categorization of the economic unit owned and operated by the independent workers. Independent workers that own and operated an incorporated enterprise would be categorized in the formal sector and by definition have a formal job as can be seen in table 6. Independent workers that do not have an incorporated enterprise and by ICSE-18 is categorized as independent workers in household market enterprises have a formal job if the economic unit they own and operate is a formal economic unit in the formal sector, and an informal job if the economic unit is informal and hence is categorized in the informal sector. The link between the sector of the economic unit and the informal/formal status of the job is to some extent less direct for dependent workers. Dependent contractors..... Employees with formal jobs would by definition be engaged by formal economic units or by a households as formal domestic employees. However, employees can have informal jobs working for an economic units in any of the three sectors (informal, formal or HOP as an informal domestic worker). A contributing family worker can have an informal job carrying out work for an economic unit in the formal sector as well as in the informal sector and, depending on country context, a formal job in the formal sector.

154. Table 6, status in employment informal- formal job, sector

Sector of the economic unit for which the work is carried out	Job by status in employment								
	Independent workers (Employers, own-account workers)			Dependent workers					
	Owner-operators of corporations	Independent workers in household market enterprises		Dependent contractors		Employees		Contributing family workers	
	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Formal*
Formal sector				1		2		3	
Informal sector		4		5		6		7	
HOP-sector						8**	**		

Note: Cells shaded in dark grey refer to jobs, which, by definition, do not exist in economic units located in the specific sector. Cells shaded light grey refers to formal jobs. Informal employment consists of informal jobs in cells 1-8
 *The existence of formal jobs among contributing family workers carrying out work for an economic unit in the formal sector depends on the country context see paraXXX
 **Domestic workers carrying out work for a household

The conceptual link between informal productive activities and informal-/formal jobs

155. All tasks and duties carried out in relation to an informal job are considered to be informal productive activities by nature.

156. Informal productive activities may also be carried out in relation to formal jobs, if there is a sub-set of the productive activities that are not covered or insufficiently covered by formal arrangements

157. The lack of a formal recognition of the job and an effective coverage and access to formal arrangements would imply that all tasks and duties carried out in relation to an informal job are to be considered informal as well. This creates a link between the underlying concept of informal productive activities, informal jobs and informal employment.
158. The identification of informal jobs among the different categories of status in employment does not capture all informal productive activities carried out by persons for pay or profit. This would be the situation when informal productive activities are taking place within a formal job. For example, in the case of an employee formally hired to work ten hours per week but having an agreement to work ten undeclared additional hours for which no social contributions are made or, in case of sickness, not compensated. Recognition of the existence of informal productive activities in relation to formal jobs could have particular relevance in countries characterized by a relatively low share of informal jobs, but where informal productive activities in formal jobs are significant.

4.1.2 Informal jobs and multiple job holdings

Persons may have one or several formal and/or informal jobs during a given reference period.

Dependent workers have an informal or formal job for each economic unit on which the worker is dependent.

Independent workers have as many formal jobs as formal economic units they own or co-own.

Independent workers who own or co-own an informal household market enterprise have at least one informal job. Separate informal jobs can be defined for independent workers who own or co-owns one informal economic unit if distinctive different and unrelated productive activities are carried out, separated by being different kinds of productive activities, as defined by ISIC, and with different skill requirements and occupations, as defined by ISCO.

Employed persons with an informal main job, constitute all employed persons as defined by the 19th ICLS resolution I with an informal main job. The main job is the job with the longest hours usually worked.

Employed persons with an informal secondary job, constitutes all employed persons as defined by the 19th ICLS resolution I with an informal second job or additional jobs.

159. A person may have one or several jobs and each job can be defined as either informal or formal. The separation between jobs and the categorization of each job into the correct category of status in employment are essential when defining informal employment. However, this statistical exercise is not always straightforward, especially in the context of informality where a worker can carry out a range of different activities that cannot always be clearly separated and are not formally recognized as different jobs. The definition of jobs and the categorization of jobs based on the nature of work relationships are defined in the 20th ICLS Resolution concerning statistics on work relationships (ILO,
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2018a) which makes the important distinction between dependent workers and independent workers. Dependent workers have as many jobs as economic units on which the worker is dependent, while independent workers have as many jobs as economic units they own.

160. According to the Resolution concerning statistics on work relationships a job for those employed as dependent workers is defined as the set of tasks performed for the economic unit on which the worker is dependent. A dependent worker that carries out tasks for two different economic units and is dependent on both units would have two separate jobs that each could be defined either formal or informal.
161. For independent workers, however, the number of economic units the worker owns and carries out work for becomes essential to determine the number of jobs held by an independent worker. This has different implications depending on whether the economic unit(s) owned by the independent worker are formal or informal. A formal economic unit i.e. an economic unit that is either a separate legal entity, a quasi-corporation that keeps a complete set of account for tax purposes, or a registered household market enterprise is considered by the Resolution concerning statistics on work relationships to be a separate economic unit. All jobs in that economic unit are therefore considered to be separate jobs, including when one person owns and operates more than one registered business. For independent workers these jobs would also be considered to be formal. An independent worker therefore has as many formal jobs as formal economic units the independent worker owns or co-owns.
162. The relationship between the number of jobs held by an independent worker and the number of economic units the independent worker owns is relatively clear in a formal context. However, this relationship between jobs and economic units becomes more complex in an informal context. If the number of informal household market enterprises a person can own and operate is restricted to one, then all productive activities carried out by the owner for pay or profit that are related to that economic unit would be considered as a single job. This creates a situation where a person who undertakes separate types of unrelated activities in different industries, and with different skill requirements, would conceptually be considered as having a single job. For example, a person who sells goods during the day at a market stall and drives his or her own taxi during the evening would have one single job if both activities are defined as informal and the person is defined as an independent worker. These situations are a challenge when the aim is to describe the characteristics of the work relationship, especially if the respondent has the perception that the different activities undertaken are not one but separate discrete jobs.
163. A solution to this would be to allow for the possibility for independent workers who operate an informal economic unit to have multiple jobs in relation to that single unit. This refinement of the definition of job as defined in the Resolution concerning statistics on work relationships would be a pragmatic approach for dealing with these situations. A separation between different informal jobs for independent workers could be relevant if the activities carried out by the worker are clearly separated and not directly linked to each other. These could be so called horizontal activities that constitute different types of production i.e. classified in different industries, and that require a different skill set i.e. classified as different occupations. Exactly how the distinction could be made in practice needs to be further assessed.

164. Informal employment is currently defined as the total number of informal jobs. A person is in informal employment if he or she has at least one informal job, irrespective of whether this job is the main job, second job, third job etc. In practice however, statistics on informal employment typically relate to whether the main job is informal. Many countries only publish data on informal employment in relation to the main job. The SDG indicator 8.3.1 as well as the publication *Women and Men in the Informal Economy* (ILO, 2018b) define informal employment as persons in employment with an informal main job. The reason for this is practical. Informal employment is typically measured in household surveys that usually only identify main and second jobs and the questions measuring informality are restricted to the main job to reduce response burden. Only a few countries do identify informal jobs among second jobs, however findings from these countries indicates that informality is significant also in relation to second jobs. For example in Timor Leste 90 pct. of those with a second job had an informal second job while 72 pct. had an informal main job (LFS Timor Leste, 2013). A way to clarify the current situation where informal employment de facto implies an informal main job is to explicitly separate between employed persons with an informal main job, second job and additional jobs.
165. Employed persons with an informal main job, captures all employed persons as defined by the 19th ICLS resolution I with an informal main job. The main job is the job with the longest hours usually worked and would typically, but not necessarily, generate the highest income. The typical economic dependency on the main job for the worker and the worker's household therefore implies an increased economic risk for the worker, if the main job is informal.
166. Employed persons with informal secondary jobs, captures all employed persons as defined by the 19th ICLS resolution I with an informal second job or additional jobs. This category is, depending on national context and need, an important complement since some forms of employment may be more prevalent in for example, secondary jobs and would contribute to a comprehensive measurement of all informal jobs within a country. The output variable could be further separated between second jobs and additional jobs if needed.

4.2 Operation definition of informal/formal jobs for independent workers

167. *Independent workers with informal jobs are workers in employment that own or co-own an informal household market enterprise as defined in chapter 2.1.1 for which they work. They include:*
- I. Independent workers in household market enterprises who own or co-own an informal household market enterprise for which they work.*
168. *Independent workers in employment with formal jobs are workers in employment that own or co-own a formal economic unit as defined in chapter 2.1.2 for which they work.*
- They include:*
- i. Owner-operators of corporations, and*
 - ii. Independent workers in household market enterprises who own or co-own a formal economic unit for which they work.*

169. As previously discussed, the definition of informal jobs among independent workers relies on the informal/formal status of the economic unit they own and work for. The criteria used for operationally defining informal jobs for independent workers are therefore the same as for establishing the informal/formal status of the economic unit. Independent workers who own an informal household market enterprise would by definition have an informal job, while independent workers who own a formal economic unit would by definition have a formal job. This link between the definition of the informal sector and informal jobs among independent workers is already established in the current Guidelines concerning a statistical definition of informal employment (ILO, 2003). However, ICSE-18 introduces some changes that do have relevance for the operational definition of informal/formal jobs among independent workers.
170. ICSE-18 uses incorporation as a key criterion for separating between the detailed categories of employers (i.e. employers of corporations and employers in household market enterprises) and of independent workers without employees (i.e. owner-operators of corporations without employees and own-account workers in household market enterprises without employees) in ICSE-18-A. Incorporation is also used as a boundary to separate between the two aggregate categories of owner-operators of corporations and independent workers in household market enterprises in ICSE-18-R. The use of incorporation as one of the criteria to identify the detailed categories means that employers in corporations and owner-operators of corporations without employees are, by definition, owner-operators of formal enterprises and hence have formal jobs. They are therefore excluded from the scope of informal jobs among independent workers.
171. It is also worth noting that ICSE-18 does not require the identification of quasi-corporations. Instead, operators of quasi-corporations are treated as owner-operators of household market enterprises. The term household market enterprise is therefore used differently in ICSE-18 than in relation to informality and SNA 2008. In practical terms, this has no real impact. In a household survey that has implemented ICSE-18, a question regarding incorporation would be required for those defined as independent workers. The identification of informal jobs among independent workers would then require additional questions targeting those independent workers that do not own and operate an incorporated enterprise to identify those with an informal household market enterprise and hence an informal job. The structure of the questionnaire and derivation procedures would very much follow the current structure used by most countries with the difference that incorporation as an active criterion becomes useful both for the operational definition of informal/formal jobs, as well for the identification of the status in employment.

4.3 Dependent workers and informal jobs

172. According to ICSE-18 dependent workers in employment consist of employees (including permanent employees, fixed-term employees, short-term and casual employees and paid apprentices, trainees and interns), contributing family workers and dependent contractors. Employees, contributing family workers and dependent contractors are all dependent workers but with essential differences embedded in their work relationships, which call for the use of different operational criteria for identifying whether the job held is informal or formal. The unifying characteristic, however, is that they do not have complete authority or control over the economic unit for which they work. This impacts on the definition of an informal job for these categories of status in employment because the definition cannot only rely on the formal status of the economic unit for which the work is carried out, but also

needs to be related to whether that economic unit also enables effective access to the formal arrangements.

4.3.1 Informal jobs held by employees

173. *Employees are considered to have informal jobs if their employment relationship is not in practice formally recognized by the employer in relation to the legal administrative framework of the country and not associated with effective access to formal arrangements such as labour legislation, social protection, income taxation or entitlement to employment benefits.*

They include:

- I. *Permanent employees*
- II. *Fixed-term employees*
- III. *Short-term and casual employees*
- IV. *Paid apprentices, trainees and interns*

174. For employees, the informal or formal nature of the job is related to whether or not the employer formally and effectively recognizes the job held by the employee and in practice provides the employee with effective access to and coverage of the formal arrangements. These formal arrangements can be viewed as regulations and mechanisms put in place in order to create a degree of protection for the employee and obligations for the employer. Labour laws ensure the health, safety and welfare of the employee by regulating the working time, the wage and required safety measures. Different forms of social insurance and access to employment benefits reduce the impact of external shocks such as becoming sick, injured, reaching old age etc. In order for these mechanisms to be implemented, however, it is necessary to formally recognize the existence of a job held by the employee in relation to the legal administrative framework of the country and ensure in practice, that this is associated with an effective access to those protections.

175. Employees holding informal jobs are not restricted to any specific category of employees. Permanent employees, fixed-term employees, short-term and casual employees and paid apprentices trainees and interns, as defined by ICSE-18, can all have an informal or a formal job. This does not directly depend on the detailed category of status in employment but would rather depend on whether the specific job is covered or not, in practice, by the formal arrangements in the country.

176. The concept of informal jobs in general is distinctively different from concepts such as illegal work or undeclared work. This also applies for informal jobs held by employees. The work carried out by an employee holding an informal job would in most cases include the production of legal goods and services. The reason why the job held by the employee is informal might be due to the non-declaration of the job by the employer in order to save taxes and avoid regulations etc. However, it might also be for perfectly legitimate reasons, for example when the labour laws and regulations in a country include exemptions for employment relationships with certain characteristics such as cases where the job is of short duration, casual, or the number of hours worked or wages are below a certain threshold. In these

cases, the employees may have a similar level of protection as if the employment relationship were not formally recognized at all and the employee has to carry the risks associated with the job.

Operational criteria for defining informal jobs for employees

177. *A defining characteristic of informal jobs held by employees is the absence of employer's contribution to social insurance. Employer's contribution to social insurance refers to whether the employer contributes fully or partly to a job-dependent social insurance scheme on behalf of the employee. It therefore excludes universal non-contributory social protection schemes as well as voluntary contributions made by the employer if this does not imply a formal status of the economic unit and the worker.*

- i. *When operationalizing this criterion countries need to take the national context and social security laws into account as well as the recommendations provided in para XXX. The operationalization should be based on one or more specific social insurances.*
- ii. *Typically, employer's contribution to a pension fund on the behalf of the employee would be relevant for operationalization. Other types of insurances such as occupational injury insurance, health insurance or unemployment insurance could also be of relevance depending on the country context.*

178. *Additional characteristics that may be relevant for the statistical identification of informal jobs held by employees are no access to paid annual leave in combination with no access to paid sick leave.*

- i. *Access to paid annual leave is the employees' entitlement and ability to take paid time off granted by the employer or to be compensated for unused annual leave. The number of days granted by the employer may vary between countries but also within the same country (e.g. between different industries and occupations) depending on national labour laws and regulations. It is not sufficient to have a legal right to paid annual leave if the worker does not have access to it in practice*
- ii. *Access to paid sick leave is the employee's entitlement and ability to take paid sick from employment due to personal sickness or injury. The number of days for which the worker can receive payment during sickness or injury may vary between countries but also within the same country (e.g. between different industries and occupations) depending on national labour laws and regulations. It is not sufficient to have a legal right to paid annual leave if the worker does not have access to it in practice.*

179. *Depending on national circumstances additional characteristics such as a non-existence of a written contract, no deduction of income tax made by the employer or no access to severance pay might be relevant to support the definition of informal jobs held by employees.*

Employer's contribution to social insurance

180. *Employer's contribution to social insurance is the main criterion used by countries to operationalize the definition of informal employment among employees (See chapter 7.5.2, ILO 219 and ILO 2020b). This criterion clearly captures the aspect of whether the job is in practice formally recognized and that the employee can be expected to have effective access to the formal arrangements. The act by the*

employer of making contributions indicates that the recognition is not only in legal terms but also in practice. The absence of contributions to social insurance by the employer is therefore a defining characteristic for informal jobs held by employees. If such contributions are made then the job is formal and thus not informal.

181. The operationalization of this criterion needs to be related to the national context. Contributions to pension funds would be a relevant operationalization of the criterion in many countries. Pension schemes are established in most countries in the world, contrary, for example, to unemployment benefits. The “legal exclusion” of certain types of workers is less frequent than for other types of benefit and, with a few exceptions, it is mainly based on social insurance principles and a joint contribution of employers and employees. By contrast, health insurance in a significant number of countries is covered by public health services, fully state financed concern Even when health insurance are in place, contribution can be fully subsidized by the State for certain categories of employees, leaving no obligation on the side of employer (ILO, 2017). Unemployment benefit is still missing in many countries and / or limited to certain categories of workers (legal exclusion based on the size of enterprises, level of remuneration, duration of employment, sectors etc.) which makes this operationalization less relevant in most countries However, the exact type of social insurance scheme used for operational measurement (whether it is as old-age benefits occupational injury insurance, health insurance or unemployment insurance) is of less importance from the perspective of defining informal/formal jobs, as long as it fulfils the criteria of being job-specific, an obligation for the employer (or if voluntary it implies that the economic unit and the employee can be considered formal) and an act carried out in practice. Countries therefore need to have the flexibility to operationalize the criterion taking the national context into account.

[Access to paid sick leave and paid annual leave](#)

182. Based on country practices (chapter 7.5.2, ILO, 2019, and ILO, 2020b), most countries use access to paid annual leave and access to paid sick-leave in combination with the criterion employer’s contribution to social insurances. These two criteria are typically part of national labour laws and regulations and can be used as an indication of whether a job is formally recognized, and thereby subject, in law and practice, to labour laws and regulations. Countries typically ask whether the employee has access to paid annual leave and paid sick leave without asking about the number of paid days. The two criteria are defined as cross-cutting variables in the Resolution concerning statistics on work relationships (ILO,2018a) and the definitions of the two criteria as part of defining informal jobs held by employees, can as such be based on the definitions provided in the resolution.
183. Based on an assessment of country practices, several countries do use additional criteria when operationalizing the definition of informal jobs held by employees. In particular, countries tend to use the existence of a written contract as part of the operational definition. This criterion does, however, have some ambiguity. Having a written contract might be a precondition for obtaining effective access but may sometimes not be sufficient to ensure such access. The absence of a written contract may therefore indicate informality but the opposite may not be the case: not all contracts indicate effective coverage by labour laws and social protection and there can be a lack of enforcement in the country, which decreases the value of having a written contract. In addition, there are situations where employees do not hold written employment contracts since their conditions of employment are automatically covered by collective agreements or national labour law. However, the criterion might

be useful in combination with the employer's contribution to social insurance, paid annual leave and paid sick leave.

Additional national criteria

184. Other additional criteria such as whether the job is subject to income taxation or access to maternity leave and more nationally specific criteria such as receiving a 13th months' pay might also be relevant for the operational definition of informal jobs. If income taxes are paid, (either deducted from the pay of the employee by the employer, paid directly to the tax authorities or declared for taxation purposes) or the employee has access to maternity leave or receives other benefits then there is an indication that the job is formal. Based on the review of country practices, the use of these additional criteria is relatively rare, and they are almost never used without combining them with at least one of the criteria of employer's contribution to social insurance, paid annual leave and paid sick leave. However, depending on the national context they might still be useful when combined with the three main criteria, for example to deal with cases where there is insufficient information on the main criteria (for example due to "don't know" responses in household surveys).

Further recommendations for national adaption of the criteria

185. *The criteria used for defining informal jobs held by employees need to be further operationalized in accordance with national circumstances. The following requirements of a given criterion used should be taken into account:*
- i. *Job specific: The criteria used have to be dependent on holding a particular job and not universal.*
 - ii. *Obligation for the employer: The employer needs to be obliged by labour laws and/or regulations to fulfil the specific criterion and/or fulfilling the criterion needs to imply that both the economic unit and the job held by the employee can be considered formal.*
 - iii. *Capture the situation in practice: The operationalization of a given criterion needs to reflect that the employer in practice fulfils a given obligation.*
186. Even though a set of main criteria for defining informal jobs held by employees can be identified, there will still be a need for guiding principles that allows countries to assess how the different criteria should be operationalized within the given country. Countries will need to carry out an assessment of the relevance of the different criteria, the further operationalization of a given criteria (in particular in relation to employer's contribution to social insurance) and the need for additional criteria (if acknowledged in the definition). The three requirements of being job specific, reflecting that it is an obligation for the employer and that it should capture the situation in practice, capture the underlining intention behind the definition of informal jobs held by employees. A criterion that does not fulfil all three requirements would not be efficient in indicating whether the job held by an employee is informal and should therefore not be used by countries for identifying informal jobs held by employees.
187. **Job specific:** The criteria need to be linked to holding a specific job. A criterion that is not directly linked to a specific job for example, a universal non-contributory social protection scheme, cannot be used to determine whether a specific job is effectively formally recognized or not.

188. **Obligation for the employer:** A given criterion needs to constitute an obligation for the employer in order to capture whether the employer formally and effectively recognizes a given job. For example, voluntarily payment in the case of sickness only captures the relationship between the employer and the employee, but does not necessarily capture the dimension of whether that relationship is formally and effectively recognized and whether the employee effectively has access to formal arrangements. However, there might be situations in which voluntary contribution could be considered a valid criterion if the act of the employer making voluntary contributions implies that the economic unit and the job are formal. For example, voluntary contributions by the employer to social insurance may imply that the enterprise and the employee is registered in a manner that includes obligations as well as benefits.
189. **Capture the situation in practice:** It is not sufficient to use a criterion that only reflects the legal situation of the employee. A situation where an employee is covered by law but not in practice would still leave the employee in the same situation as if she or he were not covered by law. The different criteria and their operationalization therefore need to capture the situation in practice.

Combining the operational criteria

190. The operational definition of informal jobs held by employees do not define the exact combination of criteria countries should use. It do however, provide a prioritization of the criteria as well as stronger recommendations for how to combine the criteria compared to the current definition in the 17th ICLS guidelines concerning a statistical definition of informal employment. Jobs held by employees where the employer does contribute to social insurance are defined as formal. An absolute criterion for informal jobs is therefore an absence of such contributions. Having access to paid annual leave and access to paid sick leave are also prioritized criteria for defining informal jobs but are not absolute criteria. There is still flexibility for countries to, depending on national context, either use these two criteria for cases where the employer do not contribute to social insurance and define the job as informal if the employee do not have access to paid annual leave or paid sick leave or use the two criteria only in cases where information regarding employers contribution to social insurance is missing. The two criteria can therefore either be used as main criteria or as an alternative approach to deal with don't knows or refusal, however, countries should include the two criteria as part of their measurement. Additional criteria are recognized as a supplement that might be useful depending on national context and need to support the operational definition if this is deemed to create a more effective measurement within the country.
191. This approach can be viewed as a balance between the need to remain some flexibility for countries to adapt the operational definition of informal jobs held by employees while at the same time increase the level of harmonization between countries and ensure that countries include the same set of criteria which is essential to enable the creation of global and regional estimates as well as harmonized series on informal employment.
192. When assessing country practices for operationalize the definition of informal jobs held by employees it is clear that countries have a strong preference to use the same set of criteria (i.e. employer's contribution to social insurance as a main criteria in combination with existence of a written contract, paid annual leave and paid sick leave). At the same time countries are divided in the approach used for combining these criteria and there is no clear preferred approach among countries. Most countries are using the strict approach (all criteria have to apply for the job to be defined as formal) closely followed

by the moderate approach (different combinations of the criteria where one main criteria is given priority over other criteria) however, a significant number of countries are also using the weak approach (it is sufficient if one of the criteria is met for the job to be defined as formal) (ILO, 2020b). The different approaches reflects different country contexts where in some countries fulfilling one of the criteria would be sufficient in order to define the job as formal while in others multiple criteria are necessary. However, it also reflects slightly different views on how an informal job among employees should be conceptually understood, i.e. whether a strong degree of protection is needed or if it is sufficient for the job to be recognized, in order to be defined as formal, even if the degree of protection that might follow is of limited scope.

193. The different approaches for combining the criteria for informal/formal jobs held by employees' impacts on the share of employees with informal/formal jobs. The impact of this is different between countries depending on the correlation between the criteria in the given country, but can be significant in some countries (ILO, 2020b). In addition it also challenges the international harmonization as well as impacts on the possibility to provide global and regional estimates. The inclusion of an approach that can be described as a soft, moderate approach in the standards that clearly prioritize employer's contribution to social insurance supported by access to paid annual leave and access to paid sick leave as main criteria, would be built on the common ground across countries and contribute to an increased harmonization, while ensuring that there is a degree of flexibility that allows countries to make national adaptations when necessary.

Clarification that all types of activities are included

194. *Employees holding an informal job can carry out any type of activity, in any place of work for any type of economic unit (formal, informal or a household producing for own-final use), provided they are classified in ICSE-18 as employees.*

195. Production carried out by employees holding an informal job is not restricted to a certain kind of production. Employees holding informal jobs can engage in all kinds of productive activities. The work can take place within as well as outside the premises of the employer (some outworkers), including in the employees' own home (some home-based workers) and in the employers home (some domestic workers). This does not as such influence the formal/informal status of the job. Similarly, the definition of employees holding an informal job does not rely on the type of economic unit for which the employee works. Employees holding an informal job can work for an economic unit in the formal sector, such as a government institution, a corporation or a formal household market enterprise, in the informal sector for an informal household market enterprise, or in the household own-use production sector as a domestic worker.

4.3.2 Formal jobs held by employees

196. *Employees are considered to have formal jobs if their employment relationship is, in practice, formally recognized by the employer in relation to the legal administrative framework of the country and associated with effective access to formal arrangements such as labour legislation, social protection, income taxation or entitlement to employment benefits.*

197. *The existence of employer's contributions to a social insurance as defined in chapter 3.2.1 on the behalf of the employee, defines the job held by the employee formal.*

198. *Additional characteristics that may be relevant for the statistical identification of formal jobs held by employees are access to paid annual leave and access to paid sick leave.*
199. *Depending on national circumstances, additional characteristics such as deduction of income tax made by the employer on the behalf of the employee or eligible to severance pay might be relevant to support the definition of formal jobs held by employees.*
200. *An employee holding a formal job by definition carries out work for a formal economic unit, unless the employer is a household in the household own-use production sector.*
201. The definition of formal jobs held by employees would include those jobs that are formally and effectively recognized by the employer and that are associated with effective coverage of formal arrangements. The operational definition of formal jobs held by employees thus mirrors the definition of informal jobs and creates two mutually exclusive categories.
202. The operationalization of the criteria would need to follow the definitions and recommendations that forms part of the definition of informal jobs in order to create mutually exclusive categories of informal jobs and formal jobs. Employer's contribution to social insurance would be a key criterion for identifying formal jobs held by employees. If the employer does contribute to a job-dependent social insurance scheme on behalf of the employee this is a good indication that the employee has effective access to formal arrangements and the job held by the employee should be defined as formal.
203. As is the case with the definition of informal jobs held by employees, information regarding access to paid annual leave and access to paid sick leave could also be relevant to define formal jobs held by employees. Access to paid annual leave and paid sick leave can be viewed as an indication of that the employer does formally recognize the employment relationship and that the employee is covered by formal arrangements, not only in law but also in practice. There might also be arguments for countries to use additional criteria in combination with the three main criteria to support the definition of formal jobs. This might be useful in a situation where there is insufficient information regarding the main criteria.
204. Mirroring the definition of informal jobs all jobs where the employer contributes to social insurance are defined as formal jobs. Access to paid annual leave and access to paid sick leave could either be used in direct combination with the criterion of employer's contribution to social insurance (i.e. defined the job as formal if the employee has access to paid annual leave or paid sick leave but where the employer do not contribute to social insurance on the behalf of the employee), or it could be used in the event that the criterion of employer's contribution to social insurance is not relevant in a country or the information is missing (due for example to survey responses such as "don't know"). The definition of informal jobs and formal jobs held by employees needs to create two mutually exclusive categories. The combination of the criteria for defining informal jobs will thus influence the combination of the criteria for defining formal jobs and vice versa.
205. It is also important to note that if the job held by the employee is defined as formal then, according to the definition of formal economic units as previously described, the economic unit would by definition be a formal economic unit. This has statistical consequences but also conceptual consequences because the criteria used to define the informal/formal status of a job held by an employee might in
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some situations determine the informal/formal status of the economic unit. This would, however, only be the case if the employee is defined as having a formal job.

4.3.3 Contributing family workers

206. *Contributing family workers are considered to have informal jobs if their job is not in practice formally recognized in relation to the legal administrative framework.*
207. *A defining characteristic of informal jobs held by contributing family workers is the absence of registration of the job and of job-related contributions to social insurance.*
208. *Contributing family workers carrying out work for an informal household market enterprise have informal jobs by definition.*
209. *Contributing family workers can be considered to have formal jobs if:*
- A) The economic unit for which the work is formal as defined in para XXX: and*
 - B) the job is registered and in practice grants access to formal arrangements such as job-related social insurance, insurance against work related accidents and injuries, paid sick leave or other types of protective measures.*
210. *In countries where such measures do not exist, contributing family workers have informal jobs by default.*
211. According to the current definition of informal employment in the Guidelines concerning statistical definition of informal employment (ILO, 2003), contributing family workers, by definition, have an informal job. The arguments for this are that contributing family workers would typically not have an explicit contract regulating the work and that their employment is not usually subject to labour legislation and thus not covered by labour laws, social security regulations, etc.
212. ICSE-18 does not as such impact on this approach. Instead, it could be argued that ICSE-18 further strengthens this argument by providing clearer boundaries for the definition of contributing family workers. The boundary between contributing family workers and independent workers has been strengthened by explicitly stating that contributing family workers “do not make the most important decisions affecting the enterprise or have responsibility for it” (ILO, 2018a, PARA 57). Contributing family workers are therefore not operators of the enterprise or, in a wider sense, owners of the enterprise. The reinforcement of the boundary between independent workers and contributing family workers will likely contribute to a reclassification of some workers previously defined as contributing family workers of which some, depending on the informal/formal status of the enterprise, could end up being defined as having formal jobs. The strengthening of the boundary between independent workers, dependent contractors and contributing family workers reinforces the notion that the criteria used to define informal jobs among independent workers are not relevant for contributing family workers.
213. The definition in ICSE-18 also clarifies the boundary between employees and contributing family workers by stating that, “...they do not receive regular payments, such as a wage or salary, in return for the work performed.” (Para 57, ILO, 2018a). This is conceptually not a change compared to the
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previous definition in ICSE-93 but it highlights that contributing family workers do not have an agreement or contract of employment. A regular payment such as a wage or salary would be an indication of that the worker does have an employment agreement and therefore should be considered an employee. The criteria used to define informal jobs among employees such as access to paid leave or paid sick leave would thus not be relevant.

214. The practice to by default define contributing family workers as informal do however, have important policy and gender impact. It contributes to generate a perception that informal contributing family workers is a given fact and that no formalization is necessary/possible for this group of workers. At the same time there are examples among countries on formal arrangements targeting contributing family workers which can be viewed as attempts to formalize their jobs. For example in Poland and Italy it is possible for contributing family workers engaged in agriculture activities to register their activities and to contribute to social insurance and health insurance benefits and by that ensure that contributing family workers, mostly girls and women, have a degree of protection in case of accidents at work and receiving pensions at a later stage. Similar in Denmark, a contributing family worker can formally register the job held in the enterprise owned by the family member and by that have access to paid sick leave and paid maternity leave. This would be examples of situations where the job held by the contributing family workers could be considered formal through registration and where a certain degree of protection and coverage of formal arrangements follows from this. To allow for the possibility to under circumstances like these, define jobs held by contributing family workers formal would enable a monitoring of the formalization processes as well as creating more policy focus around this group. This would also have an important gender dimension. Recent ILO pilot studies (on 8 countries) showed that while contributing family workers was a transitory status for young males, it was ultimately a more persistent status among females, for whom the prevalence also increases with the age, and in particularly in rural areas (ILO, 2020d). Obviously, this situation creates major gender gap in social security both during the working life and at the time of retirement.
215. Similar to the situation it would be difficult to perceive a situation where a contributing family worker could be considered to have a formal job when carrying out work for an informal household market enterprise owned and operated by a family/household member. A formal status of the economic unit can be viewed as a pre-condition for a formal recognition of the job held by the contributing family workers. Contributing family workers carrying out work for an informal household market enterprise would thus by definition have an informal job.
216. Even though there are examples of countries where it would be possible for contributing family workers to be considered to have formal jobs it would still be countries where measures like registration of the jobs and possibility to contribute to social insurances are not (yet) in place. In these countries where such measures do not exist it would be possible to by default define the jobs held by contributing family workers informal due to the informal nature of the jobs. In practice this would imply that the current approach of by default defined contributing family workers can be remained in countries where it is not a possibility for contributing family workers to have formal jobs.

4.3.4 Dependent contractors

217. Dependent contractors are a new category that was introduced with ICSE-18 and are on the borderline between being employees and own-account workers in household market enterprises without employees. They are defined as workers employed for profit who are dependent on another entity that exercises control over their activities and that directly benefits from the work. The dependency may be operational as well as economic (ILO, 2018a, para. 35). The borderline situation of dependent contractors is also reflected in the resolution, which recognizes that two subgroups can be identified among dependent contractors: those who primarily provide labour to others and those who have committed significant financial or material assets to the unincorporated enterprise, which they own and operate. (ILO, 2018a, para. 39). The first group would more likely share characteristics with employees, while the latter would typically be closer to own-account workers in household market enterprises without employees.
218. The in-between situation of dependent contractors challenges the current approach in the Guidelines concerning a statistical definition of informal employment (ILO, 2003) of using a different operational basis for independent workers and dependent workers. Dependent contractors have similar contractual arrangements to owner-operators of unincorporated enterprises but they are dependent workers due to their organizational and/or economic dependence on another economic unit that benefits from their production.
219. Dependent contractors are characterized by being employed for profit and paid by a commercial transaction. They do not, by definition, have a contract of employment (formal, informal or implicit) but a commercial agreement and are typically responsible for arranging their own social insurance as well as income tax. These are all characteristics they share with independent owner-operators of unincorporated enterprises and it could therefore be argued that the informal/formal nature of the job held by dependent contractors should be defined by the same criteria as independent owner-operators of unincorporated enterprises. That they are dependent on another economic entity that exercises organizational and/or economic control over their activities does not necessarily change the legal or administrative status of the production unit. Dependent contractors, like other owner-operators of unincorporated enterprises, may or may not have registered their business and may or may not have a complete set of accounts.
220. At the same time, dependent contractors are dependent on another economic unit and it could be argued that, as is the case for other dependent workers, the operational definition should relate to the relationship between the worker and the economic unit on which they are dependent. It is not however, entirely clear how that should be done and which criteria that could be relevant. The issue of how dependent contractors should be related to the concept of informal jobs therefore needs further discussion based on evidence and testing. This is further elaborated in the paper *Informality and the measurement of Dependent contractors* (ILO, 2020c). One possible approach, however, could be an operational definition that reflects the in-between situation of dependent contractors and that acknowledges that the job of a dependent contractor could be formalized either by the dependent contractor or by the economic unit on which the dependent contractor is dependent.
221. The operational criteria also need to be adapted to reflect the specific context of dependent contractors. The criteria used to define informal jobs among employees are not directly relevant to

determine whether a job held by the dependent contractor is formally recognized or not, since the dependent contractor by definition does not have an agreement or contract of employment. The criteria used to define informal jobs for independent workers are also not directly applicable. Dependent contractors do not by definition have an incorporated enterprise. Moreover, the very notion of dependent contractors as owners and operators of enterprises is challenging in some cases. Some dependent contractors only provide their labour as input for a single company and it is difficult to perceive their activity as an enterprise or business. Registration of the economic unit as a criterion might therefore be problematic in relation to some dependent contractors.

222. A way to acknowledge these difficulties could be to shift the focus from registration of the enterprise to registration of the activity as such. If, for example, the dependent contractor has registered the activities with the tax and/or social security authorities, or if a formal sector enterprise has registered the dependent contractors in order to declare tax provide an insurances etc. then this could be viewed as a formal relationship between the dependent contractor and the economic unit on which the worker depend which could form a basis for defining the job formal.
223. Having a complete set of accounts for tax purposes could also be a relevant criterion to identify formality among some of the dependent contractors. Dependent contractors who have, in fact, invested in significant financial or material input are closer to more traditional independent workers without employees, and for this group the concept of having an enterprise might be more meaningful. This could be an argument that a criterion of registration of the activity/enterprise could be supported by the criterion of having a complete set of account for tax purposes. As in the case of independent workers, the existence of a complete set of accounts for tax purposes would be an indication that the activities are recognized by the legal administrative framework of the country.
224. The specific issue of how to relate informality to dependent contractors and the challenges that follows are further described and expanded on in the paper Informality and the measurement of Dependent contractors (ILO, 2020c).

5 Informal productive activities and forms of work other than employment

225. The 19th ICLS resolution I defines own-use production work, unpaid trainee work, volunteer work and a category of other work activities as different forms of work in addition to employment. Some of the productive activities within these forms of work are within the SNA production boundary and therefore, at least conceptually, are part of informal employment as defined in the 17th ICLS guidelines concerning a statistical definition of informal employment (ILO, 2003). This includes own-use production of goods, unpaid trainee work, organization-based volunteer work and direct volunteer work producing goods. It is, however, unclear to what extent countries in practice included all these activities in the measurement of employment as previously defined and hence in the measurement of informal employment as currently defined.
226. In addition, the different forms of work also include own-use provision of services (which is included in own-use production work) and direct volunteer work providing services (which is included in

volunteer work). These productive activities have never been included in the concept of employment and have not, therefore, previously been related to informality.

5.1 Why should we identify informality among forms of work other than employment?

227. The overarching concept of informal productive activities defined as *all productive activities by persons and economic units that are – in law or in practice – not covered by formal arrangements* includes all these types of activities within the scope of informal productive activities. This raises two main questions that need to be addressed. How can such a statistical concept be meaningful if almost all activities taking place within a given form of work are informal, and if it is meaningful, how should formal arrangements be understood in relation to these types of activities?
228. The different forms of work vary in nature according to their intended destination and the type of transaction, but also differ more fundamentally in the very intention behind the activity. Employment is carried out with the aim to generate pay or profit, unpaid trainee work with the objective to acquire skills and work place experience, own-use production work to produce goods and services to be consumed by the household, and volunteer work to help and assist others. Despite these differences there are also underlying similarities. Not only employment, but all forms of work include a productive activity and it can be argued that there is a certain degree of risk both economic and personal, associated with carrying out the activity, irrespective of the form of work. A person can be injured while carrying out volunteer work, an external shock such as sickness can have a severe impact on the living conditions for a person who relies on own-use production of goods, and an unpaid trainee can be in an even more exposed situation than a paid trainee, and so forth. The impact of these risks might differ depending on the form of work and depending on the specific situation of the worker. A worker who is solely dependent on own-use production of goods is more exposed to risks in relation to this form of work than a person who produces goods for recreational reasons and as a complement to employment. At the same time, governments typically regulate forms of work other than employment less than employment and, for some activities, there would be no incentive for governments to provide a regulatory framework to reduce risks and to promote participation. In addition, the policy relevance and objectives might be very different depending on the specific form of work.
229. From a statistical point of view, it seems clear that the objective of including forms of work other than employment within the framework of informality is not to aim for countries to derive estimates on all informal work and its different components i.e. informal volunteer work, informal own-use production work, etc. Such data would not as such be meaningful to inform policies, taking into account that the default situation for forms of work other than employment is likely to be informal. For example, almost all persons are involved in own-use provision of services which to a large extent would be informal productive activities. It would be of very limited use to conclude that therefore almost all people are carrying out informal work.
230. However, there might be essential groups within these forms of work that could be a target for “formalization policies” and for which there is a particular policy and analytical interest in separate identification in order to complement the concepts of informal employment and the informal market economy. In addition, there might be analytical value in separating informal and formal productive activities within a certain domain that cuts across multiple forms of work. Care work is one such example that stretches across all forms of work. Care work can be carried out as employment,

volunteer work, own use provision of services etc. and a comprehensive measurement of formal versus informal productive activities within care work would require the possibility to statistically define informality within each form of work. Agricultural activities are another example that could be of relevance and where it would be essential not only to include agricultural activities defined as employment but also to include at least activities defined as own-use production work, so as to gain an understanding of the number of persons carrying out formal and informal agricultural activities. In addition, there might be essential categories of workers within the different forms of work other than employment that are important to capture statistically, in order to complement the measurement of informal employment. Subsistence workers, who are a vulnerable group of workers, and unpaid trainees, could be examples of such essential groups.

231. To facilitate this type of analysis in the context of informality, it would be necessary to provide definitions and recommendations that could be used to categorize all forms of work as informal or formal. A key issue in this regard is how formal arrangements should be understood in relation to forms of work other than employment. In other words, under what circumstances should productive activities not defined as employment be regarded as formal or informal? In general, many of these types of activities would be unregulated from the perspective of the person carrying out the activities, at the same time there might be exceptions.

5.2 Defining informal productive activities for forms of work other than employment.

232. *Work carried out by persons without the intention to generate income of profit are considered informal work if they are not effectively covered by formal arrangements. This comprises of informal productive activities carried out in relation to:*

- i. *owns-use production work,*
- ii. *volunteer work,*
- iii. *unpaid trainee work,*
- iv. *other work activities and*

233. *where the work activity is not covered by formal arrangements such as regulations and provisions that promote or facilitate the work and protect and regulate the actions and functions of the worker*

234. The definition creates a link between informal work carried out in relation to forms of work other than employment and the even broader definition of informal productive activities while pointing in the direction of how informality/formality should be understood in relation to forms of work other than employment. The understanding of formal arrangements in relation to these forms of work would be slightly broader than in relation to employment. It would not only include arrangements aiming to protect the worker and regulate the work performed by the worker, but could also include formal arrangements that are put in place to enable and support the performance of the work (EXAMPLES). The definition includes a high degree of flexibility that creates the possibility to further operationalize it, not only in relation to a given form of work but also, if necessary, to certain types of activities within a given form of work. If feasible, further guidance could be given and a natural step in this regard would be to relate the definition to the different forms of work.

5.2.1 Informal own-use production work

235. *Informal own-use production work is defined as any activity carried out by a person to produce goods or provide services produce goods or provide services for own final use that is not effectively covered by formal arrangements. Informal own-use production work comprises activities carried out in relation to an informal work activity defined according to ICSaW-18 as:*

i. Workers in own-use provision of services:

-Employers in own-use provision of services.

-Independent workers in own-use provision of services without employees.

-Family helpers in own-use provision of services.

ii. Workers in own-use production of goods:

-Employers in own-use production of goods.

-Independent workers in own-use production of goods without employees.

-Family helpers in own-use production of goods.

that are not covered by formal arrangements such as registration of the activities, access to insurances against work related injuries or accidents, access to social insurances or other measures aiming at facilitating, protecting and regulating the work.

236. *A person carrying out informal own-use production work by definition carries out work for a household in the household own-use production sector.*

237. Own-use production work includes the provision of services as well as the production of goods. To create a clear link to the SNA, it is relevant to make a distinction between own-use production of goods (inside the SNA production boundary) and the provision of services (outside the SNA production boundary). This division is also recognized in ICSaW-18, which has separate categories for workers in own-use production of goods and own-use provision of services.

238. Own-use production of goods includes the production of goods that are mainly for the consumption of the household or by family members. Own-use production of goods, especially subsistence work, is significant in some countries and plays an important role as a contribution to the livelihood of families. Own-use production of goods would typically be unregulated and therefore comprise informal productive activities. However, there might be programmes and measures that aim to facilitate the work, promote transition to market production, increase access to markets and skills development, improve food security and nutrition, and/or provide basic social protection for these workers. These types of formal arrangements could be used as a basis to define a degree of formality, for example, when some form of registration is required in order to have effective access to such measures.

239. Own-use provision of services would typically also be unregulated and lack coverage of formal arrangements. There can be exceptions, however, for certain specific types of provision of services, for example in countries where it is possible for individuals to receive economic compensation or a pension for taking care of their own children or elderly family members, and where various formal

arrangements are put in place around the activities. Another example is employers in own-use production work: when domestic workers are employed on a formal basis both the employee and the employer have rights and responsibilities and are protected against certain types of risks. These different formal arrangements can be viewed as attempts to facilitate and promote these types of activities and provide some basic protection. As with own-use production of goods, some form of registration of the activities could be used as an indication that the specific activities within own-use provision of services could be considered formal. The type of registration used would have to depend on the specific circumstances within a country and the specific types of activity.

240. The International Classification of Status at Work (ICSaW-18) recognizes a separation between workers in own-use production of goods and workers in own-use provision of services in order to create the boundary between the production of goods which would be inside the SNA production boundary and the provision of services that would be outside the SNA production boundary but within the SNA general production boundary. This distinction would also be relevant in relation to informal work for the very same reason. In addition, ICSaW-18 provide three detailed categories for respectively production of goods and provision of services. Employers and independent workers in own-use production which are independent workers and family helpers in own-use production who are dependent workers.

5.2.2 Informal volunteer work

241. *Informal volunteer work is defined as any performed any unpaid, non-compulsory activity to produce goods or provide services for others that is not effectively covered by formal arrangements. Informal volunteer work comprises activities carried out in relation to an informal work activity defined according to ICSaW-18 as:*

- i. Direct volunteers: and:*
- ii. Organization based volunteer work that:*
 - a) Carries out work for a non- formal economic unit or*
 - b) carries out work for a formal economic unit but are not covered by formal arrangements such as registration of the activities, access to insurances against work related injuries or accidents, health insurance or other measures aiming at facilitating, protecting and regulating the work.*

242. *A person carrying out informal volunteer work can carry out work for a household in the household own-use production sector, an informal household market enterprise or a formal economic unit.*

243. *Formal volunteer work is defined as any performed any unpaid, non-compulsory activity to produce goods or provide services for others that is effectively covered by formal arrangements. Formal volunteer work comprises activities carried out in relation to a formal work activity defined according to ICSaW-18 as:*

- i. Organization based volunteer work that:*

- a) *carries out work for a formal economic unit and are covered by formal arrangements such as registration of the activities, access to insurances against work related injuries or accidents, access to health insurance or other measures aiming at facilitating, protecting and regulating the work.*
244. For *volunteer work* it seems useful to distinguish between organization-based volunteer work and direct volunteer work, since there might be different sets of formal arrangements depending on whether the work is organization-based or not. Direct volunteer work would typically be unregulated, and the productive activities would be informal. Organization-based volunteer work is slightly different because it is carried out for or through an organization or community that may or may not be formally recognized. In this context, there might be situations in which the productive activities carried out could be considered formal if, for example, the volunteer is registered in a formal volunteer organization or the volunteer is covered by social insurance arising from the volunteer work, e.g. health insurance, insurance against work related injuries or there is a formal recognition of the experience/skills acquired.

5.2.3 Unpaid trainee work

245. *Informal unpaid trainee work is defined as any activity carried out by a person to produce goods or provide services for others, in order to acquire workplace experience or skills in a trade or profession that is not effectively covered by formal arrangements such as registration of the activities, access to social insurance, insurances against work related injuries or accidents or other measures aiming at facilitating, protecting and regulating the work.*
246. *A person carrying out informal unpaid trainee work can carry out work for a household in an informal household market enterprise or a formal economic unit*
247. *Formal unpaid trainee work is defined as any activity carried out by a person to produce goods or provide services for a formal economic unit, in order to acquire workplace experience or skills in a trade or profession that is effectively covered by formal arrangements such as registration of the activities, access to social insurance, insurances against work related injuries or accidents or other measures aiming at facilitating, protecting and regulating the work.*
248. Unpaid trainee work shares a number of characteristics with paid trainee work, the main difference being that, in the latter case, the worker receives remuneration. Unpaid trainee work can be regulated and covered by formal arrangements such as access to a limited degree of protection i.e. health insurance, insurance against work related injuries or damage, or a formal recognition of the skills and experience acquired. It could also be argued that, similar to employees, the formality status of the economic unit for which the work is carried out would also have an influence on whether or not the work activity held by an unpaid trainee should be defined as formal or informal. It would be difficult to conceive of a situation where a person who carries out unpaid trainee work for an informal household market enterprise would have a formal work activity and carry out formal productive activities. That the economic unit is a formal economic unit could be viewed as a pre-condition for an unpaid trainee to be defined as formal.
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5.2.4 Other work activities

249. is a residual form of work that potentially includes a diverse set of activities such as unpaid community service ordered by a court, or unpaid compulsory military service. It is not yet clear what this category includes, and it is therefore difficult at this stage to discuss how it should be related to informality except on a very general level.

5.2.5 Essential categories

250. In an encompassing framework in which not only does employment form part of informal productive activities, but where all activities defined as work can potentially be included and recognized as informal, it becomes essential to indicate which groups are of particular statistical interest. The identification of essential categories of informal work would be a pragmatic way to deal with the need to acknowledge that unpaid work activities can (and in many cases will) be informal, but that it might not be relevant for policy purposes to compile data on all types of activities. Instead, the focus would be on compiling data on the essential categories of informal productive activities that have a clear policy purpose. These additional essential categories carrying out informal productive activities would function as a complement to informal employment and thus provide a more complete picture of the structure of informality within a country and allow the identification of particular vulnerable groups beyond those in informal employment.

251. Informal employment would be the main concept of focus. The policy need for regular provision of data regarding informal employment is already well established. Informal employment would need to be further disaggregated and supplemented with a set of indicators that can provide a context to the dichotomy of informal/formal employment, as well information regarding the structure of informal employment within a given country. In addition, there are other groups of workers carrying out informal productive activities outside employment that would be relevant to highlight as a complement to the information provided by the concept of informal employment.

252. Subsistence foodstuff producers could be recognized as one of the essential categories of informal work in countries where this is significant. Subsistence foodstuff producers are defined as a sub-group of persons in own-use production work in the 19th ICLS resolution I as “all those who performed any of the activities ... in order to produce foodstuff from agriculture, fishing, hunting or gathering that contribute to the livelihood of the household or family” (Para 24 (a), ILO 2013). The definition excludes persons producing for recreational or leisure purposes. Subsistence foodstuff producers are often found in vulnerable situations and exposed to high economic risk, typically without any form of protection. Subsistence foodstuff production used to be part of employment as well as informal employment and constituted a significant share of informal employment in many countries, which therefore calls for its measurement as a complement to informal employment. To address the situation of this group would typically require a different set of policies than addressing the more market-oriented production. It could include formal arrangements that grant access to training, seeds and general support to registered farmers who are producing for own-final use. The separate identification of subsistence workers and a distinction between those that might be covered by arrangements aiming at supporting and facilitating the work would allow an assessment of the outreach of such schemes. There is ongoing work within the ILO to conduct further conceptual and methodological work regarding

how this group should be operationally defined and measured. This work should be linked to the work of the working group.

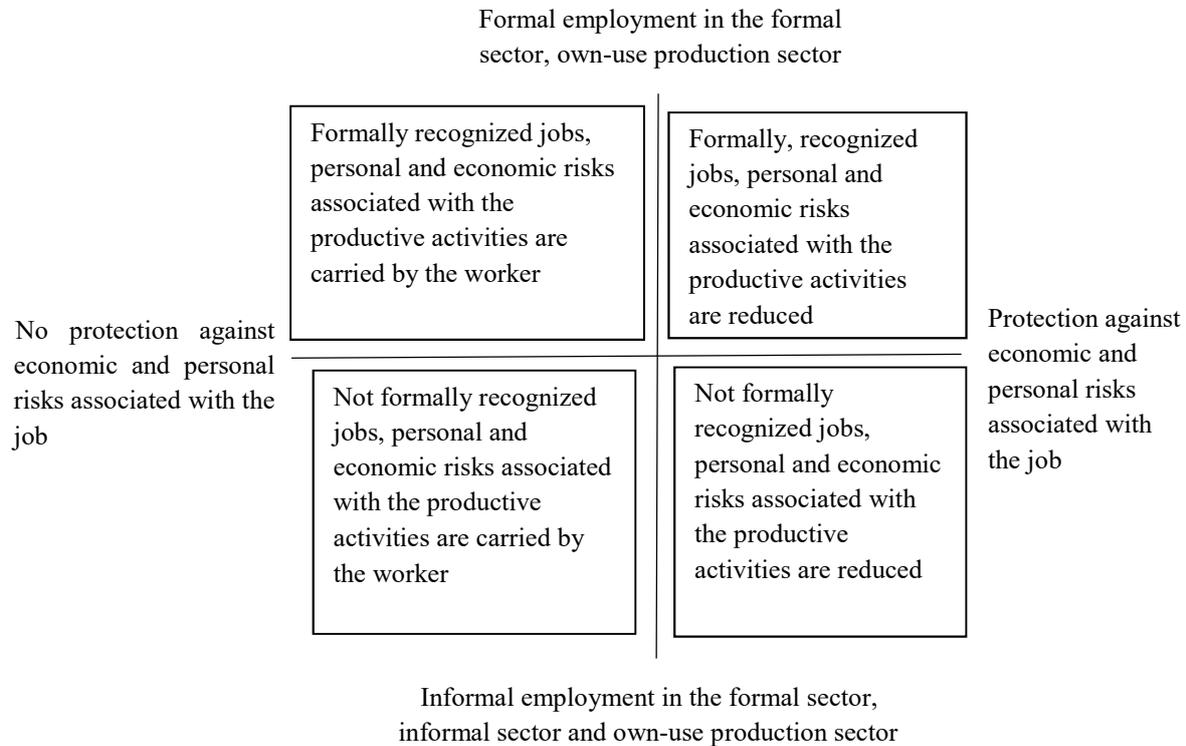
253. Informal unpaid trainee work could also be identified as an essential sub-category of informal work. Informal paid trainees would be part of informal employment and could be separately identified using ICSE-18. The recognition and measurement of informal/formal unpaid trainees would enable the creation of an indicator that provides information on the distribution of paid/unpaid, formal/informal trainees in a country and would thus be an important category to complement informal employment.
254. In addition to these essential sub-categories, there might be other recommended categories useful for national purposes that could be of specific analytical or policy interest. Care work is such an example. Information about the volume and burden of care work, paid as well as unpaid is of high policy interest and the dichotomy of informal/formal could have relevance in this regard. For comprehensive measurement of care work, both paid and unpaid care work needs to be identified in all forms of work. The dichotomy of informal/formal could be used to understand the structure of the work. This could be done, for example, by organizing care work in multiple dimensions such as paid/unpaid, public/private, formal/informal. (Taylor, 2004). This is challenging from a data measurement perspective and would typically require a time use survey or a specialized survey. However, the broad conceptual framework would provide the key elements to conduct such analysis if deemed relevant.

6 Contextualizing informal employment and an indicator framework

255. The definition of informal employment and the broader concept of informal productive activities creates a dichotomy of informal/formal thus reflecting *whether the productive activities defined as employment are— in law and in practice – covered by formal arrangements*. This dichotomy is essential, but does not reflect the reality that informality/formality is a continuum and that workers in both informal and formal employment can be more or less “formal” and have different degrees of protection against different job-related economic and personal risks. The second objective of compiling statistics on informality is to reflect this aspect by capturing *access to institutional settings and the degree of protection against economic and personal risks associated with the activities carried out by the employed worker*.
256. The two different objectives or dimensions i.e. whether the job (or productive activity) is formal or informal and the degree of protection the worker has, do to some extent capture the core of informality. Having a formally recognized job is typically a precondition for being subject, by law and in practice, to the full set of commercial laws, labour laws, social protection, access to the institutional settings etc. that aim to reduce the personal and economic risk to which the worker is exposed. Different forms of social protection and access to employment benefits such as paid annual leave and paid sick leave reduce the economic impact of external shocks such as becoming sick, injured, unemployed, disabled or reaching old age and thereby reduces the economic risk that the worker is exposed to. Labour laws that regulate the working time and ensure the health, safety and welfare of workers reduce the personal risk of becoming sick or injured due to the work, thus reducing the personal risk associated with the work. From a policy perspective, this is an essential aspect: the aim of formalization is not only to push for formalization of the job as such but also to ensure that protection against personal and economic risk follows from that. Different countries have different formal arrangements and different levels of protection. This will also vary within a country depending,

for example, on the status in employment. Workers who do have a formally recognized job might nevertheless have very limited protection against economic and personal risks, while workers with an informal job might have some limited protection for example through voluntarily schemes. Based on the two dimensions it would be possible to conceptually identify four different generic groups along these dimensions as can be seen in Figure 2.

Figure 2. Four generic groups based on a two-dimensional structure



258. The degree of protection against economic and personal risks could be captured by a set of variables aiming to reflecting the level of protection the worker has in relation to carrying out the productive activities. Depending on national context and need, some of these indicators could also be expanded to forms of work other than employment thus including the second dimension for these types of work activities as well. It will be important to achieve a balance between including a sufficient number of relevant indicators to capture the core elements while still ensuring a reasonable response burden. This aspect and the set of variables that could be used is further discussed in *Contextualising informal employment, an indicator framework* (ILO, 2020d).
259. To contextualize the level or degree of protection against risks associated with carrying out the productive activities, it will also be important to include an indicator framework that provides recommendations for the types of indicators a country should use to provide information on the structure of informality within a given country. Such an indicator framework could use the “ diagnostic tool” develop by the ILO as a starting point. This is further discussed in *Contextualising informal employment, an indicator framework* (ILO, 2020d). The diagnostic tool includes a set of indicators that allows an assessment of the structure of informal employment within a given country and the identification of target groups. These indicators are used, together with additional quantitative

information, to identify and prioritize effective policy measures to address informal employment. In addition, the indicators are also used for monitoring progress towards formalization.

260. The indicator framework is based on three target areas that each includes a different set of indicators:
- i. Identifying categories of workers that are most exposed to the risk of informality. Includes indicators such as share of informal employment in total employment for different groups according to demographic and other personal characteristics: sex, age, level of education and employment related features: status in employment, sectors, occupations, size of enterprise
 - ii. Identifying categories of workers that are most represented, i.e. that make up the largest proportions among those in informal employment: Includes indicators such as distribution of informal employment by sex, status in employment, sector, education, etc.
 - iii. Working conditions in the informal economy: Includes indicators such as working time: usual and actual hours of work, type of employment agreement (incl. existence of written contract, type and duration of contract), forms of remuneration, and type of workplace.
261. The set of indicators that is further discussed in *Contextualising informal employment, an indicator framework* (ILO, 2020d) could constitute a natural starting point for the development of indicators to be included in the new resolution. Combined with the contextual variables it would provide data that give a comprehensive picture of the structure of informal employment in a given country, particular groups exposed to and represented in informal employment, as well as a contextualization of their situation and the exposure to economic and personal risks.

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Bits and pieces:

An essential objective of the framework for statistics on informality would be to enable the distinction between those productive activities carried out by persons (i.e. work) and economic units that should be considered formal and those that should be considered informal. It should also provide guidance on which components of these activities are essential to measure for policy purposes. These would include the statistical components of informal employment and the informal sector but could also include additional essential categories outside the scope of these two concepts

262. The current statistical standards addressing informality include the definition of different statistical components such as the informal sector, employment in the informal sector and informal employment. However, these standards do not clearly address what is meant by “informal” from a statistical point of view, understood as what it is that statistically unites the different components. This is to be expected considering that the development of these standards was an incremental process in which countries and users gained more and more experience of measuring and understanding these concepts. A new statistical framework on informality could, however, be based on a common conceptual starting point for the different concepts relating to informality. This would contribute to clarifying what, from a statistical point of view, is meant by the term “informal” and bring further clarity to the different statistical concepts and their operationalization.