



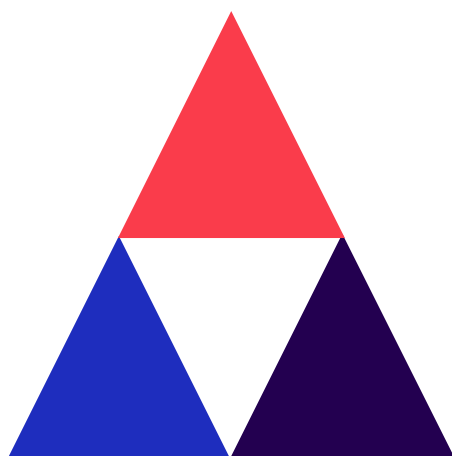
International
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► Country practices for measuring informal sector and informal employment

Room document to support the discussions at the Meeting of Experts on Labour Statistics in Preparation for the 21st International Conference of Labour Statisticians

(Geneva, 7–10 February 2023)



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Introduction

This document provides an overview of country practices for defining the informal sector and informal employment. It builds on the discussion paper provided to the Working group on the revision of the statistical standards on informality at its second meeting in October 2020 (ILO 2020) but updated to better support the discussion of the different elements of the resolution concerning statistics on the informal economy.

This document describes the criteria countries use when operationalizing the definition of the informal sector (and informal jobs held by independent workers) and informal jobs held by employees. Neither contributing family workers nor dependent contractors are addressed in this paper but discussed separately in designated papers provided to the meeting.

This document is based on four sources:

- A review of LFS questionnaires from 148 countries as part of the revision of ICSE-93, conducted in 2017.
- An assessment of available criteria in the 112 micro datasets used for the harmonized series on informal employment and the informal sector at ILOSTAT, conducted in 2017.
- Responses to a questionnaire sent to national statistical offices as part of preparations for the 20th ICLS, carried out in 2018.
- A questionnaire collecting information regarding the combination of criteria for defining informal jobs held by employees, conducted in 2020.

The paper provides a comprehensive picture of country practices for defining informal sector and informal employment, important background for the discussion on the draft resolution concerning statistics on the informal economy.

Countries' measurement of informal sector and informal employment

Many countries now have data on informal employment and employment in the informal sector. As part of the publication of women and men in the informal economy, ILO processed microdata for more than 100 countries – representing over 90 per cent of the world's employed population aged 15 years and older – to produce global and regional estimates of informal employment and employment in the informal sector (ILO, 2018a)¹. Not all of these countries had the measurement of informal employment as a direct objective and improvements could better align the data collected with international definitions of informal sector and informal employment. Nor do all of them report data on the informal sector and informal employment. Nevertheless, they all had the minimum data needed to estimate the persons in informal employment and independent workers who own and operate an informal enterprise in the informal sector.

The microdata is based on different types of household surveys, such as labour force surveys and income and living conditions surveys between 2003 and 2016 (ILO, 2018a, appendix A.2). An assessment of the availability of criteria for the 112 countries for which estimates could be produced points at a gap in the criteria that defines independent workers in the informal sector. All countries included the institutional sector (that is, whether the work is carried out for the government, a public enterprise, a non-governmental organization, a private sector enterprise or a private household). The criterion of registration was included by nearly half of the countries and a complete set of accounts criterion by one quarter of them. The criterion concerning the definition of informal jobs among employees was more frequently included. All countries, except for two, had included employer's contributions to social security and more than half of the countries had information on entitlements or benefits from annual paid leave. Information about paid sick leave could be provided by less than 40 per cent of the 112 countries considered (ILO, 2018a, appendix A.3, p. 83).

To review country practices for defining informal employment, the ILO circulated a questionnaire in 2018 to establish the data coverage and criteria used by countries to define employment in the informal sector and informal employment. Of the 107 countries that responded, 67 stated that informality had been measured to some extent at least once in the last 10 years (Table 1). Two reported that the measurement had been carried out indirectly by combining administrative sources with labour force surveys although no direct measurement had taken place. Household surveys are the most frequently used survey type for collecting this information. Only three countries stated that they had used another source, such as a mixed survey or an establishment survey, in the most recent measurement.

Table 1. Direct measurement of informal employment in the last 10 years

Region	Have measured	Have not measured	Total
Africa	17	2	19
Americas	18	4	22
Arab States	5	1	6
Asia and the Pacific	10	6	16
Europe and Central Asia	17	27	44
Total	67	40	107
OECD	5	16	21

¹ The publication women and men in the informal economy is currently being revised and an updated version, based on more recent data from countries, is expected to be published during 2023.

Source: ILO questionnaire 2018

The direct measurement of informal employment is especially low among developed countries. Only five of the 21 Organisation for Economic Co-operation and Development (OECD) countries that responded to the questionnaire reported they had measured informality directly in the last 10 years. As noted above, some countries collect information that can be used to estimate informal employment and employment in the informal sector even though the primary objective was not to measure informality. This is especially common among developed countries, suggesting that informality is also relevant in those countries.

The coverage of informality, and what is included or excluded, differs across countries, as shown in Table 2. In particular, the exclusion of agriculture activities and the activities of subsistence workers from the scope of informality limits the possibilities for analysing, assessing and understanding the structure of informality within the country.

Table 2. Scope of measurement of informal employment

Included	Africa	Americas	Arab States	Asia and the Pacific	Europe and Central Asia	Total
Informal employment among self-employed	17	17	4	10	15	63
Informal employment among employees	13	14	4	9	14	54
Contributing family workers	14	16	4	9	14	57
Agriculture activities	9	13	4	6	14	46
Subsistence workers	5	6	3	6	4	24
Total countries	17	18	5	10	17	67
Source: ILO questionnaire 2018						

Main criteria used by countries for defining the informal sector

Countries typically use multiple criteria when defining the informal sector and the number used varies substantially between countries. Based on the questionnaire that ILO circulated as part of preparations for the 20th ICLS, most countries use between two and five criteria for defining the informal sector (Table 3). Nine countries used a single criterion while two used six criteria or more.

The use of multiple criteria reflects the residual approach used in the operational definition of the informal sector. The residual approach implies that the more criteria a country uses to identify formal enterprises, and thereby exclude them from being defined as informal, the less risk of incorrectly identifying formal enterprises as informal. This assumption relies on the operationalization of the criteria being a clear reflection of characteristics that define the enterprise as formal. If this is not the case, then there is a risk that informal enterprises can be incorrectly defined as formal. In addition, there is a need to consider the balance between respondent burden and precision. Respondent burden is a key issue in all surveys, and it is important to find the right balance between the number of questions used for defining the informal sector and the detail required to define it with an acceptable degree of precision.

Table 3. Number of criteria used by countries for defining the informal sector, number of countries by region.

Region	Number of criteria used						Total countries in region
	One	Two	Three	Four	Five	Six	
Africa	1	4	6	5		1	17
Americas	2	3	3	4	5		17
Arab States	2				2		4
Asia and the Pacific		1	1	3	4	1	10
Europe and Central Asia	4	3	2	1	5		15
Total countries per number of criteria	9	11	12	13	16	2	63

Source: ILO questionnaire 2018

As shown in Table 4, most countries use different combinations of the five different main criteria that can be directly derived from the operational definition of the informal sector in the 15th ICLS resolution concerning statistics on employment in the informal sector (ILO, 1993). This is also the approach used in the ILO harmonized series (see appendix 1.) Only 11 countries use additional criteria. Among the five different criteria, registration is most frequently used (51 out of 63 countries). Only nine countries used size of the enterprise without also including registration and only one country used the existence of a complete set of accounts without also including registration.

Table 4. Criteria used to define informal sector/informal employment for self-employed, number of countries by region

Criteria	Africa	Americas	Arab States	Asia and the Pacific	Europe and Central Asia	Total countries per criterion
Registration	17	12	2	8	12	51
Institutional sector	9	11	3	9	10	42
Size of enterprise	8	13	2	8	8	39
Complete set of accounts	11	8	2	9	6	36
Unincorporated	6	10	2	6	8	32
Additional criteria	2	4	1	3	1	11
Total countries in the region	17	17	4	10	15	

Source: ILO questionnaire 2018

The criteria used by countries to define the informal sector corresponds to the proposed criteria for defining the informal and formal status of the economic unit as part of the definitions of the formal sector, informal sector and formal sector in the draft resolution concerning statistics on the informal economy. In practice, registration would be an essential criterion as it overlaps with many other criteria such as incorporation, complete set of accounts, incorporation, and institutional sector.

Insufficient information regarding main criteria used for informal sector

The operational definition of the informal sector based on the main criteria requires that the respondents can provide sufficient information to conduct a classification of the sector. Based on an

assessment of six countries, the share of respondents that have not been able to provide the necessary information differs significantly between countries. While more than two thirds of all respondents in Argentina were not able to provide sufficient information to allow for a categorization of the economic unit, the share in Chile and Rwanda was two and three percent respectively. As can be seen in Table 5 a) and Table 5 b), insufficient information to determine the sector is not only a concern for employees but also for the self-employed, in particular own-account workers.

<i>Table 5 a). Share of individuals in employment for whom (in)formal sector could not be determined solely based on main criteria</i>	
Survey	Share with missing (in)formal sector status
Argentina - EPH 2018Q4	68%
Chile - ENE 2019Q2	2%
Ghana - LFS 2015	49%
Mongolia - LFS 2019Q1	25%
Nepal - LFS 2017	5%
Rwanda - LFS 2018	3%
Source: Based on calculations of ILO Statistics Department	
Note: All figures are weighted estimates. Shares are those whose (in)formal sector status could not be determined based on the main criteria.	

<i>Table 5 b). Share of individuals in employment for whom (in)formal sector could not be determined solely based on main criteria ICSE93 and ICSE18 status in employment</i>							
	Argentina - EPH 2018Q4	Chile - ENE 2019Q2	Ghana - LFS 2015	Nepal - LFS 2017	Rwanda - LFS 2018	Mongolia - LFS 2019Q1	
1 - Employees	72.2%	88.3%	22.8%	90.4%	87.2%	12 - Employers	2.1%
2 - Employers	3.1%	1.8%	2.7%	1.1%	0.8%	22 - Own-account workers	78.2%
3 - Own-account workers	24.1%	9.5%	49.3%	5.8%	11.1%	30 - Dependent contractors	2.9%
4 - Members of producers cooperatives	0.0%	0.0%	0.0%	0.0%	0.4%	41 - Permanent employees	0.1%
5 - Contributing family workers	0.6%	0.4%	17.7%	2.4%	0.5%	42 - Fixed-term employees	0.3%
6 - Workers not classifiable by status	0.0%	0.0%	7.5%	0.3%	0.0%	43 - Short-term and casual employees	1.5%
						51 - Contributing family workers	2.3%
						X - Workers not classifiable by status	12.6%
Source: Based on calculations of ILO Statistics Department							
Note: All figures are weighted estimates. Shares are those whose (in)formal sector status could not be determined based on the main criteria.							

If there is insufficient information, it becomes necessary to use an alternative approach for deriving the sector. Such an alternative can be based on probabilistic imputation or a deterministic approach by using additional information (see Appendix 1 for an example of a deterministic approach). The alternative approach for dealing with cases with insufficient information will have a significant impact on the figures when there is a high share of these cases. In practice, there is a need to strive towards limiting these cases as much as possible (by developing more efficient tools and operationalizations). At the same time, countries will need to use an alternative approach even if the number of cases is few.

Main criteria used for defining informal jobs held by employees

Based on countries' answers to the ILO questionnaire, 54 countries have measured informal employment among employees within the last 10 years (Table 6). Countries tend to use multiple criteria to define informal jobs held by employees and most combine three or four different criteria in their operationalization. Six countries use a single criterion, and seven countries use five or more criteria in their operationalization.

Employer's contribution to social insurance is the most frequent criterion and only eight countries did not include this criterion at all in their operational definition. This is followed by existence of a *written contract*, *paid annual leave* and *paid sick leave*. Fifteen countries use additional criteria such as payment of income tax, the possibility to be fired without notice or receiving of a thirteenth month salary.

Table 6. Criteria used for the definition of informal employees, ILO questionnaire

Criteria	Africa	Americas	Arab States	Asia and the Pacific	Europe and Central Asia	Total
Social insurance	13	13	2	8	10	46
Written contract	12	7	3	7	11	40
Paid annual leave	10	8	2	8	10	38
Paid sick leave	10	5	2	8	10	35
Additional criteria	7	5		3		15
Total number of countries	13	14	4	9	14	54

Source: ILO questionnaire 2018

The frequent use of employer's contribution to social insurance as a criterion is evident when assessing the microdata used for the publication of Women and men in the informal economy, as can be seen in Table 7. Based on this assessment, 111 out of the 114 countries for which an estimate of informal employment could be produced included the criterion of employer's contribution to social insurance. Fifty-seven countries included paid annual leave, 43 used paid sick leave and 11 used an absence of a written contract. Two countries also included maternity leave.

Table 7. Criteria used for the definition of informal employees, Microdata assessment

Criteria	Africa	Americas	Arab States	Asia and the Pacific	Europe and Central Asia	Total
Social insurance	32	19	5	16	39	111
Paid annual leave	24	11	2	12	8	57
Paid sick leave	17	4	2	10	10	43
Written contract	3		1		7	11
Maternity leave	1		1			2
Total number of countries	33	19	5	17	40	114

Source: Assessment based on microdata used for the publication of Women and men in the informal economy (ILO, 2018b)

In relation to the revision of ICSE-93, ILO reviewed 148 national labour force surveys questionnaires to identify the use of the five criteria that can be deduced from the operational definition of informal employment among employees (Table 8). That review also confirms that, overall, employer's

contribution to social insurance is the most frequently used criterion (56 countries) followed by paid annual leave and paid sick leave (respectively 55 and 39).

Table 8. Criteria used for the definition of informal employees, National LFS questionnaire assessment

Criteria	Africa	Americas	Arab states	Asia and the pacific	Eastern Europe	Western Europe	OECD	All
Social contributions by employer	10	19	3	13	8	3	5	56
Paid annual leave	19	13	2	14	5	2	4	55
Paid sick leave	12	11	1	10	5	0	2	39
Paid maternity leave	7	4	1	6	0	3	5	21
Taxes paid	10	3	0	2	0	1	1	16
No relevant question	9	8	3	15	15	15	24	65
Total available questionnaires	35	29	7	32	23	22	35	148

Source: ILO, 2016

The different reviews clearly show that employer's contribution to social insurance is the main criterion used by countries to operationalize the definition of informal jobs held by employees. This criterion clearly captures the aspect of whether the job is effectively covered by formal arrangements. The act by the employer of making contributions indicates that the recognition is not only in legal terms but also in practice.

In addition, most countries combine this criterion with access to paid annual leave and access to paid sick leave. Both criteria are typically part of national labour laws and regulations and can thus be used as an indication of whether the job is effectively formal, and subject to labour laws and regulations in law and practice. Countries typically ask whether the employee has access to paid annual leave and paid sick leave without asking about the number of paid days.

Based on the ILO questionnaire, many countries also use the existence of a written contract as part of their operational definition of informality. This is not a criterion that is directly mentioned in the operational definition in the 17th ICLS guidelines concerning a statistical definition on informal employment (ILO, 2003) due to its ambiguity. Having a written contract might be a precondition for obtaining effective access to formal arrangements but may sometimes not be sufficient to ensure such access. The absence of a written contract may indicate informality, but the opposite may not show formality: 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.

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 or 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.

Based on country practices, there seems to be a strong preference among countries to use employer's contribution to social insurance, in combination with other criteria such as access to paid annual leave and paid sick leave, to identify informal jobs held by employees. The proposed definition of informal and formal jobs held by employees in the draft resolution concerning statistics on the informal economy does, to a large extent, reflect these country practices. The criterion of employer's contribution to social insurance is proposed to be a prioritized criterion and access to paid annual leave and access to paid sick leave are recommended criteria to use. In addition, countries can use additional characteristics, such as absence of a written contract or access to severance pay, to further support their operational definition, if relevant within the national context.

Combining the criteria

The criteria that countries use is one concern, another is how they combine those criteria. Two countries that use the same criteria of employer's contribution to social protection, paid annual leave and paid sick leave, can combine them in different ways. ILO has identified three different archetypical approaches that countries use; the strict formality approach, weak formality approach and moderate approach (ILO, 2016).

The strict formality approach implies that all criteria apply for the job to be defined as formal. If at least one of the criteria is not met, then the job held by the employee is defined as informal. This approach can be viewed as a residual approach that aims to minimize the chance that informal employees end up being defined as formal. This typically creates fewer formal employees and more informal employees.

The moderate approach uses different combinations of the criteria where one main criterion is given priority over the others. An example of a moderate approach is that used by ILO to derive informal employment among employees in the harmonized series.² In that approach, the criterion of employer's contribution to social insurance is given priority over the other criteria. The reasons for this prioritization are both conceptual as well as practical. As discussed above, employer's contribution to social insurance is a strong criterion to use in the right context and is the one most frequently used by countries. There are, however, contexts where this criterion is less useful, for example in countries that only have universal social protection schemes, or in countries where employers are not obliged to provide contributions to social insurance for employees. In these situations, the combination of paid annual leave and paid sick leave are used to define whether the employment relationship is recognized or not. In addition, the combination of paid annual leave and paid sick leave is used when the respondent is not able to provide information regarding the main criteria for defining whether the job is formal or informal, which is particularly relevant in proxy interviews.

The weak formality approach is the opposite of the strict approach. In the weak approach it is sufficient if one of the criteria is met for the job to be defined as formal. It is only when all criteria do not apply that the job held by the employee is defined as informal. The weak formality approach is a residual approach that aims at minimising the risk that formal employees end up being defined as informal. This would typically create more employees in formal employment and fewer in informal employment.

To collect further information on how countries combine the criteria for defining informal jobs held by employees, the ILO circulated a questionnaire in 2020 targeting countries that measure informal

² The harmonized series was developed by ILO for analytical purposes and is derived by applying a consistent navigational path in processing micro data. The data used are the latest available that includes the minimum criteria for defining informal employment. This implies that different household surveys are used. The harmonised series are available at: www.ilo.org/ilostat

employment directly. Of the 66 countries that responded, 53 stated that they measured informal employment among employees and provided information regarding how the criteria are combined. This found that countries are clearly divided between the different approaches (Table 9). The strict approach is the most used (23 countries), closely followed by the moderate approach (20 countries) and the weak approach (10 countries). There are some regional differences. While the strong approach is most frequently used by countries in Africa and in Europe and Central Asia, the weak approach is preferred in the Arab states and the moderate approach by countries in the Americas.

Table 9. Approaches used to measure informal jobs held by employees, number of countries by region

Region	Strict formality approach	Weak formality approach	Moderate approach	Total
Africa	10	2	6	18
Americas	3	3	5	11
Arab States		3		3
Asia and the Pacific	5		6	11
Europe and Central Asia	5	2	3	10
All	23	10	20	53
Source: ILO questionnaire 2020				

Strict formality approach

The strict informality approach implies that all main criteria have to be met for the job to be defined as formal and the job is defined informal if one of the criteria do not apply. As previously discussed, countries use a different number of main criteria. Among the 23 countries that use the strict formality approach, a vast majority (13 countries) use four different criteria and an additional seven use three criteria (Table 10).

Table 10. Number of criteria used for defining the informal jobs held by employees (strict formality approach), number of countries by region

Region	Two criteria	Three criteria	Four criteria	Five criteria	Total
Africa		2	6	2	10
Americas	1	1	1		3
Asia and the Pacific		3	2		5
Europe and Central Asia		1	4		5
All	1	7	13	2	23
Source: ILO questionnaire 2020					

The criteria used by countries applying the strong formality approach are the four most frequently used criteria identified in the previous analysis: employer's contribution to social insurance, access to paid annual leave, paid sick leave and written contract. Only one country with a strict approach does not include employer's contribution to social insurance. Six countries include additional information to these four criteria as their main criteria for defining informal jobs held by employees.

Table 11. Criteria used for defining the informal jobs held by employees (strict formality approach), number of countries by region

Criteria	Africa	Americas	Asia and the Pacific	Europe and Central Asia	All
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Social contributions by employer	9	3	5	5	22
Paid annual leave	9	2	5	5	21
Paid sick leave	9	2	5	5	21
Written contract	9	1	1	4	15
Additional criteria	4	1	1		6
Total countries strict informality approach	10	3	5	5	23
Source: ILO questionnaire 2020					

Moderate formality approach

Employer's contribution to social insurance is the key criterion for countries with the moderate approach. 13 out of 20 countries define the job as formal by default on the basis of whether the employer contribute to social insurance. An additional 4 countries prioritize employer's contribution to social insurance with additional criteria, to define the job formal. Only one country is using the moderate approach but without including employers' contribution to social insurance among the prioritized criteria. Two countries stated that they do use the moderate approach but without specifying the criteria used.

Table 14. Number of countries in which employer's contribution to social insurance define the job held by employee formal, number of countries by region

Region	Yes	No	Not used	N/A	Total
Africa	2	2		2	6
Americas	5				5
Asia and the Pacific	4	2			6
Europe and Central Asia	2		1		3
All	13	4	1	2	20
Source: ILO questionnaire 2020					

Most of the countries that stated that employer's contribution to social insurance defines the job as formal also stated that the absence of such contributions, by default defines the job as informal (10 countries). Seven countries used the absence of employer's contribution to social insurance with the combination of other criteria to define the job as informal.

Weak formality approach

Countries using the weak formality approach seem to be more divided in the number of criteria to apply when defining informal/formal jobs held by employees (Table 12). Four of the ten countries use two main criteria and three countries five criteria. This can be compared with the strong approach where 20 out of the 23 countries used three or four criteria.

Table 12. Number of criteria used for defining the informal jobs held by employees (weak formality approach), number of countries by region

Region	Two criteria		Four criteria	Five criteria	Total
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		Three criteria			
Africa	1			1	2
Americas	2		1		3
Arab States		1	1	1	3
Europe and Central Asia	1			1	2
All	4	1	2	3	10
Source: ILO questionnaire 2020					

All countries using the weak approach applied the criterion of employer's contribution to social insurance in the operational definition (Table 13). Existence of a written contract is the second most frequently used criterion. Five countries included additional criteria in the operational definition, such as the nature of the employee agreement (temporal, seasonal, casual), access to health insurance, among others.

Table 13. Criteria used for defining the informal jobs held by employees (weak informality approach), number of countries by region

Criteria	Africa	Americas	Arab States	Europe and Central Asia	All
Social contributions by employer	2	3	3	2	10
Paid annual leave	1	1	3	1	6
Paid sick leave	1	1	3	1	6
Written contract	1	2	2	2	7
Additional criteria	2	1	1	1	5
Total countries weak informality approach	2	3	3	2	10
Source: ILO questionnaire 2020					

The different approaches have an impact on the share of employees with an informal job and the degree of impact differs between countries. As can be seen in Table 14, the difference is large in some countries. The strict approach creates around 19 percentage points more formal employees in Mongolia than the weak approach. The difference is less significant in Argentina, Ghana, Nepal and Rwanda, where the two approaches only create around a 6-percentage point difference, but even this difference is still sizeable.

Table 14. Share of Informal Employment (as % of all employment) Using Different Calculation Approaches			
Countries - Surveys	Strict	Moderate	Weak
Argentina - EPH 2018Q4	51.1%	49.0%	46.8%
Chile - ENE 2019Q2	34.9%	29.1%	27.3%
Ghana - LFS 2015	80.1%	78.0%	74.1%
Mongolia - LFS 2019Q1	65.7%	46.9%	46.7%
Nepal - LFS 2017	82.3%	80.8%	76.7%
Rwanda - LFS 2018	81.6%	80.4%	76.1%
Source: Based on calculations of ILO Statistics Department, 2019			
Note: All figures are weighted estimates,			

Impact of the proposal by the Working group

The current statistical standards concerning a statistical definition of informal employment do not provide any guidance or recommendations for how countries should combine the criteria for defining informal and formal jobs for employees. This has led to differences in national practices, which impacts the possibility to produce harmonized data and hampers the capacity to provide recommendations on how to operationalize the definition most effectively.

This was identified as one of the issues that should be addressed as part of the revision of the standards (ILO, 2018b). Based on the discussions that have taken place within the Working group on the revision of the statistical standards on informality, and the country practices previously described, the proposal is to provide stronger recommendations for which criteria are to be used and how to combine the criteria, while retaining the necessary flexibility for countries to adapt the definition taking the national context into account.

Employer's contribution to statutory social insurance is proposed to be a prioritized criterion (para 78 and 84, Appendix ILO, 2023). This criterion clearly captures the aspect of whether the job is, in practice, formally recognized by the employer in relation to the legal administrative framework of the country and whether the employee can be expected to have effective access to formal arrangements. The act by the employer of making contributions indicates that the recognition is not only in legal terms but also in practice and the job should therefore be considered formal. The absence of contributions to social insurance by the employer is therefore a defining characteristic for informal jobs held by employees. Countries would still need to operationalize the criterion regarding which specific job-related social insurance or social insurances that would be of relevance within the country.

Access to paid annual leave and access to paid sick leave are proposed to be recognized as two relevant criteria for defining formal and informal jobs for employees (para 79 and 85, Appendix ILO, 2023). These two criteria are already frequently used by countries and are typically part of national labour laws and regulations and can be used as a good indication of whether a job is formally recognized, and thereby subject, in law and practice, to labour laws and regulations. According to the proposal, the two criteria can either be used to define the job as formal if no contributions to social insurance are made by the employer or if the criterion of social insurance is not relevant within a country and therefore not used. Alternatively, countries can use the two criteria to define the job as informal or formal in case there is insufficient information about employers' contribution to social insurance for example if a respondent does not know or does not want to answer. According to the proposal, both criteria, if used, must apply for the job to be considered formal. If the person only has access to paid sick leave or paid annual leave, or none, and no contributions are made to social insurance by the employer, then the job is considered to be informal.

Finally, countries can use additional relevant arrangements as criteria, such as absence of written contract, access to maternity leave, etc. to further support the definition (para 80 and 86, Appendix ILO, 2023). Exactly how these national criteria impact the combination of the criteria would depend on the national context and the criteria used.

The proposed approach for how the criteria should be combined will to some extent impact on countries current operational definitions, however, the impact will depend on the approach currently in use and the correlation between the criteria in the country. In countries currently using the strong

formality approach, the share of employees with formal jobs is likely to increase while the share of employees with informal jobs would decrease. For example, a situation where an employer contributes to social insurance, the employee has access to paid sick leave but does not have access to paid annual leave, would in the strong formality approach be defined as an employee with an informal job because not all criteria have been met. Applying the approach proposed by the Working group, this employee would be defined as having a formal job given that the employer does contribute to social insurance on the behalf of the employee.

In countries currently using the weak formality approach the impact would be reversed. The share of employees with formal jobs is likely to decrease while the share of employees with informal jobs would increase. For example, an employee that has access to paid sick leave but no access to paid annual leave and the employer does not contribute to social insurance on the behalf of the employee would, using the weak formality approach, be considered to have a formal job. Applying the proposal of the Working group, this employee would be defined as having an informal job given that no contributions are made to social insurance by the employer and the employee only has access to paid sick leave but not paid annual leave.

The impact on countries using moderate approaches would depend on the exact combination of the criteria that is used. However, most of these countries prioritize social insurance as a criterion and in those cases the impact is likely to marginal.

The impact of the proposal on national statistics will depend on the approach currently used but also on the correlation between criteria in the country, particular the correlation between social insurance contribution and the other criteria. As stressed in the draft resolution, countries are encouraged to always use the three criteria of social insurance, access to paid annual leave and access to paid sick leave (para 88, Appendix ILO, 2023). This will allow countries to assess the three criteria and see the impact of any changes to the current operational definition of formal and informal jobs among employees. This will be particularly important in communicating any changes in the share of formal and informal employees due to revised definitions to data users and key stakeholders.

The proposal to provide stronger recommendations for combining the criteria is an important step toward improving the current definition and to providing clearer guidance for countries on how to operationalize the definition. The proposed criteria and their combination are integrated in the overall framework of informal economy and clearly linked to the underlying concept of informal productive activities, and broadly reflect current country practices, creating both a strong conceptual and practical foundation for this approach.

Conclusions

Approximately 70 countries have measured the informal sector and/or the informal employment at least once within the last 10 years. In addition, estimates on informal employment can be provided for around 40 countries based on data that have been collected without the direct objective to provide estimates on informality. There is a particular lack of direct measurement of informal sector/informal employment among developed countries.

There is a strong preference among countries to use all or a selection of the five different main criteria for operationalizing the definition of the informal sector. Registration is the most frequent criterion used in combination with other criteria and only a few countries use the size of the economic unit without also using registration.

There is a strong preference among countries to use employer's contribution to social insurance as a main criterion for the operationalization of the definition of informal jobs held by employees. Only eight countries out of the 54 did not include this criterion at all in their operational definition.

Employer's contribution to social insurance is typically combined with existence of a written contract, paid annual leave, and paid sick leave. Fifteen countries use additional criteria such as payment of income tax, the possibility to be fired without notice or receipt of a thirteenth month salary.

The criteria typically used by countries to define the informal sector and informal employment corresponds to the proposed criteria in the draft resolution.

Although there is a strong preference among countries to use the same set of criteria they can be combined differently, impacting on the share of employees with informal/formal jobs. It is therefore important to increase the level of harmonization between countries and enable the derivation of global and regional estimates of informal jobs held by employees. The proposed approach by the Working group will contribute to an increased harmonization between countries while maintaining a certain degree of flexibility that will allow countries to adapt the definition of informal and formal jobs for employees to their national context.

The impact on countries current operational definitions, and thereby the impact on the share of informal and formal employees, depends on whether they have been applying strict, moderate or weak definitions of (in)formality, as well as the correlation between the criteria in the country. Countries are encouraged to always include the three criteria of employer's contribution to social insurance, access to paid annual leave and paid sick leave, independent of the exact approach used or if they use additional national criteria to further support the definition. This will allow countries to assess the impact of the proposed approach and will contribute to the possibility of creating regional and global estimates.

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Appendix 1 ILO harmonized approach

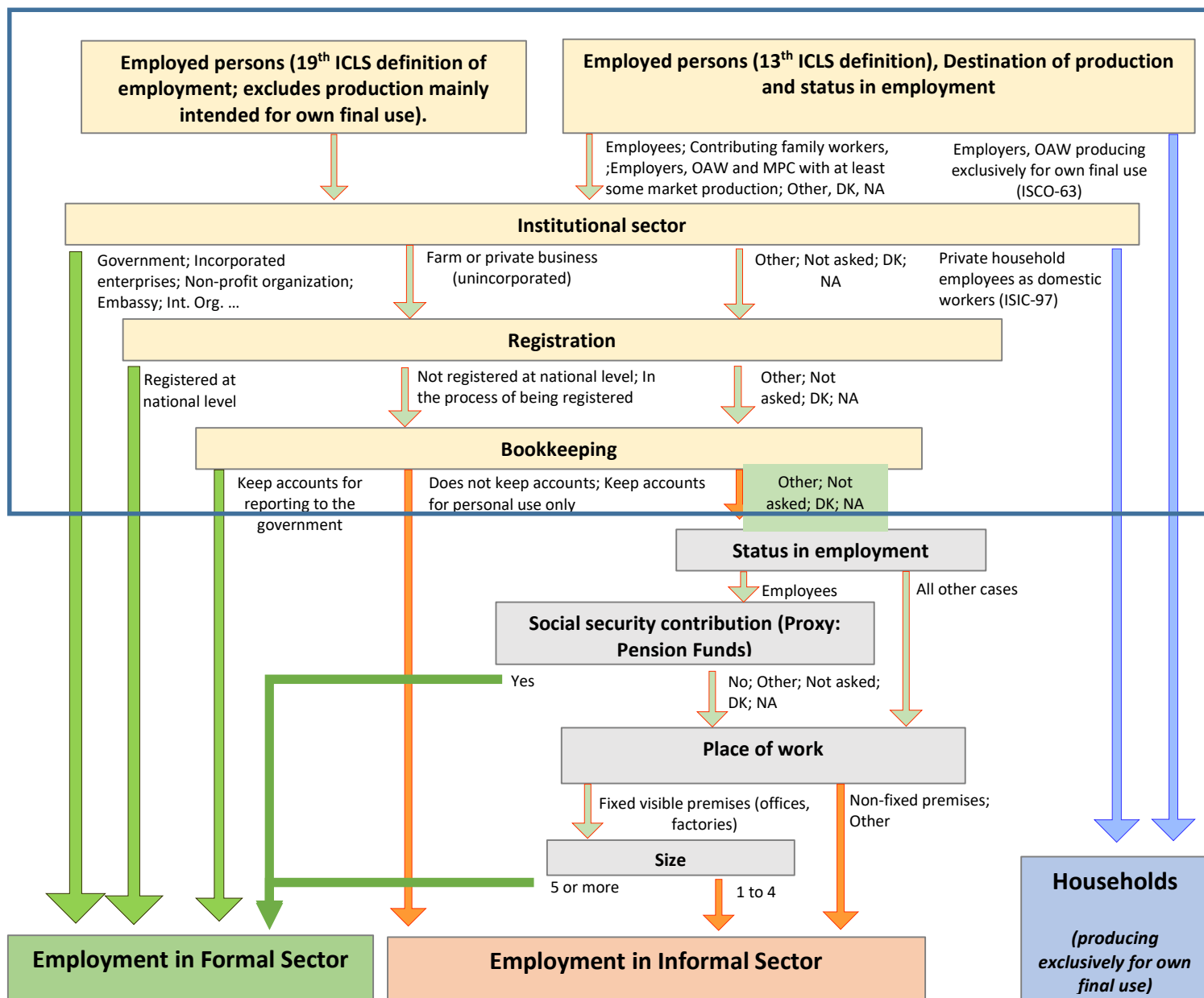
The processing of the microdata was based on applying a common set of operational criteria to define informal employment and employment in the informal sector. The approach was residual: a sequence of criteria was applied step by step to identify the formal cases, eventually leaving a residual that is defined as informal (for further details, see annex 1). The use of a common set of criteria in combination with a residual approach creates a more harmonized output for international comparison and deals with the issue that not all criteria were covered in all surveys. The same approach is used by the ILO in the harmonized series on informal employment and the informal sector at ILOSTAT.³ Both allow for comparison across countries and regions but may differ from national estimates where they exist.

The “ILO approach” for defining informal sector as part of measuring informal employment

1. For the publication of *Women and men in the informal economy* (ILO, 2018c) it was necessary to develop a harmonized model for defining the informal sector and informal employment that took into account the use of different statistical sources with different criteria depending on the source and country. The method used was a residual approach: a sequence of criteria was applied step by step to identify the formal cases, eventually leaving a residual that is defined as informal. The same approach is used by the ILO in the harmonized series on informal employment and the informal sector, on ILOSTAT. Further work have been conducted by ILO to refine these approach and the latest version can be viewed in flowchart 1. To define the informal sector the main criteria used are destination of production, institutional sector, bookkeeping and registration are used. In addition, an alternative approach is used when there is insufficient information of the main criteria to determine whether a household market enterprise is formal or informal. This is particularly relevant when the aim is to identify whether informal/formal employees are in the informal sector, formal sector or households producing exclusively for own final use.

³ <http://www.ilo.org/ilostat>

Flowchart 1. Operational definition of employment in the informal sector formal sector and households.



Source: ILO refined harmonised approach, 2019

Flowchart 2. Operational definition of informal employment

