Conceptual Framework for Statistics on the Informal Economy

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 2022)
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### Abbreviations and Acronyms

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<th>Description</th>
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<tr>
<td>FS</td>
<td>Formal Sector</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HH</td>
<td>Household</td>
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<td>HOC</td>
<td>Household Own-use and Community (Sector)</td>
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<td>ICLS</td>
<td>International Conference of Labour Statisticians</td>
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<tr>
<td>ICSaW-18</td>
<td>The International Classification of Status at Work 2018</td>
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<td>ICSE-18</td>
<td>The International Classification of Status in Employment 2018</td>
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<tr>
<td>ICSE-18-A</td>
<td>The International Classification of Status in Employment according to type of Authority</td>
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<tr>
<td>ICSE-18-R</td>
<td>The International Classification of Status in Employment according to type of economic Risk</td>
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<td>ICSE-93</td>
<td>The International Classification of Status in Employment 1993</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>IS</td>
<td>Informal Sector</td>
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<tr>
<td>ISCO</td>
<td>International Standard Classification of Occupations International Standard Industrial Classification of all economic activities</td>
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<td>ISIC</td>
<td>International Standard Industrial Classification of all economic activities</td>
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<td>LFS</td>
<td>Labour Force Survey</td>
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<td>NPI</td>
<td>Non-profit institutions</td>
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<td>NPISH</td>
<td>Non-Profit Institutions Serving Households</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>R204</td>
<td>Recommendation No. 204 concerning the Transition from the Informal to the Formal Economy adopted by the Conference at its 104th Session</td>
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<tr>
<td>SDG</td>
<td>Sustainable Development Goal</td>
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<td>SNA</td>
<td>The System of National Accounts</td>
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<tr>
<td>TSE</td>
<td>Third or Social economy (institutions)</td>
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<td>----------------------------------------</td>
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<tr>
<td>UNSD</td>
<td>United Nations Statistics Division</td>
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<td>VAT</td>
<td>Value Added Tax</td>
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<tr>
<td>19th ICLS resolution I</td>
<td>The resolution concerning statistics of work, employment and labour underutilization adopted at the 19th International Conference of Labour Statisticians</td>
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1 Introduction

1. This paper presents a description of the proposed framework for statistics on the informal economy 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 provides descriptions and definitions of the boundaries and structure of the new framework, the different underlying and overarching concepts to be included and the different statistical components, as well as the relationship between them.

2. The background to the development of the standards and a guide to the draft resolution is provided in the Report to the Meeting of Experts on Labour Statistics in Preparation for the 21st International Conference of Labour Statisticians. The present paper, however, provides a more comprehensive description of the framework and its different components than was possible in the report by combining and extending information provided in the report and draft resolution.

3. The paper includes several “statements” marked with cursive text. These parts are references to the draft resolution as presented in Annex I in the report.

4. The paper is constructed around six different parts. Chapter 2 gives an overview of the structure of a new conceptual framework and its different statistical components. It introduces the different relevant reference concepts as well as the underlying concept of informal productive activities.

5. Chapter 3 defines the overarching concept of the informal economy and informal market economy and how these concepts relate to concepts such as non-observed economy, underground production, illegal production and illicit activities.

6. Chapter 4 describes and proposes conceptual and operational definitions of the informal sector, the formal sector and the household own-use and community sector. It also explains the link between these three different sectors and the concept of work, as well as their relationship to the institutional sectors as defined by the System of National Accounts (SNA).

7. Chapter 5 focuses on informal employment and the operational definition of informal jobs, which is derived in relation to the different categories of the International Classification of Status in Employment (ICSE-18). It includes a discussion of different operational definitions of informal jobs for independent workers and dependent workers. This part is further supported by the document The inclusion of Dependent Contractors within the framework of informal economy (ILO, 2022b) which outlines different options for defining informality for Dependent contractors.

8. Chapter 6 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 both formal and informal productive activities exist outside employment. It includes possible definitions of informal work for own-use production work, volunteer work, unpaid trainee work and other work activities, 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.
9. The last chapter outlines the indicator framework that provides information regarding the structure and composition of informality within a country, decent work deficits among informal workers and that further contextualize the dichotomy of informal/formal as well as the situation of informal formal workers.

2 Uses of statistics on the Informal Economy

10. Statistics on the different components of the informal economy are used for a variety of purposes in both economic and social analysis.

11. In countries with a high share of informality, statistics on informal employment and on employment in the informal sector are fundamental to understand the structure of the labour market and the economic and personal risks that workers are exposed to. Employment, and labour underutilization therefore needs to be supplemented with the dimension of whether the employment is informal or formal to create a more complete picture of the characteristics of the jobs in the labour market as well as of the situation for the workers.

12. Statistics on the size of the informal sector, its composition, production inputs (including labour inputs) and outputs are necessary to create 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. The quantification of the informal sector and data on its characteristics are also needed to provide information for designing, implementing, monitoring and analysing macro-economic policies and to assess their impact.

13. Informal employment and employment in the informal sector are key dimensions for designing and evaluating government policies and programs aimed at promoting employment and formalizing informal jobs. This includes a focus on small and micro-enterprises in the informal sector as a potential source of employment creation.

14. Providing information on informal employment and the informal sector is also essential for designing and evaluating economic and social policies, for improving working conditions and for poverty reduction. As recognized in the Resolution concerning decent work and the informal economy, workers in the informal economy are characterized by a high degree of vulnerability and poverty. (ILO, 2002, para. 1) and that decent work deficits are most pronounced in the informal economy (ILO, 2015), preamble. Information on the informal sector and informal employment thus enables governments to create policies to address these decent work deficits and to evaluate the economic and social impact due to macro-economic changes such as the impact of economic cycles or long-term changes in the level and composition of employment.

15. Informal employment and employment in the informal sector are also particularly important for policy-oriented monitoring of gender issues. One of the important conclusions of the ILO publication Women and Men in the informal economy: A Statistical Picture (ILO, 2018c) is that women are more often found in the most vulnerable forms of informal employment, for instance as domestic workers, home-based workers or contributing family workers (ILO, 2018c, Page 20-21,). Informal employment thus becomes an important dimension to understand and address the unequal role of women in employment. Informal
employment is also linked to policies directed towards the situation of young people and older people. Both categories are overrepresented in informal employment (ILO, 2018c, Page 20-21).

16. Following the inclusion of the indicator on informal employment in the Decent Work Measurement Framework in 2008, the importance of measuring informality was further highlighted when informal employment was adopted as one of the indicators in the 2030 Agenda for Sustainable Development in 2015. The inclusion of informal employment in the SDG framework as indicator 8.3.1 points to the high continuing relevance of the concept and the need for countries to regularly measure, monitor and address informal employment as part of achieving the SDG goal 8 to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
3 Underlying concepts

3.1 Reference concepts

17. Statistics on informality are concerned with the informal nature of (a) the productive activities of economic units and (b) the productive activities of persons.

18. The focus on the informal nature of productive activities of economic units and of persons implies the use of several essential reference concepts defined in supporting statistical standards referring to both economic statistics as well as labour statistics. This ensures a coherence between different but related statistical standards and the recognition of the different relevant reference units for the framework i.e., respectively economic units and persons/jobs.

3.1.1 Economic units

19. Informal productive activities of economic units recognize the use of economic units as reference unit for the measurement of for example informal production taking place by informal economic units in the informal sector. To ensure coherence with economic statistics and other labour statistics the concept of “productive activities is aligned to the definition in the SNA 2008 and would include processes or activities carried out under the control and responsibility of an economic unit and that uses inputs of labour, capital goods, and services to produce outputs of goods or services (SNA 2008, Para 5.5).

20. The concept of economic unit is not only used as a possible reference unit for measurement but is also a reference concept for example in relation to the definition of a job. 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. households that produce goods or services for own final use (i.e., households).

3.1.2 Persons/jobs/work activities

21. The concept of “productive activities carried out by persons” recognizes informality in relation to activities defined as work. The concept is therefore 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 into five distinct forms:

   i. own-use production work
   ii. employment work
   iii. unpaid trainee work
   iv. volunteer work
   v. other work activities
22. All productive activities defined as work can be linked to a specific job or work activity. The concept of job or work activity is aligned to 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. (ILO 2018, Para 8). The term “job” is used in relation to employment while “work activity” is used in relation to forms of work other than employment.

23. The categories of status in employment and status at work are aligned to the International Classification of Status in Employment (ICSE-18) and the International Classification of Status at Work (ICSaW-18) as defined in the Resolution concerning statistics on work relationships (ILO, 2018). 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.

3.2 Informal productive activities

25. For statistical purposes, the concept of “informal productive activities” is defined as all productive activities carried out by persons or economic units that are – in law or in practice – not covered by formal arrangements.

26. The concept of informal productive activities is an underlying theoretical concept, which calls for 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 concept 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 the concept of informal productive activities 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 therefore 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.

27. 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 informal employment which recognizes that informality comprises informal enterprises and workers in informal employment (ILO, 2013). 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.

28. The concept of informal productive activities is not intended to be measured in its totality. It is a broad concept that 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 be viewed as an encompassing conceptual foundation from which the different statistical components are derived, thus pointing to which statistical components of informal productive activities should be statistically quantified and
described. Some of these statistical components should be measured regularly due to high policy interest, while other components might be measured with less frequency, and some may only be relevant for special purposes and should only be measured if there is such a need.

29. The concept of productive activities performed by persons (i.e., work or, in SNA terms, “labour inputs”) can be viewed as a smaller underlying conceptual unit than jobs, work activities or economic units. It is an important underlying concept, but not necessarily a statistical or analytical unit as such. However, the concept of productive activities creates flexibility and the possibility to recognize informal productive activities carried out by persons and economic units. It encompasses informal productive activities carried out by workers in employment independently on whether they hold informal or formal jobs as well as informal productive activities carried out by persons in relation to forms of work other than employment. It also captures informal production carried out by informal economic units, households and non-formal non-profit organisations and the use of informal labour input in relation to the formal production by formal economic units. The concept of informal productive activities therefore creates a link between the concept of informality to the concepts of production, jobs, work activities, and workers as well as economic units.

30. 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 (ILO, 2013). The concept of informal employment as defined in the guidelines do therefore not only includes 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 included with 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.

31. The concept of informal productive activities as defined goes beyond the concepts of informal sector and informal employment and therefore expands the current scope of informality as defined in the 15th ICLS resolution concerning statistics on employment in the informal sector and 17th ICLS Guidelines concerning a statistical definition of informal employment. Since informal production carried out by workers includes all activities defined as work that are not covered by formal arrangements, it also includes productive activities defined as forms of work other than employment (i.e., 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 the 19th ICLS resolution I. In addition, the concept of informal productive activities includes not only informal productive activities that takes place within informal jobs or work activities (which by definition would only include informal productive activities), but also includes informal productive activities by persons 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.

32. From the perspective of production carried out by economic units, the concept of informal productive activities expands the boundary of informality and goes beyond the informal sector as it also includes the production of goods and services by household. It also recognizes the use of informal work as input to the
production independent on whether this production is formal production carried out by formal economic units or informal production carried out by informal economic units or households.

3.2.1 Formal arrangements

33. 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.

34. The concept includes productive activities within the SNA general production boundary that are not in practice covered by formal arrangements as established by regulations and laws, such as:

(a) regulations that stipulate the responsibilities and obligations of the economic units and the workers;
(b) commercial laws that regulate the productive activities carried out by economic units and their engagement in commercial contracts, including to safeguard their intellectual and physical property;
(c) procedures to report economic activities such as fiscal obligations in order, for example, to pay taxes or to cover employees by social security;
(d) labour laws and regulations such as those relating to paid annual leave, paid sick leave, the minimum wage, hours of work and social security coverage; and
(e) procedures that regulate access to the institutional infrastructure such as banks, markets or governmental support mechanisms.

35. Commercial laws, labour legislation, social protection and other protective measures that regulate the actions 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 reducing 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 their intellectual property, enforcing and regulating contractual agreements and ensuring fair competition. Procedures to report economic activities, such as fiscal obligations, commit the owner of the enterprise to keep accounts, report the accounts and pay taxes and cover employees for social security. Labour laws regulate working time and the minimum wage, promote the health, safety, and welfare of the workers, and reduce the personal risk of becoming sick or injured due to the work, thus reducing the personal risk associated with the work.

36. Different forms of social protection and access to employment benefits including paid annual leave and paid sick leave reduce the economic risk to which the worker is exposed in the case of lack of work-related income due to external factors such as becoming sick, injured, unemployed or reaching old age. 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 to access finance 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 must rely on self-support and other alternative arrangements.

37. 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.

38. Coverage by formal arrangements in law and in practice does not merely imply having legal coverage by the formal arrangements but means that the arrangements should be effectively accessed in practice by the worker and the economic unit by fulfilling procedures that entail duties and obligations for all parties involved.

39. The definition of informal productive activities highlights that a lack of coverage of formal arrangements can either be due to a lack of legal coverage or due to a lack of an effective access to the formal arrangements. A lack of “legal” coverage would include situations where a specific type of activity is unregulated or when workers or economic units with some specific characteristics are exempted from a legal coverage of formal arrangement. A lack of an “in practice” coverage of formal arrangements can be understood as an 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 legal coverage but without any effective access to it, then the worker or the economic unit carrying out the productive activities would face similar exposure to economic and personal risks as they would if they were not covered by these formal arrangements in law. This is particularly the case if there is a lack of enforcement within a given country. The informal status of the productive activities as well as the persons or economic units carrying them out, can therefore stem from the two slightly different situations; either a lack of legal coverage of formal arrangements or a lack of a coverage in practice despite a legal coverage due to that the formal arrangements cannot be accessed in virtue. The underlying reason for why the productive activities are to be considered informal do not however, impact on the statistical definition nor on the informal status of the productive activities even though it would have relevance from a policy perspective.
4 The informal economy

40. The “informal economy” comprises all informal productive activities of persons or economic units, whether or not they are carried out for pay or profit.

41. The concept of the informal economy has not previously been defined for statistical purposes. 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 (R204) 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 who carry out informal activities; the enterprises that carry out informal production; and from the perspective of total informal production, including transactions.

42. The introduction of the broad concept of work and the more restricted definition of employment in the 19th ICLS resolution I does, 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. The intention behind the concept of informal economy in R204 is to capture informal employment, economic units in the informal sector, and total production of the informal sector including transactions. However, with the narrower 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 the informal economy either becomes too narrow (i.e. does 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 irrespective of whether these activities are intended for own use or for the use of others or whether they are for pay or profit. Like informal productive activities, this broad boundaries of informal economy creates a statistical concept that might not be meaningful to measure in itself. Instead, it is an umbrella concept that includes all different relevant statistical components at the most aggregated level while, the concept of informal productive activities links the components together. This enables the compilation of statistics that go beyond the core concepts of the informal sector and informal employment which would, for example, be needed to provide input for the compilation of statistics on all informal productive activities within the SNA production boundary to allow comprehensive measurement of the economy in a given country. In addition, it provides the possibility to identify essential groups of workers outside employment but within the informal economy to complement the core concepts of informality, as well as to conduct analysis of certain issues and groups, such as gender analysis, and examination of sectors that cut across multiple forms of work, such as agriculture, and the care economy.
4.1 Treatment of illegal and illicit activities

43. Illegal and illicit activities where the goods and services are forbidden by law are excluded from the informal economy and from other statistical concepts defined in these standards. Activities where the goods and services produced are usually legal but become illegal when carried out by unauthorized producers are to be included together with other informal productive activities in the informal economy.

44. Based on the definition of informal productive activities most illegal productive activities would be part of the informal economy. However, from a policy perspective addressing informal activities versus illegal activities would have different policy measures and objectives. While policies designed to address illegal activities would typically focus on reduction or abolition, the objectives of policies addressing informal productive activities would be formalization and supporting informal workers and economic units. The exclusion of production of goods or services whose sale or distribution is forbidden by law such as human trafficking or trafficking of illegal drugs from the informal economy and from its different components including informal employment and the informal sector while allowing for the inclusion of production that is usually legal but becomes illegal when carried out by unauthorized producers such as operating a restaurant without permit or selling counterfeit goods, would serve these diverging policy needs.

45. This treatment of illegal and illicit production is in line with recommendation 204 concerning the transition from the informal to the formal economy which clarifies in its definition of the informal economy that it “does not cover illicit activities, in particular the provision of services or the production, sale, possession or use of goods forbidden by law, including the illicit production and trafficking of drugs, the illicit manufacturing of and trafficking in firearms, trafficking in persons, and money laundering, as defined in the relevant international treaties.” para 2 (b), ILO, 2015).

46. From the point of view of the SNA this implies that illegal production of type a) the production of goods or services whose sale, distribution or possession is forbidden by law is to be excluded from the framework of the informal economy while illegal production of type b) production that is usually legal but becomes illegal when carried out by unauthorized producers are to be included. (2008 SNA para. 6.43).

47. The exclusion of type a) illegal production do not imply that this type of production should not be estimated by countries. Engagement in these types of activities would be included in the concept of work and the production would form part of a countries GDP. It would therefore be important to estimate the type a) illegal production taken place in what can be termed the illegal economy as a complement to the informal economy. In practice, the estimation of this production would typically require a different statistical conceptual framework, methodology and the use of different data sources. The exclusion of the type a) illegal activities and the inclusion of type b) illegal activities therefore do not only responds to the policy needs but also the statistical needs by reflecting that the illegal economy and informal economy are different concepts measured with different methods for different purposes and objectives. The two concepts can rather be viewed as different components of the total economy of a country, meeting different needs and user demands. They do to some extent overlap but with different objectives and conceptual bases.
4.2 Informal market economy

48. For statistical purposes, the concept of the “informal market economy” is defined as all production in the informal sector and all productive activities of workers in employment that are not – in law or in practice – covered by formal arrangements.

49. The underlying concept of informal productive activities needs to be further categorized 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 one step in such a de-composition.

50. 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) thus capturing all employed persons in the informal economy. Similarly, it includes the informal production carried out by enterprises in the informal sector. From a statistical point of view the concept includes the statistical core components of informal employment, the informal sector complemented with partly informal activities taking place in relation to formal employment. 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.

51. This more restricted definition of informal market economy has 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 does 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.

52. 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 or profit, i.e., the informal market economy, that would be of high policy priority to address with objective to put measures in place that can contribute to formalization.

53. 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 there would be a need for 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 From the
perspective of the worker, informal employment complemented by formal employment with partly informal activities constitutes the informal productive activities carried out by workers for pay or profit within the informal market economy i.e., employed persons in the informal market economy. Persons carrying out informal productive activities not for pay or profit are 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.

54. From the perspective of economic units, the informal market economy consists of the production by economic units within the informal sector. However, the inclusion of the informal productive activities within employment also creates a link to economic units in the formal sector and households that engage informal employees or use partly informal productive activities in relation to formal jobs, as input to the production.

4.2.1 Informal economy and related concepts.

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

56. 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 measures, for example, 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 economy would thus depend on the components of the informal economy that countries are regularly measuring. In addition, the non-observed economy would typically include underground production, undeclared production and illegal production. As discussed further below, these different types of activities are only partly captured by the concept of informal economy.

57. 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 economy, and in particular informal market economy, includes to some extent the concept of underground production. A small business that has not been registered 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 takes place in for example the
informal sector. It can be due to that 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 caused by tradition and culture or the fact that the regulatory system in a country is limited, irrelevant or bureaucratic and expensive. While underground production is typically a way to increase profit, informality is more frequently an issue of being the only option and means to sustain a livelihood.

58. **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. The non-illicit production that are undeclared would, like underground production, overlap to some extent with the informal economy and in particular the informal market economy. An employee who carries out work for an enterprise and where the work is not declared for taxes, no social insurance is paid by the employer etc., 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 relation to formal jobs increases the overlap between undeclared production and informality because these undeclared/partly informal productive activities are also to be considered as part of the informal market economy. However, the concept of undeclared production do still differ from the concept of informality. Undeclared production would, for example, also include tax evasion which affects the amount of value added of market transactions, either by understating the value of the transaction as such or by overstating associated costs with the production. This would be formal productive activities that are partly undeclared. 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 deliberately conceal the informal production but is simply not required to declare it. Undeclared work would also include illegal production and illicit activities which as further discussed below, is only partly included within the informal market economy and hence also within the informal economy.

59. **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. As previously discussed, the SNA separates between to different types of illegal production (2008 SNA para. 6.43):

   a) The production of goods or services whose sale, distribution or possession is forbidden by law;
   b) Production that is usually legal but becomes illegal when carried out by unauthorized producers.

60. While the type a) illegal production is to be excluded from the informal economy type b) illegal production is within the boundaries of the informal economy and therefore also within the informal market economy. This reflects the diverging policy objectives with addressing respectively informal productive activities and illegal production. To compile both types of activities without separation would create a somewhat blurry picture and hamper the possibilities to describe the structure of informality necessary for effectively identify and implement policies aiming towards formalization.

61. The boundary between the illicit or illegal production and informal production within the informal economy is a clarification compared to the current statistical standards that do not explicitly address the
issue of illicit activities. At the same time, it is reasonable to assume that in practice, it is likely that relatively few illicit productive activities are picked up in surveys with the objective to measure the informal sector and informal employment. The clarification that type a) activities are to be excluded are therefore likely to have a limited impact on countries current estimates and can rather be viewed as a conceptual clarification. The estimation of the type a) illegal production taken place in what can be termed the illegal economy, would however, be important as a complement to the informal production taken place within the informal economy to for example create a more comprehensive GDP and for identifying flows and links between the illegal economy, informal economy, and formal economy.

5 Statistical definition of the three sectors

62. Two aspects of an economic unit need to be established to identify the informal sector, the formal sector and the household own-use and community sector:

(a) the intended destination of the production; and
(b) the formal status of the economic unit.

63. The intended destination reflects whether the production is mainly intended for the market with the purpose of generating a profit and income.

64. Types of production that are not intended for the market with the purpose of generating a profit and income include:

(a) production that is mainly for own final use; and
(b) production mainly intended for the market but without an intention to generate income; and
(c) non-market production that is mainly for final use by other households.

65. The formal status of the economic unit reflects whether the unit is formally recognized by government authorities as a distinct producer of goods or services and is thus covered by formal arrangements.

66. Depending on the formal status of the economic unit and the intended destination of the production, economic units can be allocated mutually exclusively to one of the following sectors:

(a) The formal sector, comprising economic units that are formally recognized as distinct producers of goods and services for the consumption of others and whose production is mainly intended for the market with the purpose of generating an income or profit, for a non-profit purpose, or non-market production for use by other economic units (corporations, quasi-corporations, government units, formal non-profit institutions serving households and formal household unincorporated market enterprises).

(b) The informal sector, comprising economic units whose production is mainly intended for the market with the purpose of generating income and profit, but that are not formally recognized as producers of goods and services distinct from the own-use production of the owner-operators’ household (informal household unincorporated market enterprises).

(c) Household own-use and community sector, comprising economic units that are not formally recognized as producers of goods and services for the consumption of others, whose production is either mainly for the household’s own final use, or for the use of other households, without the purpose of generating income and profit for the producing household or households or the members of the non-formal non-profit organization (households and non-formal non-profit organizations).

67. The first dimension for identifying the three different sectors is whether the production is mainly intended for the market with the purpose of generating a profit and income to the owner-operators of the
economic unit, which characterizes economic units in the informal sector. Production that is carried out for own-final use, non-market production that is mainly for final use by other households and production mainly intended for the market but without an intention to generate income for the owner-operators of the economic unit would therefore be linked to economic units in either the formal sector or in the household own-use community sector.

68. 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). Like 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)).

69. The change of threshold reduces the scope of informal sector, but its impact depends on the share of own-use producers of goods with some market production within a given country. 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.

70. 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 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.

71. 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 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

\footnote{For an assessment of the impact see: \textit{Issues to be addressed in the revision of the standards for statistics on informality}, chapter 5.2, ILO, 2019}
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 underlying concept of informal productive activities. By identifying the informal sector and production in the informal sector, the informal production intended for the market to generate income and profit would be measured. The formal status of the economic unit as a producing economic unit, implies that the production carried out by these economic units are to be considered as formal production as they would be covered by formal arrangements and due to that any delineation of “informal” and formal output of the production would in practice be challenging. Instead, this aspect is captured within the concept of undeclared production. Even though the production by formal economic units is formal, these economic units can still use informal work as input to the formal production, as can be seen in table 4. This informal work is part of the informal productive activities and therefore ensures that the concept of informal economy comprises all informal productive activities by persons or economy units.

72. 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 situation in practice to the extent possible. This aspect is discussed further in relation to the operational definitions.

73. Based on the two dimensions, the three different sectors can be derived conceptually as three mutually exclusive categories as can be seen in table 3.

<table>
<thead>
<tr>
<th>Formally recognized status</th>
<th>Production mainly intended for the market with the purpose of receiving a profit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Yes</td>
<td>Formal sector</td>
</tr>
<tr>
<td></td>
<td>Household own-use and community sector</td>
</tr>
<tr>
<td>No</td>
<td>Informal sector</td>
</tr>
</tbody>
</table>

74. The conceptual definition of the informal sector as economic units producing goods or services for the market with the purpose of generating a profit and income, 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 characteristics are typically to be found among enterprises in the informal sector but can also be shared with formal enterprises, such as formal household unincorporated market enterprises. To link the conceptual definition of the informal sector more clearly 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 unincorporated market enterprises.

75. 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 as can be seen in table 4. 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 identify the contribution, for example, of unpaid trainees and volunteers in respectively the informal sector, formal sector and household own-use and community sector.

Table 4. Informal productive activities by economic units in the informal economy

<table>
<thead>
<tr>
<th>Economic units</th>
<th>Informal production</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Formal sector</td>
</tr>
<tr>
<td>Informal productive activities by economic units</td>
<td>Production in the formal sector is formal</td>
</tr>
<tr>
<td>Form of informal work as input to production</td>
<td>For pay or profit: Informal employment*</td>
</tr>
<tr>
<td></td>
<td>Partially informal productive activities of persons in formal employment*</td>
</tr>
<tr>
<td></td>
<td>Not for pay or profit: Informal unpaid trainee work</td>
</tr>
<tr>
<td></td>
<td>Informal volunteer work</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Relation to SNA production boundary</th>
<th>Goods and services</th>
<th>Goods</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>SNA production boundary</td>
<td>SNA general production boundary</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Components of the informal market economy.

5.1 Operational definitions

76. The operationalization of the definitions for the three sectors is structured around the two dimensions of intendent 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 sectors 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 unincorporated market enterprises, formal economic units, household producing for own-final use or for the use of other households, non-formal non-profit organizations.

5.1.1 The formal sector

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

(a) having a formal status as distinct producers of goods or services by:
   (i) being owned or controlled by the government; or
   (ii) being recognized as separate legal entities from their owners; or
   (iii) keeping a complete set of accounts for tax purposes; or
   (iv) being registered in a governmentally 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;

(b) the intended destination of the production being:
   (vi) mainly for the market with the purpose of generating an income and profit or with a non-profit purpose, or non-market production for use by other economic units.

78. The formal sector comprises economic units that are formally recognized as distinct producers of goods and services, irrespective of whether the production is mainly intended for the market with the purpose of generating an income or profit, for a non-profit purpose, or non-market production for use by other economic units. This would include government units, corporations (incorporated enterprises), enterprises with a complete set of accounts for tax purposes, formally registered household unincorporated 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 their owners and their households. This separation 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 household of the owner operator.

Operational definitions of the criteria i-iv for defining the formal sector

79. Criteria (i) - (v) above form part of the statistical definition of the formal sector as well as the informal sector. For operationalization of these criteria, countries should take the following recommendations into account:

80. Economic units that are owned or controlled by the government: Economic units that are owned or controlled by the general government include units that are part of the central, state or local government and economic units owned and operated by the State with the purpose of producing goods and services for the population, such as state healthcare, public schools, defence, public order and safety, or producing market goods and services (public corporations). This excludes situations where the general government
might control access to the market or similar but does not own and control the economic units carrying out the production.

81. 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 formal economic units in the formal sector. It would not be sufficient that the general government controls access to the market, for example by providing licenses to trade or granting access to a marketplace. These kinds of measures would not directly impact on the formal status of the production (unless other criteria such as registration or keeping a complete set of account follow from this) and would not imply any kind of ownership by the general government of the economic units carrying out the production.

82. **Economic units that are recognized as separate legal entities from their owners:** Economic units that are incorporated (such as a limited liability corporation or limited partnership) and therefore recognized as legal entities separate from their owner are formally recognized producers of goods and services. The incorporated status of the economic unit implies a separation of assets and income between the owner and the enterprise and a limited legal liability for the owner in relation to, for example, any debts or other obligations held by the enterprise.

83. 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.

84. **Economic units that keep a complete set of accounts for tax purposes:** Enterprises that keep a complete set of accounts (including 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 included in the formal sector.

85. 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 the enterprise wants to derive VAT etc. For an enterprise to qualify as being formal based on 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 owner and the owner’s household. This criterion also 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 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.
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 formal sector also includes the criterion of registration. An enterprise with a limited set of accounts but that is registered would be considered a formal economic unit based on registration. In countries, where there is a possibility for registered enterprises to submit limited accounts for tax purposes, the existence of such accounts can be used as an indication of that the enterprise is registered. 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 to be considered formal.

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 includes them in the formal sector. In practice quasi-corporations must be registered to lodge their accounts with the government and thereby be considered as corporations in the accounts. The key issue is therefore 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” to be included in the formal sector.

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 unregistered 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. Moreover, the national accounts would not, in practice, treat them as quasi-corporations because there would typically be a lack of data about them in data sources such as tax records.

Economic units that are 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 an entity producing for the market distinct from the own-use production of the owner-operators’ household, irrespective of whether this separation is a de facto legal separation or a financial separation. Registration should refer to a register or registers in the given country used for granting access to benefits such as tax deductions, obtaining a separate legal identity for enterprises, granting access to statutory social insurance (if it implies a formal status of the economic unit) and carrying obligations such as paying business tax and keeping accounts. The register or registers would typically be at a national
level, but could also be at a local level if the register is governmentally established and controlled, but locally administrated.

90. Depending on the national context, the existence of simplified accounts for tax purposes can be an indication of registration, if keeping these accounts implies a registration of the economic unit and thereby a formal recognition of the economic unit. In countries where registering an enterprise might not necessarily carry any obligations or benefits, there might be a need to combine different registers such as, for example, the business register and the tax register, to ensure that a certain degree of formal arrangements comes with the formal status of the economic unit.

91. In case countries have special regulations and registers targeting a specific type of production, such as agricultural activities, registration may also refer to these specialized national registers. However, registers used for purposes other than production or the operation of a business, such as those related to land tenure, are not assumed to imply the existence of a formal enterprise.

92. 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 categorizes unincorporated registered enterprises that do not have a complete set of accounts for tax purposes, as formal enterprises. 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 if 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.

93. 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. In countries where registration of for example an enterprise and registration for tax to some extent is separated and that being registered in one (for example having a registered enterprise) do not necessary carry any obligations or benefits and to not entail a registration in the other (for example being registered in relation to tax), it might be a need being registered in multiple registers to define the enterprise as formal. This would ensure that some formal arrangements come with the formal status of the economic unit, and to avoid that registered enterprises with informal characteristics (such as no accounts for tax purposes, no payment of tax, no registration of the employees in relation to social insurance etc), are defined as having a formal status.
It follows from all this that the type(s) of registration used for operationalization by a country typically 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. However, there might be situations in countries where a “national” register is administrated and to some extent controlled at a local level. These situations could still fulfill the criterion of registration if these local registrations are nationally linked and to some extent controlled at a governmental level and that being registered can be viewed as a substitute for being registered at the national level. It would be essential that being registered in these locally administrated registers still carries obligations such as for example paying tax, keeping accounts and benefits such as the possibility to obtain a legal identity.

When operationalizing the criterion, it would be possible for countries to in addition, use more indirect operational criteria for establishing whether the economic unit is registered. The criterion keeping a complete set of accounts for tax purposes would highly overlap with the criterion of registration. Enterprises that do keep a complete set of accounts for tax purposes would also be registered enterprises. In addition, some countries have the possibility for registered enterprises to also have more simplified accounts for tax purposes for example if the turnover is below a certain threshold. If there is a direct link in a country between being registered and keeping some specific simplified accounts for tax, then keeping these accounts would be an indication that the enterprise is registered and therefore formal. In these cases, countries can use these types of supplementary indirect criteria as part of the identification of informal and formal enterprises.

The removal of the option to exclude agriculture from the informal sector (as further discussed in chapter 4.1.2.) might call for the need to also recognize that for some specific types of production it could be relevant for countries to operationalize the criterion of registration by also include specialized registers if relevant in the country. This could include national specialized registers targeting agriculture production but could also be relevant for other types of specific activities such as registration in relation to specific professional groups. However, it would be important to ensure that registers used for purposes other than production or operation of a business, such as those related to land tenure, are not assumed to imply the existence of a formal enterprise.

**Economic units that employ one or more persons to work as an employee with a formal job:** Economic units that employ one or more persons under conditions that meet the requirements of a formal job held by an employee, are considered to be formally recognized economic units and thus form part of the formal sector, unless the economic unit is a household in the household own-use and community sector. Economic units that employ one or more persons to work under conditions that meet the requirements of an informal job may be defined as formal economic units, informal household unincorporated market enterprises or households, depending on the formal status of the economic unit and the intended destination of the production.

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.

99. The existence of formal employees in the informal sector is a conceptual and analytical challenge in the 17th ICLS Guidelines concerning a statistical definition of informal employment 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 formal status of the 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 regulations, 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 not only of the employee, but also of the enterprise.

5.1.1.1 Additional clarifications around economic units in the formal sector

100. Formal economic units can carry out economic activities in any type of industry. The production by formal economic units is, by default, considered formal production, but could include informal productive activities carried out by persons when informal work is used as input to that production. This includes formal economic units engaging informal employees, formal employees carrying out partly informal productive activities and persons carrying out informal work other than employment.

101. 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 produced in economic units formally recognized as producers. The formal sector therefore consists of multiple sectors as defined by the SNA.

102. The formal status of the economic unit as a producing economic unit, implies that the production carried out by these economic units are to be considered as formal production due to that it would be covered by formal arrangements. In practice, however, some of this production might be undeclared and some could also in a sense be considered “informal” when for example part of the production is covered by formal arrangements while other parts are not. However, as any delineation between production by formal enterprise that could be considered formal respectively “informal” would be very challenging in practice, this type of situations is rather to be included as part of the concept of undeclared production than informal production. Although the production by formal economic units is to be considered formal, these economic units can still use informal work as input to the formal production. This informal labour input forms part of the informal economy, and ensures that informal employment, partly informal
productive activities of persons in formal employment and informal productive activities in relation to forms of work other than employment is statistically identified also when this is used as input to the production of a formal economic unit.

103. Persons carrying out work in the formal sector include employed persons in the formal sector, unpaid trainees and volunteers carrying out work for a formal economic unit.

104. Persons employed in the formal sector include independent workers who own and operate a formal enterprise, dependent contractors who own and operate a formal enterprise or are registered for tax, employees and contributing family workers with informal or formal jobs carrying out work for a formal economic unit.

105. Employed persons in the formal sector include all persons that are defined as being in employment and carries out work for a formal economic unit. For independent workers this would include those that own and operate a formal enterprise while for employees and contributing family workers it would include those that have been engaged by a formal economic unit for which they carry out the work.

106. Dependent contractors in the formal sector are proposed to include those dependent contractors that either have a formal enterprise or where the dependent contractor is registered for tax by the economic unit on which they depend or by their own actions. This approach reflects the unique situation of dependent contractors and the fact that some dependent contractors own what can be considered an unincorporated enterprise while others may for example perceive themselves as being employes and only provide their labour to the entity on which the depend. By expanding the notion of “economic units” for dependent contractors and not only restrict it to whether the economic unit of the dependent contractor is registered and therefore formal but also open up for the possibility that the worker can be registered and hence formal, the different situations of dependent contractors are taken into account when categorizing the informal and formal sector for these workers.

107. Being registered (either the worker or/and the economic unit) can be viewed as a pre-condition to be considered formal. It is the starting point for being covered by any type of formal arrangements even if these formal arrangements in practice might be limited. The registration of the worker in relation to tax can thus be viewed as a complement to whether the worker has a formally recognized enterprise and reflects that the dependent contractor has a formal status in relation to the legal administrative system of the country. The type of registration for operationalize the criterion of registration in relation to tax is further defined in relation to the definition of formal jobs and informal jobs for dependent contractors but would typically refer to registration in relation to tax that does not imply registration of an enterprise but rather registration of the worker and the activities carried out by the worker in relation to the profits made by the dependent contractor.

108. The “dual” criteria i.e., formal enterprise or being registered for tax for profits made for categorizing the sector for dependent contractors, should be applied for all dependent contractors. In other words, dependent contractors are to be considered as one unique group independent of other characteristics such as whether they only provide their labour as input or have invested in finical and material input, and independent of whether they perceive themselves as being self-employed or employees.
109. Formal economic units can also engage workers carrying out forms of work other than employment. This would include formal economic units engaging unpaid trainees or volunteers to carry out work for the formal economic unit.

5.1.2 Informal sector

110. For statistical purposes, the informal sector is defined as comprising economic units that are producers of goods and services mainly intended for the market to generate income and profit and that are not formally recognized by government authorities as distinct market producers and thus not covered by formal arrangements. These informal household unincorporated market enterprises are characterized by:

(a) not having a formal status as a market producer, by:
   (i) not being owned or controlled by the government; and
   (ii) not being 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 governmentally established system of registration; and
   (v) not employing one or more persons to work as an employee with a formal job;

(b) the intended destination of the production being:
   (i) mainly for the market with the purpose of generating an income and profit for the owner or owners of the enterprise.

111. Criteria (i) – (v) ensure that informal market household enterprises do not have a formal status as a market producer distinct from the household of the owner-operator and therefore lack coverage of formal arrangements. An informal household market enterprise would be an unincorporated enterprise that does not have a complete set of accounts for tax purposes, is not registered in nationally established system of registration and does not employ one or more persons to work as an employee with a formal job. The operationalization of these criteria follows the recommendations given in relation to the operational definition of the formal sector thus ensuring that the three sectors and in particular the distinction between the informal and formal sector are mutually exclusive categories.

112. Not being owned and/or controlled by the government. Economic units owned and controlled by the general government would by definition be formal economic units and therefore excluded from the informal sector.

113. Not being recognized as separate legal entities from their owners. Informal household unincorporated market enterprises are unincorporated enterprises and therefore lack a legal identity separate from the persons that own and operate them. Any debts or liabilities incurred would be the personal responsibility of the owner-operators.

114. Not keeping a complete set of accounts for tax purposes. Informal household unincorporated market enterprises are characterized by having no clear separation of the economic activities between the enterprise and the household(s) of the person(s) that own and operate the enterprise. No complete set of accounts, including balance sheets, assets, liabilities, flows of income and capital between the enterprise and the owner, is kept for tax purposes. Accounts can, however, be kept for purposes other
than tax, this would typically include a more simplified set of accounts or informal records of orders, sales and purchases that are used to keep track of the activities associated with the informal enterprise.

115. **Not being registered in a governmentally established system of registration used for granting access to benefits and that carries obligations.** Informal market household enterprises is not formally recognized as a market producing units separated from the household(s) of the person(s) that owns and operates the economic unit. This implies that they are not formally registered in a nationally established system used for providing legal identities, ensuring the contribution to tax, deduction of VAT etc. and are thereby not imbedded in the legal administrative framework of the country. Informal household unincorporated market enterprises can, however, be registered in relation to for example local authorities in order to obtain a permit to operate a business or to obtain a trade licence. These types of registrations on their own would not necessarily entail coverage of formal arrangements or embed the economic unit within the legal administrative framework of the country, but rather they would give access to a given market while imposing very limited obligations and providing very limited protection for the economic unit and its activities.

116. **Not employing one or more persons to work as an employee with a formal job.** Informal household unincorporated market enterprises may or may not engage employees to carry out work for the enterprise. The informal nature of the enterprise would, however, prevent the enterprise from engaging an employee on a formal basis. To commit in practice to pay relevant taxes, social security benefits and comply with labour laws and regulation on the behalf of the employee would require the enterprise to be formal. A defining characteristic among informal household unincorporated market enterprises is therefore that if they engage employees, these would have informal jobs.

117. A defining characteristic of informal household unincorporated market enterprises in addition to their lack of formal status, is that the production is mainly intended for the market with the intention of generating income or profit. This sixth criterion separates market-oriented production of informal household unincorporated market enterprises from production carried out by households for own final use and ensures that the three sectors are mutually exclusive.

118. **A characteristic of informal household unincorporated market enterprises is that their production is mainly intended for the market with the purpose of generating an income or profit for the owner or owners of the enterprise.** This 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 is not intended to be a source of income and profit, are therefore excluded from the informal sector.

119. 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 household unincorporated 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.

120. How the term “mainly” should be operationalized is not further specified in the 19th ICLS resolution I. Work to explore this aspect is 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. Based on the discussion so far there seem to be good arguments that the market boundary should be assessed on an individual level (i.e., on the level of the production carried out by the person) and not at the household level (i.e., on the level of the production carried out by all members of the household). This would be in line with the proposed definitions within this framework that define informal household unincorporated market enterprises on an individual level. Progress was also made regarding the level of individual production that should be used to assess whether the person carries out market production or own-use production. The issue is particularly relevant within agricultural activities where part of the production is carried out for the market while other parts are intended for own final use. In these cases, three different levels could be used to assess whether the person carries out market production or not: the total agricultural production carried out by the person, activity clusters or product level. It was concluded that the total production, which is currently the default approach by many countries, seems to be effective. However, the activity cluster level could be relevant in settings with high prevalence of mixed activities. (ILO, 2021d).

5.1.2.1 Additional clarifications around the definition of informal household market enterprises

121. In addition to the operational criteria for identifying the informal sector, some further clarifications around informal household unincorporated market enterprises will contribute to the statistical understanding of the informal sector. These include 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 unincorporated market enterprises within the same household.

122. Informal household unincorporated market enterprises can engage in production in all industries, agriculture as well as non-agriculture, insofar as the production is mainly intended for the market to generate an income and profit. All productive activities of informal household unincorporated market enterprises are, by definition, informal productive activities.

123. Production in the informal sector is not limited to certain kinds of production or places of production. Informal household unincorporated market enterprises can engage in all kinds of activities such as agriculture, manufacturing, construction, retail, transportation and so forth, if 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-agricultural activities.

124. The removal of the option for countries to either include or exclude agriculture activities from the informal sector is an important change in the standards and the definition of the informal sector. This flexibility was introduced in the 15th ICLS resolution concerning statistics on employment in the informal sector due to the practical challenges and the additional costs that arise when including agricultural activities in the measurement of the informal sector, for example using a so called 1-2 survey (mixed household-establishment survey). Information such as type of production, assets, costs, sales, and value added might
be challenging to collect from informal household unincorporated market enterprises but even more so in relation to agricultural activities. In addition, the cost of expanding a survey to agricultural activities can be substantial, especially in countries with a large agriculture sector. Moreover, it might be challenging to construct a relevant and respondent friendly questionnaire that works well for collecting information on both agricultural activities and non-agricultural activities.

At the same time there are strong arguments to include agricultural production within the scope of the informal sector. Providing information regarding informal economic units and informal workers engaged in agricultural production is essential for policy makers to gain an understanding of the structure of the informality in the country and the situation of the workers. Information on informal agricultural production would also be important to achieve comprehensive measurement of the production of the informal sector as a contribution to GDP.

The inclusion of agricultural production in the informal sector is also essential when the main objective is to measure informal employment as an input to labour statistics. This was already recognized in the 17th ICLS Guidelines concerning a statistical definition of informal employment which underline that jobs in agriculture should be included in the measurement of informal employment (ILO, 2003 para. 7). Agriculture is the sector with the highest level of informal employment (93.6 pct. globally, ILO 2018c, p20) and the global estimates on the share of persons in informal employment falls from 62.2 pct. to 50.6 pct. when agricultural activities are excluded. The exclusion of agricultural activities reduces the informal employment rate in all regions, but the impact is particularly large for developing and emerging countries and especially in Africa. (ILO 2018c, p14.). The impact of excluding agricultural activities from the measurement of informal employment can be expected to be reduced with the implementation of the 19th ICLS resolution I, since a large part of what is now defined as own-use production of goods is agricultural production. However, the difference between including or excluding agricultural production from the measurement of informal employment can still be expected to be significant, especially in countries with a high share of agricultural production.

The importance of agricultural activities in relation to informality underlines that from a conceptual and analytical point of view including such activities is necessary to enable the comprehensive measurement of the informal sector and informal employment. This has also been underlined by the adjustment of the SDG indicator 8.3.1 share of informal employment which no longer excludes agriculture.

From a practical point of view, it is also difficult to find arguments why jobs in agriculture should be excluded when the objective is to measure informal employment. Persons employed in agriculture would be included in the scope of employment and hence the cost of making the distinction between whether the job is formal or informal would be marginal. The main issue in this context is rather whether the criteria used for defining the informality of the job are relevant and valid for agricultural activities. Conceptually the criteria of registration and keeping a complete set of accounts would have relevance for agricultural production. As with other industries, an independent farmer who has not registered his or her activities would be “invisible” in the sense that the farmer and the activities carried out would not be embedded within the legal administrative framework of the country and therefore not be covered by any formal arrangements. This situation would not as such differ from independent workers with non-agriculture production in the informal sector. Countries might, however, have special regulations surrounding agriculture activities including special requirements for registration or specialized agriculture
registers. This might call for countries to adapt the criterion of registration to ensure that it takes such national specifics into account. For example, as part of operationalizing the criterion of registration, also include national registers targeting agriculture production. It would also be important to ensure that registers used for purposes other than production or operation of a business, such as those related to land tenure, are not assumed to imply the existence of a formal enterprise.

129. The change of the threshold for market production and the exclusion of production that is mainly for own-final use (but where some is intended for the market) might contribute to reducing the difficulties that come with including agricultural activities in the measurement of the informal sector. The exclusion of production that is mainly for own-final use from the informal sector does not imply that this production should not be measured at all. The importance of counting especially agricultural outputs and the associated labour inputs in the third sector, i.e., the household own-use and community sector should be stressed, especially in countries where this represents a significant component of GDP or of the national food supply. The inclusion of production mainly for own-final use but with some market production in the household own-use and community sector will allow specialized surveys to be used to target agricultural production that is mainly for own-final use, irrespective of whether some is intended for the market. This might be a more efficient way to statistically measure this type of production.

130. The issue of the inclusion of agriculture activities in the measurement of the informal sector is a practical one rather than a conceptual one. 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 as well as informal employment. The methodological challenges of including agricultural activities could be reduced by further development of tools, based on countries’ experiences that consider 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 will be especially challenging when targeting production that is mainly for own-final use where some of the production is intended for the market. Conceptually the same set of criteria used for defining the informal sector could also be applied in the case of agriculture production. However, depending on the context of the country, some adjustments to how the criteria are operationalized might be necessary. For example, the criterion of registration might, depending on the country context, be adjusted to also include registration relevant for agricultural production.

131. Informal household unincorporated market enterprises, which are thus in the informal sector, can be viewed as a subsector of the household sector as defined by the SNA. Informal household unincorporated market enterprises share characteristics with households as defined by the SNA and there is no clear separation in practice between the assets and liabilities of the informal household unincorporated market enterprise and the owners.

132. A household unincorporated market enterprise 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 unincorporated market enterprises may or may not have a formally recognized status as a producer reflected by the criterion of registration. Household unincorporated market enterprises that have a formal status as a market producer would be defined as formal household unincorporated market enterprises while household unincorporated market enterprises that are not formally recognized as
market producers would be informal household unincorporated market enterprises and constitute the informal sector. Informal household unincorporated market enterprises and the informal sector can therefore be viewed as a sub-sector of the household sector as defined by the SNA.

133. **A single household can include multiple informal household unincorporated market enterprises and may also engage in different types of production in parallel, including production for own final use and production in relation to one or more informal household unincorporated market enterprises.**

134. A household in SNA terms is an institutional unit that can engage in multiple types of production, some of which might be intended for the market while others might be intended for the consumption of the household members. From the point of view of the household as an institutional unit, the household would then potentially include different household unincorporated market enterprises that conceptually constitute separate economic units, while at the same time the households would be a producing unit of goods and services for the consumption of its members.

135. **Informal household unincorporated market enterprises can be owned and operated by one person only or in partnership with members of the same household or other households. Different unrelated market activities carried out by different household members are defined as separate informal household unincorporated market enterprises. Different unrelated market activities that involve different kinds of productive activities, as defined by the International Standard Industrial Classification of All Economic Activities, and different skill requirements and occupations, as defined by the International Standard Classification of Occupations, carried out by the same person can, if feasible and relevant, be defined as separate informal household unincorporated market enterprises.**

136. The financial flows, assets etc. of an informal household unincorporated 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 unincorporated market enterprises within a given household is 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 works as a street vendor, 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.

137. There is therefore a need to allow for the existence of multiple informal household unincorporated market enterprises within a single household. A pragmatic approach to distinguish between these different enterprises is to assign different horizontal market activities carried out by different household members.
to different and separate household unincorporated market enterprises. This approach is already recognized as a possibility in the Resolution concerning statistics on employment in the informal sector.

138. The same person can, however, also undertake separate activities, in different occupational categories at different points in time and in different industries. 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 be undertaking two separate activities. There is therefore a need to allow for the possibility to identify separate jobs to properly handle this type of situation. In addition, there seem to be advantages in also identifying separate informal household unincorporated market enterprises in such situations. This would ensure an alignment to the 20th ICLS Resolution concerning statistics on work relationships (ILO, 2018a) that defines one job per economic unit owned and operated by the independent worker as well as having practical advantages when identifying informal household unincorporated market enterprises through informal jobs held by independent workers, for example in relation to mixed surveys. At the same time, there is a need for some flexibility since it would not always be desirable to assign different activities to different informal enterprises. This would, for example, include situations when the activities clearly are related but might be in different industries. A pragmatic approach would therefore be to allow for the existence of multiple informal household unincorporated market enterprises owned and operated by one person if these are separated by being different kinds of productive activities, as defined by ISIC, and with different skill requirements and occupations, as defined by ISCO but restricted to cases where this would be relevant and feasible. This could include situations where the person has a perception of having separate jobs and therefore separate enterprises.

139. Persons carrying out work in the informal sector include employed persons in the informal sector, unpaid trainees and volunteers carrying out work for an informal household unincorporated market enterprise.

140. Persons employed in the informal sector include independent workers who own and operate an informal household unincorporated market enterprise, dependent contractors who do not own and operate a formal economic unit and are not registered for tax, employees and contributing family workers who are employed in informal household unincorporated market enterprises.

141. Categorizing the workers within the informal sector is essential both to provide data on the productivity of the informal sector and to describing the situation of workers within the informal sector. In general, employed persons in the informal sector would include all those defined as being in employment and working for an informal household market enterprise. For independent workers this would include those that own and operate an informal household market enterprise, while for employees and contributing family workers it would include those that have been engaged by an informal household market enterprise for which they carry out the work.

142. For dependent contractors in the informal sector, it is proposed to include those who do not have a formal household market enterprise and are not registered for tax either by the economic unit on which they depend or by their own actions. These dependent contractors would not have a formal status due to the lack of registration of an enterprise and of registration in relation to tax on the profits made and would therefore be “invisible” in the legal administrative framework of the country.

143. The categorizing of the sector for dependent contractors implies a different treatment than for other dependent workers due to that the categorization to some extent is de-linked from the economic unit on which they depend. A dependent contractor can for example be registered in relation to tax but depend
on an informal enterprise or be categorized in the informal sector due to a lack of registration while being dependent on a formal enterprise. As opposed to for example employees, the categorization of the sector would not reflect the economic unit on which the dependent contractor is dependent but rather the formal status of the worker in relation to the legal administrative system of the country. This can be viewed as reflecting that the relationship between the economic unit and the dependent contractor is not a relationship of employment but a commercial relationship. However, to ensure that a link is remained between the dependent contractor and the entity on which they depend the definition recognises the possibility that the registration can take place through, or be facilitated by, the entity on which they depend. This acknowledges that a formalization process that targets the entity on which the dependent contractor depends might be relevant for some dependent contractors for example in relation to those carrying out digital platform work.

144. Informal household unincorporated market enterprises can also engage workers carrying out forms of work other than employment. This would include informal household unincorporated market enterprises engaging unpaid trainees or volunteers to carry out work for the informal household market enterprise. Identifying these workers as part of the production taking place within the informal sector would be important to provide comprehensive measurement of productivity within the informal sector, as well to as assess the number of workers engaged in the informal sector and to describe their working conditions.

5.1.3 Household own-use and community sector (HOC sector).

145. The household own-use and community sector comprises all households producing goods or services that are mainly intended for own final use or for the use of others without the purpose of generating an income or profit by undertaking direct volunteering and all non-formal non-profit organizations serving households. These units are characterized by:

(a) not being formally recognized as distinct producers of goods or services; and

(b) the production that takes place being mainly intended for:

(i) the own final use of the household; or

(ii) the use of other households without the purpose of generating an income or profit for the members of the household or non-formal non-profit organization.

146. The household own-use and community sector (HOC sector) completes the categorization of economic units, firstly 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. Secondly, the sector also includes direct volunteer work, which refers to non-market production by one household for the use of other households, as well as non-formal non-profit organizations. The inclusion of not only own-use production but also the production from non-formal non-profit organizations as well as direct volunteer work in the sector is reflected in the proposed term Household own-use and community sector. Thus, indicating that the sector includes the production
of households for own use as well as for the use of other households (if non-profit and by non-formal organizations or direct between households).

5.1.3.1 Additional clarifications around economic units in the HOC sector

147. Persons carrying out work in the household own-use and community sector include:

   (a) persons employed in the household own-use and community sector, including domestic workers;

   (b) household members carrying out own-use production of goods and services; and

   (c) volunteers carrying out direct volunteer work or organization-based volunteer work for a non-profit organization that is not formally recognized.

148. Persons employed in the household own-use and community sector include employees with informal or formal jobs engaged by the household to produce goods or provide services to be consumed by the household and employees with informal jobs engaged by non-formal non-profit organizations.

149. Employed persons in the household own-use and community sector include employees with informal or formal jobs engaged by the household to provide services (i.e., domestic workers) or to produce goods to be consumed by the household. In addition, it could also include informal employees engaged by non-formal non-profit organizations.

150. The household own-use and community sector also includes household members and family members carrying out own-use production of goods and services. This implies that own-use production work as defined by the 19th ICLS resolution is categorized in the household own-use and community sector. In addition, the sector would include informal unpaid trainee work, direct volunteer work and organized-based volunteer work that is carried out for a non-formal non-profit organization.

5.1.4 Subsectors of the household own-use and community sector

151. The household own-use and community sector may, if feasible and relevant in the national context and depending on statistical objectives, be further categorized into the pairs of dichotomous subsectors set out below.

   (a) Households producing for own final use versus non-profit organizations that are not formally recognized by the legal administrative framework of the country.

       (i) This dichotomy is relevant in relation to statistics on volunteer work.

       (ii) The identification of the two subsectors requires additional information on the degree of organization of the volunteer work carried out for use by other households.

   (b) Household own-use and community sector within the SNA production boundary versus household own-use and community sector outside the SNA production boundary (but within the SNA general production boundary).

       (i) This dichotomy enables a comprehensive measurement of all informal productive activities in the informal economy that are within the SNA production boundary.

       (ii) The goods and services to include in the two different subsectors should follow the latest recommendations defining the SNA production boundary.

   (c) Households with employees versus households producing for own final use without employees.
(i) This dichotomy enables the identification of households as employers engaging, for example, domestic employees.

(ii) It requires information to establish whether households engage employees to produce goods or services to be consumed by the household.

52. Depending on the statistical objective there might be a need to further divide the HOC sector into subsectors. The subsectors would differ, however, depending on the objective of the sub-categorization. Three different dichotomies could be of relevance to allow the separate identification of activities that are within the SNA production boundary as input to the SNA; non-formal non-profit organizations in relation to statistics on volunteer work; and households that engage informal employees and are thus included in the informal market economy.

The separation between non-formal non-profit organizations and households producing for own-final use or for the use of other households would be a relevant dichotomy in relation to statistics on volunteer work. The proposed definition of the HOC sector categorizes direct volunteer work as well as volunteer work carried out for or through non-formal non-profit organizations in that sector. The inclusion of direct volunteer work 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 straightforward. This would consist 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 does not have a legal identity. These non-formal non-profit organizations would within the SNA be treated as households producing for other households and therefore forms part of the SNA household sector. In the framework of informal economy these activities can be separated out and treated as non-formal non-profit organizations. These economic units would be a sub-sector to the HOC sector and the economic units would be characterized by that there is a certain degree of organization to produce services and goods to be consumed by households but without intention to generate profit or income to the members of the organization. This could be relevant for example in relation to statistics on volunteer work, 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 fulfill the requirements of a TSE institution as defined in the Satellite account on non-profit and related institutions and volunteer work (UNSD, 2018).

154. The identification of those activities in the HOC sector that fall within the SNA production boundary would be essential when providing data for the SNA. The identification of informal production in the HOC sector that fall within the SNA production boundary together with informal productive activities within the informal sector and formal sector would constitute the comprehensive measurement of all informal productive activities within the SNA production boundary. The separation of activities in the household own-use production that fall within the SNA production boundary from those that are outside but within the SNA general production boundary would need to follow the boundaries set by the SNA to ensure alignment.

155. The identification of households that engage one or more workers as employees would be important to ensure that households with domestic workers, for example, are statistically identified and recognized as being part of the market economy. This would not however, imply that all the production within these
households’ forms part of the market economy. Households engaging informal employees may still have household members engaging in own use production of goods and services which would be activities outside the informal market economy but within the informal economy. The production to include within the informal market economy would be the activities carried out by informal employees produce goods or services to be consumed by the household.

5.2 The three sectors and work

156. 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 the 20th ICLS Resolution concerning statistics on work relationships (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).

157. 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 unincorporated 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 unincorporated 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 unincorporated market enterprise would be defined as employment because 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).

158. 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 unincorporated market enterprise. Depending on whether these productive activities carried out by person 2 are remunerated, and 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 highlight 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**

159. 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. A person who 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 several 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 workers with a formal job or work activity carrying out work for a formal economic unit can still carry out informal productive activities if some of the productive activities are formal while others are informal.

160. 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 in the HOC-sector) 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, by definition, all households 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, the informal sector and in the household own-use and community sector (as a domestic employee, for example).
Table 4. The three sectors and the different forms of work

<table>
<thead>
<tr>
<th>Type of production unit</th>
<th>Form of work</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employment</td>
</tr>
<tr>
<td>Formal</td>
<td>*</td>
</tr>
<tr>
<td>Informal</td>
<td></td>
</tr>
<tr>
<td>HOC sector</td>
<td></td>
</tr>
</tbody>
</table>

* By definition not possible

162. The three different sectors do 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, 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.

5.3 The informal sector and the SNA institutional sectors

163. 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” (Paragraph 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) the non-financial corporations sector; (b) the financial corporations sector (c) the general government sector; (d) the non-profit institutions serving households (NPISH) sector; and (e) the household sector.
Table 5. The informal, formal and HOC sectors and the SNA sectors

<table>
<thead>
<tr>
<th>SNA sectors</th>
<th>(a) Non-financial corporations sector</th>
<th>(c) General government sector</th>
<th>(d) NPISH sector</th>
<th>(e) Household sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of SNA institutional unit</td>
<td>Corporations</td>
<td>Quasi-corporations</td>
<td>Government units</td>
<td>NPISH</td>
</tr>
<tr>
<td>Type of production</td>
<td>Market production</td>
<td>Market production</td>
<td>Non-market production</td>
<td>Market production</td>
</tr>
<tr>
<td>Operational definition as part of identifying the formal status</td>
<td>Incorporated enterprise</td>
<td>Have a complete set of account for tax purposes</td>
<td>By definition a formally recognized status</td>
<td>Registered enterprise</td>
</tr>
<tr>
<td>SNA production boundary</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SNA general production boundary</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forms part of</td>
<td>FS 1</td>
<td>FS 2</td>
<td>FS3</td>
<td>FS4</td>
</tr>
</tbody>
</table>

The definitions of the informal sector, formal sector and household own-use and community sector are not intended to enable 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 corporations sectors is an example of this. This distinction is not relevant for the identification of the formal sector, informal sector, and HOC 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. From the point of view of the SNA, the three sectors can be viewed as three domains of the institutional sectors. 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 HOC 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, the NPISH sector, and a third sub-sector of the SNA household sector. The HOC sector includes 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 household own-use and community sector.

165. As can be seen in table 5, FS1- FS5 correspond 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 unincorporated market enterprises

166. **FS1 Corporations as part of the non-financial and financial sectors;** 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.

167. **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 household own-use and community sector is different, however. Here the underlying issue is rather whether the economic unit is formally recognized as a producing unit distinct 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 considering 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 would, in practice, be defined as formal enterprises.

168. **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.

169. **FS4: Non-profit institutions without market production serving households:** Institutional units that are not controlled by government and are not engaged in production intended to generate a profit and income to the persons are defined by the SNA as belonging to the non-profit institutions serving
households (NPISH) sector and thus outside the SNA household sector. According to the SNA they include legally constituted non-profit organizations as well as organizations that 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) to be regarded as non-profit institutions. In practice non-profit organizations in the NPISH would be considered formal non-profit organizations as they typically would need to be registered, have accounts etc to be included within the SNA. NPISH are therefore outside the scope of the informal sector due to that the production is not intended to generate income or profit and places in the formal sector.

170. **FSS Formal household unincorporated market enterprises as part of the household sector:** Unincorporated enterprises with market production that are registered but 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 separate institutional units by the SNA. The production of these household unincorporated 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 unincorporated market enterprises would be defined as formal household unincorporated market enterprises and thereby part of the formal sector. Registration can be viewed as 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 unincorporated market enterprise would imply that the enterprise is formally recognized as an enterprise by the formal institutions in the country and would therefore in practice be covered by formal arrangements.

171. **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 to generate profit and income and 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 unincorporated 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 goods and services is mainly intended for the market, and the purpose is to generate a profit and income for the owner(s). However, this 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 of a registered household unincorporated market enterprise. Like the situation of a formal household unincorporated 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.

172. **HOC: The household own-use and community (HOC) sector** is a sub-sector of the SNA household sector, as can be seen in Table 5. This includes the production of households that is mainly intended for own final use and the production for the use of other households (i.e., volunteer work) that is nor formally
recognized. Production by the household mainly intended to be consumed by the household members or family members outside the household, is (like the production carried out by informal and formal household unincorporated market enterprises) considered by the SNA to be part of the production taking place within the SNA household sector. 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 of goods and services that are not mainly intended for the market outside both the formal and informal sectors and categorize it in a third type of sector. In addition, production by households that is intended for other households without the purpose to generate income and profit 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, if it is not formally recognized (i.e., non-formal non-profit organization). For example, volunteer work carried out by a group of persons would be categorized in the HOC sector, independently of whether this work has a degree of organization if 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 latter type of production can be separately identified as a sub-category of the HOC sector.

6 Informal productive activities and work

173. Informal productive activities carried out by persons constitute informal work. This 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 SNA general production boundary that are not covered by formal arrangements.

174. Informal work consists of productive activities performed by persons that are – in law or in practice – not covered by formal arrangements. It comprises:

(d) productive activities carried out by persons in employment that are, in law or in practice, not covered by formal arrangements such as regulations and laws that stipulate the responsibilities, obligations and protection of the economic units and the workers; and

(e) productive activities carried out in relation to:

(i) own-use production work;
(ii) volunteer work;
(iii) unpaid trainee work; and
(iv) other work activities,

as defined by the latest standards on work and where the work activities are 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.

175. Informal work includes informal productive activities carried out by persons for pay or profit as well as informal productive activities defined as work that are not carried out for pay or profit. Productive activities not carried out for pay or profit are to some extent already within 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 resolution I) 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 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.

176. As an underlying concept, informal productive activities can be viewed from the perspective of the economic unit or from the perspective of the worker. These two different perspectives are overlapping in the sense that all productive activities carried out by workers form part of the input to the production of the economic unit for which the work is carried out. 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).

177. The unifying 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, 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.

178. 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 such as the responsibilities and obligations that follow from engaging a domestic worker to assist with the household services or for certain types 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.

179. Informal work is an overarching concept not intended to be measured in its totality. It defines informal productive activities, within the SNA general production boundary, carried out by persons as informal work. This creates 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.

180. An essential aspect of the identification of informal work is the identification of informal jobs and informal work activities. All activities can be attached to a job, or a work activity and all work relationships are attached to an economic unit. If the job or work activity is 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 for the identification of informal work, which creates a strong link between informal work and informal jobs/work activities.

181. 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.

182. Persons carrying out informal productive activities in the informal economy may carry out this informal work for economic units categorized in the formal sector, informal sector, or household own-use community sector, as can be seen in table 5. This reflects that informal productive activities in relational to different forms of work us used by economic units in the formal sector, informal sector and household own-use community sector as labour input to their production.

Table 6. Informal productive activities by persons in the informal economy

<table>
<thead>
<tr>
<th>Persons</th>
<th>Informal productive activities by persons</th>
<th>Informal work</th>
<th>Informal productive activities in relation to employment</th>
<th>Informal productive activities in relation to forms of work other than employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main intention of the productive activities</td>
<td>For pay or profit</td>
<td>Not mainly intended to generate pay or profit</td>
<td>Informal unpaid trainee work</td>
<td>Informal own-use production work</td>
</tr>
<tr>
<td>Informal productive activities by persons</td>
<td>Informal employment*</td>
<td>Informal employment*</td>
<td>Informal organization-based volunteer work</td>
<td>Direct volunteer work</td>
</tr>
<tr>
<td>Informal productive activities in relation to employment</td>
<td>Informal productive activities in relation to forms of work other than employment</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Informal own-use | Goods | Services |*
| Persons | Formal employment with partly informal activities * | Formal sector | Formal sector |
| | Formal sector | Formal sector | Formal sector |
| | Informal sector* | Informal sector* | Informal sector* |
| | Household own-use community sector | Household own-use community sector | Household own-use community sector |
| | Goods and services | Goods | Services |
6.1 Informal employment

183. Statistics on informal employment aim at:

(a) establishing 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; and

(b) describing the structure and extent of informal employment, identify groups of persons in employment most represented and at risk of informality, provide information on exposure to economic risk, decent work deficits and working conditions.

184. 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 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.

185. 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 the 20th ICLS resolution concerning statistics on work relationships I (ILO, 2018a). The two different agents, i.e., the worker and the economic unit, and their relationship are 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. For dependent workers, there would be economic risks in case of permanent or temporary loss of job-related income and 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 workers.

186. A formally recognized job and 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 unincorporated market enterprise as previously defined. The
formal status of the economic unit therefore becomes an essential part of the definition of informal employment.

187. 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. 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 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. To provide further information on the exposure to economic risk, decent work deficits and working conditions among informal and formal workers becomes an essential supplement to the provision of data on the structure of informality in the country, the identification of population groups most represented and exposed to informal employment 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.

6.1.1 Informal employment and formal employment – conceptual definitions

188. Informal employment is defined as any activity of persons to produce goods or provide services for pay or profit that is not effectively covered by formal arrangements such as commercial laws, procedures to report economic activities, income taxation, labour legislation and social security laws and regulations providing protection against economic and personal risks associated with carrying out the activities. Informal employment comprises activities carried out in relation to informal jobs held by:

(a) independent workers who operate and own or co-own an informal household unincorporated market enterprise;

(b) dependent contractors who do not have a formal status in relation to the legal administrative framework and whose activities are not effectively covered by formal arrangements;

(c) employees whose 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; and

(d) contributing family workers whose work relationships are not formally recognized in relation to the legal administrative framework of the country and associated with effective access to formal arrangements.

189. 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. 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 events such as becoming sick, injured, unemployed or of reaching old age, thereby reducing 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) 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.

190. Operationally, the concept of informal employment is constructed from its different statistical components 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.

191. Formal employment is defined as any activity of persons to produce goods or provide services for pay or profit in relation to a formal job, where the activities are effectively covered by formal arrangements. Formal employment comprises formal productive activities carried out in relation to formal jobs held by:

(a) independent workers who operate and own or co-own a formal economic unit;

(b) dependent contractors who have a formal status in relation to the legal administrative framework of the country and have effective access to formal;

(c) employees, 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;

(d) contributing family workers carrying out work for a formal economic unit and whose work relationships are formally recognized in relation to the legal administrative framework of the country and associated with effective access to formal arrangements.

The definition of formal employment does to a large extent mirror the definition of informal employment which is necessary to create two mutually exclusive categories. Informal employment would include activities defined as employment that are effectively covered by formal arrangements. The productive activities carried out by persons with formal jobs would typically be formal productive activities as these would be covered by formal arrangements. However, there might be situations where part of the activities carried out in relation to a formal job can be considered formal while other parts can be considered informal in which case a person would have a formal job carrying out partly informal and partly formal activities as further discussed in the section “Persons in formal employment carrying out partly informal activities”. Like the definition of informal employment also formal employment is defined on the basis of a job, and thereby also linked to ICSE-18.
6.1.1.1 Status in employment category and the definition of informal and formal jobs

192. 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).

193. 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 performed 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 worker owns or co-owns. 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.

194. 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 on which they depend.

195. For employees, formal employment implies that the employer must 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 for the employer to recognize the employment relationship with the employee, if the employer does 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.

196. 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 who 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 in relation to the legal administrative framework of the country and the employee, therefore, may or may not be effectively covered by formal arrangements. An employee with an informal job can thus work for an informal household market enterprise, a formal economic unit or in the household own-use
community sector (i.e., for a household producing for own final or for a non-formal non-profit organization) as can be seen in Table 7.

197. 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 defining contributing family workers by default 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 their job and by that get access to formal arrangements. In these situations, the jobs of the contributing family workers could be considered formal as they are formally recognized by the legal administrative framework of the country and a degree of protection for the contributing family worker follows from this. In countries where such measures do not exist, contributing family workers would in practice still have informal jobs by default. The introduction of the possibility that contributing family workers can have formal jobs under some circumstances has an important gender dimension as well as an important policy impact. Globally women are overrepresented among contributing family workers (ILO, 2018b). A contributing family worker in employment would, by definition, carry out work for a market producing economic unit. Contributing family workers with an informal job can therefore work for informal household unincorporated market enterprises or formal enterprises, while contributing family worker with formal jobs, in countries where formal arrangements are in place for these workers, would have to carry out the work for a formal enterprise.

198. 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 that requires a unique treatment. Similar as for all other workers in employment there are strong arguments to define jobs held by dependent contractors as informal if they are categorized in the informal sector and hence do not have a formal status in relation to the legal administrative system of the country. This would imply that, if the dependent contractor does not have a formal enterprise and is not registered for tax, then the job held by the dependent contractor would be informal. For those dependent contractors that are considered to have a formal status and thus are categorized in the formal sector the definition of informal jobs and formal jobs depends on whether they have access to formal arrangements that reduces their economic risk. This do to some extent compensates for the asymmetrical relationship between the dependent contractor and the entity on which they depend and where the dependent relationship places dependent contractors in a category of status in employment defined by a relatively high degree of economic risk in combination with a reduced degree of authority. The operationalization of the aspect of effective coverage of formal arrangements will depend on the links between countries business registers, registration in relation to profit and registration and contribution to social insurance as further described in relation to the definition of informal and formal jobs for dependent contractors.

199. The definition of informal employment based on ICSE-18 creates a link between the definition of informal/formal jobs, the category of status in employment and the sector (informal sector, formal sector, household own-use community sector) of the economic unit for which the work is carried out. The exception to this would be dependent contractors whose sector is linked to the formal status of the
dependent contractors and not on the formal sector on which they depend. For independent workers, the definition of informal-/formal jobs follows from the categorization of the economic unit owned and operated by the independent workers. Owner operators of corporation i.e., independent workers that own and operates an incorporated enterprise, would be categorized in the formal sector, and by definition have a formal job, as can be seen in table 7. Independent workers who do not have an incorporated enterprise and are categorized in ICSE-18 as independent workers in household unincorporated 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. Employees can have an informal job or formal job carrying out work for a formal economic unit or for an economic unit in the household own-use community sector (i.e., domestic employees engaged by households). However, employees carrying out work for an informal economic unit would always have an informal job. Employees can thereby have informal jobs working for economic units in any of the three sectors. A contributing family worker can have an informal job carrying out work for an economic unit in the informal sector as well as in the informal sector and, depending on country context, a formal job in the formal sector. Similar as for all other workers dependent contractors would always have an informal job when categorized in the informal sector and have informal or formal jobs when categorized in the formal sector.

Table 7. Status in employment informal- formal job, sector

<table>
<thead>
<tr>
<th>Sector of the economic unit for which the work is carried out</th>
<th>Independent workers (Employers, own-account workers)</th>
<th>Dependent workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner-operators of corporations</td>
<td>Independent workers in household (unincorporated) market enterprises</td>
<td>Dependent contractors*</td>
</tr>
<tr>
<td>Formal</td>
<td>Informal</td>
<td>Formal</td>
</tr>
<tr>
<td>Formal sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Informal sector</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>HOC-sector</td>
<td></td>
<td>8</td>
</tr>
</tbody>
</table>

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 sector of dependent contractors does not reflect the sector of the economic unit on which they depend but on their formal status in relation to the legal administrative framework in the country.
** 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.

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

200. All tasks and duties carried out in relation to an informal job are considered to be informal productive activities by nature.
201. *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.*

202. The lack of formal recognition of the job and 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.

203. 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 as further discussed in relation to the definition of Persons in formal employment carrying out partly informal activities.

6.1.2 Informal jobs and multiple job holdings

204. *Persons may have one or several formal, or both, 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 an informal or formal job for each informal or formal economic unit they operate and own or co-owns.*

205. *Employed persons with an informal main job, comprises all employed persons with an informal main job where the main job is the job with the longest hours usually worked...In the absence of information regarding hours usually worked, other information such as income from each job could be used to identify the main job.*

206. *Employed persons with an informal secondary job, constitutes all employed persons with an informal second job or additional jobs.*

207. 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 I (ILO, 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.

208. 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.

209. 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 formal jobs. An independent worker therefore has as many formal jobs as formal economic units the independent worker owns or co-owns.

210. 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 unincorporated 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.

211. A solution to this could either be to allow for the existence of multiple jobs for one person in relation to a single household unincorporated market enterprise, which would be an amendment to the 20th ICLS Resolution concerning statistics on work relationships (ILO, 2018a), or to allow informal independent workers to have multiple informal household unincorporated market enterprises as currently proposed in relation to the treatment of multiple informal household unincorporated market enterprises. This latter solution would create a situation where it would be possible to align to the 20th ICLS Resolution concerning statistics on work relationships (ILO, 2018a) for informal independent workers and define one job per informal economic unit if this is feasible and relevant. A person carrying out two different types of activities in two different industries and occupations would conceptually do so for two different economic units i.e., two different informal household unincorporated market enterprises. This separation would be particularly relevant if the person perceives these two different activities as two different jobs.

212. 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 indicate that informality is significant in relation to second jobs. For example, in Timor Leste 90 percent of those with a second job had an informal second job, while 72 percent had and informal main job (LFS Timor Leste, 2013). A way to clarify the current situation while
allowing for the continuation of the conventional practice of publishing indicators on informal employment with reference to main job only, is to recommend countries to specify this aspect as part of describing the indicators. I.e., to note or reference whether indicators regarding informal employment refers to informal main jobs only or in relation to secondary jobs.

213. 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.

214. Employed persons with informal secondary jobs, captures all employed persons as defined by the 19th ICLS resolution I with an informal second job or informal additional jobs. This category is, depending on national context and need, an important complement since some forms of employment may be more prevalent in secondary jobs and would contribute to the comprehensive measurement of all informal jobs within a country. The output variable could be further separated between second jobs and additional jobs if needed.

6.2 Operational definition of informal/formal jobs for independent workers

215. Independent workers with informal jobs are “independent workers in household market enterprises” who operate and own or co-own an informal unincorporated household market enterprise.

216. Independent workers in employment with formal jobs are workers in employment who operate and own or co-own a formal economic unit. They include:

(a) “owner-operators of corporations”; and

(b) “independent workers in household market enterprises” who operate and own or co-own a formal economic unit.

217. 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 unincorporated 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.

218. 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 unincorporated market enterprises without employees). Incorporation is also used as a boundary to separate between the two aggregate categories of owner-operators of corporations and
independent workers in household unincorporated 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.

219. 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.

6.3 Dependent workers and informal jobs

220. 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 to identify 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 but still face a relatively high economic risk. 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 enables effective access to the formal arrangements.

6.3.1 Informal jobs held by dependent contractors

221. Dependent contractors are considered to have informal jobs if they do not have a formal status in relation to the legal administrative framework of the country or if they do have a formal status but are not associated with any effective access to formal arrangements aimed at reducing the economic risk related to holding the specific job.

222. This includes dependent contractors that:

a) do not own or co-own a formal economic unit and are not registered for tax and thereby do not have a formal status; or
b) own or co-own a formal economic unit or are registered for tax, and thereby have a formal status but without effective access to formal arrangements intended to reduce the economic risk related to the job.

223. Depending on the national context, effective access to formal arrangements intended to reduce the economic risk for dependent contractors could include measures that protect their own registered company name and their physical and intellectual property, that increase their ability to obtain capital and that provide access to job-related occupational injury insurance, health insurance, paid sick leave or paid parental leave and a job-related pension, or other types of formal arrangements intended to decrease the economic risk associated with the job.

224. For operationalization the following should be considered:

a) In countries where owning and operating a formal enterprise or being registered for tax implies an effective access to such arrangements, having a registered enterprise or being registered for tax is sufficient for the job to be considered formal, while not being registered thus defines the job as informal.

b) In countries where the registration of the enterprise or registration for tax is not directly linked to such measures, registration in and contribution to other voluntary or mandatory statutory social insurance schemes should be used as an additional criterion to ensure that the formal job held by the dependent contractor carries protections aiming at reducing the economic risk holding the specific job. The lack of such protection would thus define the job as informal.

225. Dependent contractor is a new category of status in employment that was introduced with ICSE-18. They are on the borderline between being employees and own-account workers in household market enterprises without employees and share characteristics with both as they are 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, paragraph 35). Dependent contractors are characterized by being remunerated by commercial transactions, which in combination with that they do not have an incorporated enterprise implies that they have a relatively high degree of economic risk. Like other independent workers they do not, by definition, have a contract of employment (formal, informal, or implicit) but a commercial agreement and are therefore not recognised as employees by the economic unit on which they depend. They would therefore typically be responsible for arranging their own social insurance as well as income tax. However, like employees, they are operationally and or economically dependent on another entity and therefore have a reduced authority to decide over their activities due to the control exercised by the entity on which they depend.

226. Categorizing the sector is an important first step for defining informal and formal jobs for all workers since carrying out work for a formal enterprise is a pre-condition for having a formal job. For other dependent workers, i.e., employees and contributing family workers, the categorization of the sector is based on the formal status of the economic unit on which they dependent. In the case of dependent contractors this would correspond to that the sector of the dependent contractor would be based on the sector of the economic unit on which the dependent contractor depends. To apply this approach for dependent contractors would, however, be problematic as a defining characteristic among dependent contractors is that there is no formal recognition, other than the commercial agreement, between the dependent contractor and the entity on which they depend. The entity on which the dependent contractor depends
do not have, or do not acknowledge, any responsibility other than a commercial responsibility. This means that there is no clear linkage between the formal status of the entity on which they depend (e.g., main-client, intermediary of clients, single supplier etc.) and the formal status of the dependent contractor. The commercial relationship with the entity on which they depend calls for a different treatment of categorizing the sector for dependent contractors than for other dependent workers.

227. Similar as for other independent workers, dependent contractors may or may not have registered their business and may or may not have a complete set of accounts and 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. The formal status of the economic unit these dependent contractors own and operate would therefore have relevance when categorizing the sector of dependent contractors as these could be considered as being formally recognized by the legal administrative system in the country. At the same time, there are also dependent contractors for which the worker and the economic unit are in practice the same entity. This calls for the need to expand the notion of an economic unit for dependent contractors to not only view it in terms of an “enterprise” but also to recognize the possibility that the worker and the activities carried out by the worker, may be registered in relation to tax and thus be considered as the “economic unit” of the dependent contractor. If the dependent contractor has a formal enterprise or is registered as a worker for tax, then the dependent contractor can be considered as formally recognized by the legal administrative framework of the country and therefore part of the formal sector. If this is not the case, however, then no formal recognition of the enterprise or the worker exists and the worker is categorized in the informal sector. The categorization of the sector for dependent contractors, therefore, becomes de-attached from the formal status of the economic unit on which they depend. This different treatment, compared to other employees and contributing family workers, becomes a consequence from the unique situation of dependent contractors and implies that a dependent contractor categorized in the informal sector or formal sector can have a dependent relationship to a formal or informal economic unit. At the same time there is the possibility that the entity on which the dependent contractor depends, facilitates, or ensures the formal status of the dependent contractor, for example when dependent contractors are registered through or by the entities on which they depend. This recognizes that a formalization process could potentially target the entity engaging the dependent contractor, which for example can be seen in some of the policy measures targeting digital platforms.

228. One of the underlying assumptions in the framework is that having a formal job requires a formal status of the economic unit. Persons carrying out work in the informal sector would therefore have informal jobs by definition. To by default define the jobs as informal for dependent contractors categorized in the informal sector would reflect that dependent contractors that do not own and operate a formal enterprise and are not registered for tax on the profit would be in a situation where there is no formal recognition of the existence of the job nor the activities carried out in relation to it. The dependent contractor would therefore not be embedded within the legal administrative framework of the country and the job would thus be defined as an informal job.

229. The next step is the definition of informal and formal jobs held by dependent contractors categorized in the formal sector. Like independent workers, there are arguments for that a formal recognition of the enterprise also implies a formal recognition of the job. In parallel with the situation for owner-operators of unincorporated enterprises, registration of the enterprise could be viewed as a formal recognition of
the economic unit that formalizes not only the economic unit but also the job held by the dependent contractor. Having a formal enterprise would, like for independent workers, come with some coverages of formal arrangements such as the obligations to pay tax, keep accounts, the possibility to deduct VAT, protection of company name and intellectual properties etc. At the same time, it would be dependent contractors with little or no coverage by formal arrangements that reduces their economic risks, particular among those that are registered for tax only.

230. To ensure that a certain degree of coverage by formal arrangements follows from having a formal job for dependent contractors, requires the use of an additional criterion. Dependent contractors’ own contribution to social insurance is a relevant criterion that could ensure that the dependent contractor has a coverage of formal arrangements that contributes to reduce their economic risk. The use of the additional criterion of dependent contractors’ own contribution to social insurance would also to some extent be a compensation for the asymmetrical relationship between the dependent contractor and the entity on which they depend and the fact that that entity has no obligations to provide for formal arrangements that reduces their economic risks due to the commercial agreement between the two parties. Which creates a different situation than for other dependent workers, particular for employees, where the employer would be obliged to ensure access to formal arrangements that reduces the economic risk for the employees.

231. The coverage of formal arrangements for dependent contractors in relation to social insurances that reduces their economic risk, differs, however, between countries. In some countries being registered implies mandatory payments of fees, lump-sums, or taxes to job-related statutory social insurance. The type of social insurances that the payments give access to, and the level of coverage differ between countries but could include access to one or more social insurances such as health insurance, pension, unemployment insurance, paid sick leave, maternity leave etc. Typically, the coverage would include a more limited range of social insurances and at more reduced levels compared to for example employees (European parliament, 2013).

232. In other countries however, there is no such direct link between registration and social insurance due to that having a registered enterprise or being registered for tax do not carry the obligation of mandatory contributions to social insurances. Instead, there is typically the option to contribute to different voluntary social insurance schemes that may or may not require a registration of an enterprise or registration in relation to the profits made. In these countries the coverage of formal arrangements for registered dependent contractors would be limited if the person chooses not to participate in these voluntary schemes, particularly, for those dependent contractors that are only registered in relation to tax but that do not have a registered enterprise and hence would not have access to the (limited) formal arrangements that comes with having a formal enterprise.

233. These differences between country systems, implies that in some countries a registered dependent contractor would have a coverage of formal arrangements due to the direct linkage between registration and mandatory social insurance, however, in other countries this would not be the case due to that there is no such direct link. While dependent contractors with a registered enterprise might, depending on the country, still have access to some limited formal arrangements such as protection of company name, access to capital, the right to deduct VAT etc., dependent contractors that are registered for tax only would have little or no access to these types of formal arrangements. The lack of formal arrangements for
these workers, in countries where there is no link between registration and mandatory contributions to social insurance, underlines the need to use an additional criterion of registration and contribution to voluntary social insurance as part of defining informal and formal jobs for this group. This ensures that the dependent contractor, similar to other dependent workers with formal jobs is not only formally recognized but that a certain level of protection for the worker follows from having a formal job. The additional criterion of registration and contribution to voluntary statutory social insurance thereby do not only compensate for the asymmetrical relationship between the dependent contractor and the entity on which they depend and the fact that that entity has no obligations to provide for social protection but also for that in some countries no obligations for contribution to social insurance follows from having a formal status.

234. Countries thereby need to operationalize the definition depending on their specific country context to ensure a similar outcome. In countries where there is a direct link between having a registered enterprise or being registered in relation to tax and social insurance being categorize in the formal sector could be sufficient to conclude that the dependent contractor also has access to formal arrangements aiming at reducing the economic risk. In these countries the criteria of the formal status captured by registration implies access to formal arrangements and the job held by the dependent contractor would be defined as informal if the dependent contractor lack a formal status and hence also lack access to the formal arrangements attached to the formal status. No further operational criteria are therefore needed to create the distinction between informal jobs and formal jobs for dependent contractors in these countries.

235. However, in countries where registration and access to formal arrangements that reduces the economic risk is not directly linked, the additional criterion of voluntary contributions to social insurance might be needed to ensure that some coverages of formal arrangements follow from having a formal job. And finally, there might be countries where the additional criterion of social insurance may only be needed for a sub-population of dependent contractors e.g., those registered for tax only, to ensure that a certain degree of coverage by formal arrangements that reduces the economic risk follows from having a formal job. In countries, where the additional criterion of contribution to voluntary social insurance is deemed to be needed, the job held by the dependent contractor would be defined as informal if the dependent contractor does not contribute to voluntary social insurance even if the dependent contractor is categorized in the formal sector and hence has a formal status.

236. The type of social insurance and the degree of coverage that the dependent contractor have access to will differ depending on the national context and system. The operationalization of the criterion therefore needs to be assessed based on the country context both regarding whether social insurance should be used as an active operational criterion as part of defining informal and formal jobs for dependent contractors, and if used, whether it should be used for all dependent contractors in the formal sector or just a sub-group. This would depend on the link between the business register and being register for tax as well as the type of formal arrangements that comes with being register in one or the other. If it is assessed that contribution to voluntary social insurance is needed to ensure a certain degree of access to formal arrangements, then the specific type of insurance used for operationalizing the criterion would need to be adjusted and adapted to the national context.
The specific issue of defining informal/formal jobs for dependent contractors is further discussed and described in the paper *Dependent Contractors and the framework of the informal economy* (ILO, 2023a).

### 6.3.2 Formal jobs for dependent contractors

Dependent contractors are considered to have formal jobs if they have a formal status in relation to the legal administrative framework of the country and have effective access to formal arrangements aiming at reducing the economic risk related to holding the specific job.

This includes dependent contractors that:

1. Operate and own or co-own a formal economic unit or are registered for tax; and
2. Have effective access to formal arrangements...

Being registered for tax implies that the dependent contractor is, on their own account or through the economic unit on which they are dependent, registered for tax in relation to the profits made from the activities carried out in relation to the job. Depending on the national circumstances, this may refer to a register that implies registration of the worker and the activities carried out by the worker and that obliges the worker to declare the income and expenses related to carrying out the activities for tax purposes as well as any additional obligatory contributions depending on national regulations and laws.

Dependent contractors that have a formal status either by having a registered enterprise or is registered for tax and is covered by formal arrangements that reduces the economic risks faced by the dependent contractors are to be considered to have formal jobs.

The linkage between the business register, register in relation to tax on profits made and social insurance do, however, differ between countries which will impact on the categorization of the sector as well as the definition of informal jobs and formal jobs and create differences in outcome if not taken into account. In some countries, being registered in relation for tax on profits implies an automatic registration in the national business register, while in other countries the two registers are to some extent separated and being registered in one does not necessary imply being registered in the other. For example, a sole proprietor in one country that register the activities in relation to pay taxes, would automatically also be registered in the national business register as a sole proprietor and by that receive an official enterprise number etc. However, in a different country where the two registers are not directly linked, the same person would be able to register in the national tax register, as a sole trader, and then chose not to register an enterprise in the national business register. In countries where there is a direct link between owning and operating a formal enterprise or being registered for tax and a coverage of formal arrangements, owning, and operating a formal enterprise or being registered for tax would be sufficient to conclude that the dependent contractors have access to formal arrangements and the jobs can thereby be defined as formal jobs. No further criteria then the ones used for identifying formal economic units and registration in relation to tax on profits are thereby needed.

However, in countries where there is no such direct link between the formal status and access to formal arrangements for either some, or all, dependent contractors in the formal sector, there is a need to assess the effective access to formal arrangements by applying the additional criterion of voluntary contributions to statutory social insurance as described in relation to the definition of informal jobs for dependent contractors. If these dependent contractors are contributing to a job-specific statutory social insurance,
then they would have access to formal arrangements reducing their economic risk and hence the job can be considered formal.

244. The definitions of informal jobs and formal jobs held by dependent contractors need to create two mutually exclusive categories. The links between the business register, registration for profit and social insurance in the country and if contributions to voluntary social insurance needs to be used as an additional criterion for either all dependent contractors categorized in the formal sector or only for those registered in relation to profit (if deemed that dependent contractors with a formal enterprise in the country have a sufficient coverage of formal arrangements) will therefore not only influence the operationalization of the criteria for defining formal jobs but also informal jobs and vice versa.

245. The operationalization of the criterion “being registered for tax” needs to be implemented within the context of the specific tax system in the country. Some general guidelines could be given on what type of registration of tax that could be used. This would typically include registration of tax that does not imply registration of an enterprise but rather registration of the worker and the activities carried out by the worker. If the register implied registration of an enterprise, then the dependent contractor would have a formal enterprise and therefore be categorized in the formal sector irrespective of the other criteria. Dependent contractors are, workers, in employment for profit. The payment of any taxes would therefore be in relation to any profits made by the dependent contractor in relation to that specific job. For the specific register to be relevant “being registered” should oblige the dependent contractors to some extent declare the income from the activities as well as the expenses, but typically on a less detailed level than for example the requirements of keeping accounts in relation to incorporated enterprises. Depending on the country context, being registered could also imply additional contributions, for example to pension funds, insurances etc.

246. The definition of informal/formal jobs for dependent contractors is further discussed and described in the paper Dependent Contractors and the framework of the informal economy (ILO, 2023a).

6.3.3 Informal jobs held by employees

247. 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 is not effectively covered by formal arrangements such as labour legislation, social protection, income taxation or entitlement to employment benefits.

248. Employees with informal jobs include:

(a) permanent employees;

(b) fixed-term employees;

(c) short-term and casual employees; and

(d) paid apprentices, trainees and interns,

who do not have access to effective formal arrangements such as statutory social insurance, access to paid annual leave and paid sick leave.
249. For employees, the informal or formal nature of the job is related to whether 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 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 or injured, or of reaching old age etc. 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 effective access to those protections.

250. 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 in 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.

251. The concept of informal economy in general is distinctively different from concepts such as illegal work or undeclared work. This also applies to informal jobs held by employees. The reason why the job held by the employee is informal might be due to the non-declaration of the job by the employer 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 must carry the risks associated with the job.

Operational criteria for defining informal jobs for employees

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

(a) When operationalizing this criterion, countries should take the national context and social security laws into account as well as the requirements set out in paragraph XX. The operationalization should be based on one or more specific statutory social insurance schemes.

(b) Typically, employer's contribution to a pension fund on the behalf of the employee would be relevant for operational identification. Other types of insurance, such as occupational injury insurance, health insurance or unemployment insurance could also be of relevance, depending on the country context.

253. Additional characteristics that may be relevant for the statistical identification of informal jobs held by employees are a lack of access to paid annual leave or a lack of access to paid sick leave.
(a) Access to paid annual leave is the employee’s 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 and also within the same country (for instance, 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.

(f) 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 and also within the same country (for instance, between different industries and occupations), depending on national labour laws and regulations. It is not sufficient to have a legal right to paid sick leave if the worker does not have access to it in practice.

254. Depending on the national circumstances, additional characteristics such as the non-existence of a written contract, the non-deduction of income tax by the employer and the lack of access to severance pay, maternity leave, paternity leave or parental leave might be relevant to support the definition of informal jobs held by employees.

Employer’s contribution to social insurance

255. Employer’s contribution to statutory social insurance is the main criterion used by countries to operationalize the definition of informal employment among employees (ILO 2023b). This criterion clearly captures the aspect of whether the job is in practice formally recognized 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. 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.

256. 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, in contrast, 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. Even when health insurance is in place, contributions 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 fulfills the criteria of being job-specific, in relation to the legal administrative system of the country (or if voluntary it implies a registration of the economic unit and the employee) 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

257. Based on country practices (ILO, 2023b), 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.

National additional characteristics

258. Based on an assessment of country practices, several countries do use additional national criteria when operationalizing the definition of informal jobs held by employees. Particularly, 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 to further support the operationalization of informal and formal jobs for employees.

259. Other additional characteristics such as whether the job is subject to income taxation or access to maternity leave and more nationally specific ones 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 characteristics for determining the informal/formal status of the jobs held by employees 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 relevant to use additional characteristics in combination 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 adaptation of the criteria

260. 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:

   a. Job specific: The criteria used have to be dependent on holding a particular job and not universal.
b. **In relation to the legal administrative framework of the country:** Meeting the criteria should reflect a formal recognition of the job, by the employer in relation to the legal administrative system of the country and imply that both the economic unit and the job held by the employee can be considered formal in relation to the legal administrative system of the country.

c. **Capture the situation in practice:** The operationalization of a given criterion needs to reflect that the employer in practice fulfils a given obligation.

261. 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 allow 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 criterion (particularly in relation to employer’s contribution to social insurance) and the need for establishing additional characteristics depending on the national context. The three requirements of being job specific, reflecting that it is in relation to the legal administrative framework of the country and that it should capture the situation in practice, capture the underlying intention behind the definition of informal and formal 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.

262. **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.

263. **In relation to the legal administrative framework of the country:** A given criterion needs to capture whether the employer formally and effectively recognizes a given job in relation to the legal administrative framework of the country. For example, voluntary 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 in relation to the authorities 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 imply that the enterprise and the employee is registered in a manner that includes obligations as well as benefits.

264. **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 covered in practice would still leave the employee in the same situation as if she or he were not covered by law. As part of operationalizing the criteria this aspect might be challenging to ensure. However, some measures can be taken to the ensure that to the extent possible it is taken into account, for example in relation to questionnaire design, as part of the discussion of whether additional characteristics should be used, and how the criteria should be combined.

Combining the operational criteria

265. When assessing country practices for operationalizing the definition of informal jobs held by employees’ countries have a strong preference to use the same set of criteria (i.e., employer’s contribution to social
insurance as a main criterion 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 must apply for the job to be defined as formal) closely followed by the moderate approach (different combinations of the criteria where one main criterion is given priority over other criteria). However, some 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, 2023b). The different approaches reflect different country contexts where in some countries fulfilling one of the criteria would be sufficient 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 to be defined as formal, even if the degree of protection that might follow is of limited scope.

266. 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, 2023b). In addition, it also challenges international harmonization and impacts on the possibility to provide global and regional estimates.

267. The proposed operational definition of informal jobs held by employees does not define the exact combination of criteria countries should use. It does, however, provide prioritization of the criteria as well as stronger recommendations on 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 recommended criteria for defining informal jobs but are not absolute criteria. This approach creates some degree of flexibility for countries to take the national context into account while ensuring a greater degree of harmonization compared to the current situation. In countries where the absence of contribution to statutory social insurance is a strong indication that the job held by the employee is informal this can be used as the defining criterion. Access to paid annual leave and paid sick leave could in these countries be used to treat cases where the respondent does not know whether such contributions are made or refuse to answer. In countries where the social protection system to a large extent is built on universal protection or voluntary contributions or the social insurance system is non-existing then countries can use the two criteria of access to paid annual leave and paid sick leave as main criteria and define the job formal if the employee has access to both. The two criteria of access to paid annual leave and paid sick leave can therefore either be used as part of the 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. If the two criteria are used as part of defining informal and formal employment then the two conditions (i.e., the two criteria) needs to be met for the job to be considered formal hence the and statement. If no contributions to social insurance are made by the employer and the employee only have access to paid sick leave or paid annual leave but not both, then the job would be considered an informal job. This implies that the weak formality approach, where it is sufficient that one of the (three) criteria applies for the job to be formal, would no longer be in line with the definition. This reflects that only having access to for example paid annual leave but to no other criteria would in many cases not be a strong indication that the job can be considered formal in relation to the legal
administrative framework of the country due to that it might be the result of an ad-hoc agreement between the employer and the employee that is not necessary directly linked to the legal administrative framework of the country.

268. Additional characteristics 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.

269. This approach, which can be described as a soft, moderate approach builds on the common ground across countries. It aims at striking 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 to enable the creation of global and regional estimates as well as harmonized series on informal employment.

Clarification that all types of activities are included

270. Employees holding an informal job can carry out activities in any type of industry, in any place of work for any type of economic unit (formal, informal or a household producing for own final use).

271. 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 employer’s 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 and community sector for example as a domestic worker.

6.3.4 Formal jobs held by employees

272. 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.

273. “Employer’s contributions to statutory social insurance” on behalf of the employee, as defined in paragraph 78, characterize the job held by the employee as formal.

274. 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.

275. Depending on the national circumstances, additional characteristics such as the deduction of income tax by the employer on behalf of the employee, eligibility for severance pay and access to maternity leave, paternity leave or parental leave might be relevant to support the definition of formal jobs held by employees.
276. 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 and community sector.

277. Like all other categories of workers in employment, countries should ensure that formal jobs and informal jobs held by employees are mutually exclusive categories. The same set of criteria should therefore be applied to define jobs as formal and informal. Irrespective of any national adaptation of the operational definition, it is recommended to include employer’s contribution to statutory social insurance, access to paid annual leave and paid sick leave to enable an assessment of the coverage of formal arrangements for employees holding informal and formal jobs and for facilitate the creation of regional and global estimates.

278. 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.

279. The operationalization of the criteria would need to follow the definitions and recommendations that form part of the definition of informal jobs 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.

280. 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. However, to ensure the possibility to derive regional and global estimates, countries should be encouraged to include the three main criteria.

281. The definitions of informal jobs and formal jobs held by employees need 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. It is therefore important to ensure that informal and formal jobs are mutually exclusive categories, particularly if additional national criteria are used.

282. 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 as the criteria used to define the informal/formal status of a job held by an employee might in 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.
6.3.5 Contributing family workers

283. In countries where formal arrangements such as the possibility to register and contribute to job-related statutory social insurance are not available for contributing family workers, such workers can be considered to have informal jobs by default.

284. In countries that have such formal arrangements in place for contributing family workers these workers can be consider having:

   a) Informal jobs if their job is not in practice formally recognized in relation to the legal administrative framework. This includes contributing family workers who:

      i. carry out work for an informal household market enterprise; or

      ii. whose job is not registered, or for whom contributions are not made to job-related statutory social insurance.

   b) Formal jobs if:

      i. the economic unit for which the work is formal; and

      ii. the job is registered in relation to the legal administrative framework of the country; and

      iii. contributions are made to a job-related statutory social insurance scheme.

285. Registration of the job held by the contributing family worker and contribution to a job-related statutory social insurance scheme implies that the worker is employed formally in that job. The type of statutory social insurance relevant for operationalizing the criterion depends on the national context but would include mandatory or voluntary statutory social insurances such as a pension fund if this implies a formal status of the worker.

286. 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 informal jobs. This rests on the argument 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 effectively covered by labour laws, social security regulations, etc.

287. 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, Paragraph 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.
288. The definition provided by 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." (Paragraph 57, ILO, 2018a). This is conceptually not a change compared to the 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 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.

289. Many countries would not have formal arrangements in place for contributing family workers and their jobs would not be subject to labour legislation and social security regulations, etc. The status in employment category of contributing family workers would therefore directly imply that the job held by the worker is informal. The contributing family worker would not be registered nor having any access to formal arrangements as these possibilities do simply not exist in the country for contributing family workers. In these countries, which is likely to be a vast majority of countries, the jobs held by contributing family workers can be defined as informal by default. This would imply that the current approach of defining contributing family workers as informal by default can be remained in countries where there is not a possibility for contributing family workers to have formal jobs.

290. At the same time there are examples among countries of formal arrangements that target contributing family workers or some specific type of contributing family workers such as within agriculture, 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 agricultural activities to register their activities and to contribute to social insurance and health insurance benefits, thereby ensuring that contributing family workers have a degree of protection in case of accidents at work and receiving pensions at a later stage. Similarly, in Denmark a contributing family worker can formally register a job held in an enterprise owned by a family member and thus gain access to social insurance, paid sick leave and paid maternity leave. These are examples of situations where jobs 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 under circumstances like these to define jobs held by contributing family workers as formal would facilitate the monitoring of the outreach of such arrangements as well as strengthening policy focus on this group. This would also have important gender implications. 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 age, particularly in rural areas (ILO, 2020). This situation creates a major gender gap in social security both during the working life and at the time of retirement. Contributing family workers are often found in a highly vulnerable situation. They do not receive regular payment, and they typically lack any form of protection. An important policy objective is therefore to work towards shifting their employment status. Either towards independent workers, in which case they would be co-owners of the enterprise and take part of the essential decision making, or to shift their status to employees, in which case they would receive a wage or salary for their work. At the same time a complementary policy objective could be to also improve the situation of contributing family workers by implementing measures that increase their protection. The possibility for contributing family workers to have formal jobs, in countries where such measures exist, can be viewed as a recognition of such a complementary policy objective beyond the objective of shifting their employment status. From a
statistical point of view introducing the possibility for contributing family workers to have formal jobs, where relevant, enables the provision of statistics that highlights the transition between contributing family workers with informal jobs to formal jobs as well as transitions between contributing family workers with informal/formal jobs to employees and independent workers with respectively informal jobs and formal jobs. This will add contextuality to their situation and vulnerability and might increase the general focus of this category of workers.

291. In countries where it could be of relevance to allow for the existence of formal jobs for contributing family workers, a pre-condition would be that the family business for which the work is carried out has a formal status. Like the situation of other workers in employment it would be difficult to perceive a situation where a contributing family worker can 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 is therefore a condition for a formal recognition of the job and contributing family workers carrying out work for an informal household market enterprise would therefore by definition have informal jobs.

292. Registration of the job held by the contributing family worker in combination with contribution to a statutory job-related social insurance ensures that formal jobs held by contributing family workers reflects that the job is recognized by the legal administrative framework (i.e. registered) and that there is an effective access to formal arrangements (i.e. social insurance.) that comes with having a formal job. If the contributing family worker carries out work for a formal enterprise and is registered and contributes to a job-related statutory social insurance, then the job held by the contributing family worker could be considered formal. It would be essential (as is the case for other statuses in employment for which this criterion is used to define informal and formal jobs) that the social insurance used for operationalizing the criterion is a statutory social insurance i.e., it is anchored in the national legislation regulating the national social protection system and linked to holding the specific job. Universal tax financed social protection as well as private non-job-related insurance schemes would be excluded, as they would not reflect coverage of formal arrangements in relation to the job and the legal administrative framework of the country.

6.4 Persons in formal employment carrying out partly informal activities

293. Depending on the national context and need, countries may identify the number of persons with formal jobs carrying out partly informal productive activities and hours spent on or earnings received from paid informal activities in relation to formal jobs.

294. This would complement data on persons in informal employment and provide input to the SNA for a more comprehensive measurement of informal productive activities in the informal market economy.

295. Persons carrying out partly informal paid activities while in formal employment include persons with a formal job where parts of the paid tasks and duties carried out in relation to that job are not covered by formal arrangements, for example when income and hours worked are not declared for taxation or mandatory job-related social contributions.

296. Statistics on partly informal activities in formal jobs can include estimates of the number of paid working hours in formal jobs and related earnings for both formal and informal activities.
Depending on the national context and need, statistics on paid informal activities in relation to formal jobs may be complemented with estimates on unpaid hours for employees whose remuneration is directly dependent on the number of hours worked.

Activities carried out in relation to formal jobs would in general be considered formal productive activities. However, depending on national need and context, it could be of relevance to statistically identify persons carrying out partially informal paid productive activities. The statistical identification of partly informal productive activities in relation to a formal job is a complement to the concepts of informal employment and informal jobs. It has particular relevance in countries where the share of informal employment is relatively low but the existence of partly informal productive activities in relation to formal jobs might be significant. An estimation of the working time spent on respectively informal activities and formal activities in relation to a formal job would in addition be useful input to the SNA for a comprehensive measurement of all informal productive activities.

Partly informal productive activities include cases where a person has a formal job in which parts of the paid work performed by the worker are covered by formal arrangements and therefore recognized by the legal administrative framework while other parts are not. In the case of independent workers, this could include, for example, a situation where the owner-operator of a formal enterprise (employers or independent workers without employees) carries out work to produce goods or to provide services and when some of the activities are declared while others are undeclared. For employees it could for example be a situation in which the employee is formally paid to work ten hours per week for a formal enterprise but has an agreement to work ten additional paid undeclared hours for which no social contributions are made or, in case of sickness, not compensated for. An employee in this type of situation would to some extent share characteristics with other informal employees and the protection that follows from having a formal job would be more restricted, compared to a situation where all tasks and duties carried out by the employee would be considered formal and therefore covered by the formal arrangements.

The separation between informal and formal productive activities among persons in formal employment could use working hours as reference unit. This would allow a separation between paid working hours spent on informal tasks and duties and paid working hours spent on formal tasks and duties.

Depending on the national context and need, it could also be of interest to identified unpaid hours for employees whose remuneration is directly dependent on the actual number of hours worked. This could for example include a situation where an employee is paid by the hour but carries out additional work for the same employer and where these hours are not compensated for. An estimation of the unpaid hours for employees who are directly remunerated by the hour could be produced as a complement to the estimate on partly informal paid activities.

More work needs to be done around the statistical measurement of partly paid informal productive activities in relation to formal jobs. However, this could be part of future development and based on experience among countries of direct measurement attempts through for example an LFS or other surveys, as well as different indirect methods for estimating undeclared work.

Informal productive activities and forms of work other than employment

The 19th ICLS resolution I define 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 in these forms of work are within the SNA production boundary and therefore, at least conceptually, part of informal employment as defined by 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.

304. 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 were not included in the previous concept of employment and therefore also excluded from the concept of informal employment as defined by the 17th ICLS guidelines concerning a statistical definition of informal employment.

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

305. The underlying concept of informal productive activities defined as all productive activities by persons or economic units that are – in law or in practice – not covered by formal arrangements includes all activities defined as work within its scope. 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 meaningful, how should formal arrangements be understood in relation to these types of activities?

306. 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 workplace 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 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.

307. 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, considering 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.

308. 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 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 certain domains that cut 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. 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, 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, to complement the measurement of informal employment. Subsistence workers, who are a vulnerable group of workers, and unpaid trainees, are examples of such essential groups.

309. To facilitate this type of analysis in the context of informality, it would be necessary to provide definitions and recommendations that can 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, and, in some countries, formal arrangements can be in place covering a specific form of work or for some specific activities within a specific form of work. The definitions of informal and formal work in relation to forms of work other than employment therefore needs to have sufficient flexibility to allow countries to operationalize the definitions depending on the national context and the specific types of activities of focus.

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

310. Work other than employment is considered informal work if the activities are not effectively covered by formal arrangements. This comprises informal productive activities in relation to own-use production work, volunteer work, unpaid trainee work and other work activities where the unpaid work 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.

311. 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. 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 from of work.

7.3 Informal and formal own-use production work

312. **Informal own-use production work comprises activities carried out in relation to own-use production work that are not effectively covered by formal arrangements.** It includes productive activities carried out in relation to a work activity defined according to the latest version of the International Classification of Status at Work as being carried out by:

*Workers in own-use provision of services, including:*

(a) **Workers in own-use production of goods:**

313. **who are not effectively covered by formal arrangements that aim to promote or facilitate the work and protect and regulate their actions and functions.** Depending on national contexts, own-use production work can be considered formal if the activities carried out are covered by formal arrangements in relation to the legal administrative framework of the country such as registration of the activities, access to insurances against work related injuries or accidents, access to social insurances such as a pension fund, cash transfers to support the work or other measures aiming to protect the worker and regulate and facilitate the activities carried out.

314. Own-use production work includes the provision of services as well as the production of goods. The International Classification of Status at Work (ICSaW-18) recognizes this distinction to create the boundary between the production of goods, which would be inside the SNA production boundary, and the provision of services, which 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.

315. 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 livelihoods 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 to have effective access to such measures.

316. Own-use provision of services would typically also be unregulated and lack coverage of formal arrangements. There can be exceptions, however, in some countries 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 these 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 the formalization of 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.

7.3.1 Informal and formal volunteer work

317. Informal volunteer work comprises activities carried out in relation to volunteer work that are not effectively covered by formal arrangements. It includes productive activities carried out in relation to a work activity defined according to the latest version of the International Classification of Status at Work as being carried out by:

(a) Direct volunteering; or

(b) Organization-based volunteers and

   (i) the volunteer carries out work for or through a non-profit organization that is not considered a formal economic unit; or

   (ii) carries out work for or through a non-profit organization that is considered a formal economic unit when the volunteer is not covered by formal arrangements that aim to protect the worker and regulate and facilitate the activities carried out.

318. A person carrying out informal volunteer work can carry out work for a household or non-formal non-profit organization in the household own-use and community sector, an informal household unincorporated market enterprise or a formal economic unit.

319. Volunteer work can be considered formal if:

   (a) the work activity is defined as organization-based volunteer work: and

   (b) the work is carried out is a formal economic unit: and

   (c) the volunteer and the activities carried out are covered by formal arrangements in relation to the legal administrative framework of the country such as registration of the activities, access to insurance against work-related injuries or accidents and access to health insurance or other measures aiming to protect the worker and facilitate and regulate the work.

320. 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 formal recognition of the experience/skills acquired.

7.3.2 Informal and formal unpaid trainee work

321. Informal unpaid trainee work comprises activities carried out in relation to unpaid trainee work as defined by the latest standards of work and employment that are not effectively covered by formal arrangements aiming to protect the worker and facilitate and regulate the work carried out by worker.

322. Informal unpaid trainee work can be performed by a person working for a household, an informal household unincorporated market enterprise or a formal economic unit.

323. Unpaid trainee work carried out for an informal household unincorporated market enterprise is, by default, considered to be informal unpaid trainee work.

324. Unpaid trainee work carried out for a formal economic unit or an household can, depending on the national context, be considered formal if the worker and the activities carried out are covered by formal arrangements in relation to the legal administrative framework of the country, such as registration of the activities, formal recognition of the experience and skills acquired, access to social insurance and insurance against work-related injuries or accidents, or other measures aiming to protect the worker and facilitate and regulate the work.

325. Unpaid trainee work shares several 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 formal recognition of the skills and experience acquired). It could also be argued that like employees, the formal status of the economic unit for which the work is carried out would have an influence on whether 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.

7.3.3 Other work activities

326. Other work activities, such as compulsory work performed without pay, can, depending on the national context, be considered formal work if it is recognized by and conducted under the control of the national authorities and general government. If not recognized by the legal administrative framework of the country, then the activities can be considered informal.

327. The category “Other work activities” is a residual category for forms of work that include compulsory work without pay. It thereby ensures that all activities defined as work within the SNA general production boundary can be categorized in one of the five forms of work. The focus on this form of work has so far been limited but it could potentially include activities regulated and conducted by the general government such as unpaid community service ordered by a court, or unpaid compulsory military service. In addition, it could also include other types of activities such as forced labour without pay. It could be argued that, depending on the national context, the activities that are recognized and approved by the legal
administrative framework of the country could in some sense be considered formal, while activities conducted without any formal recognition could be considered informal.

7.3.4 Essential categories

328. According to the national context, countries should produce statistics on essential categories of informal work other than employment, where those activities are prevalent. The identification of essential categories of informal productive activities should highlight important groups of persons engaged in informal production not intended to generate pay or profit that might be exposed to a high degree of economic risk without coverage by formal arrangements to facilitate the work, protect the person and regulate the productive activities carried out by the person.

329. Essential categories of informal work other than employment include subsistence foodstuff producers and workers carrying out informal unpaid trainee work.

330. The identification of informal subsistence foodstuff producers in countries where this is significant is an important complement to the identification of informal employment and contributes to creating a more comprehensive statistical picture of the structure of informality within the country. The separate identification of subsistence workers and a distinction between those who might be covered by arrangements aiming to support and facilitate the work or to extend social protection would allow an assessment of the outreach of such schemes.

331. The identification of informal unpaid trainee work as an essential category of informal productive activities enables countries to provide information on the prevalence of informal and formal paid and unpaid trainee work, thus facilitating a better understanding of school-to-work transitions and the formal and informal nature of trainees within the country.

332. Additional categories or domains of informal work can be identified, depending on the national need and context and on specific analytical or policy interest. These could include categories or domains for which there is a demand for analysis from a gender perspective, such as informal and formal care work across different forms of work or domains of particular focus, such as informal and formal work in relation to agricultural production or digital platform work. Different analytical domains of the informal economy can be extended to other priority areas, industries and vulnerable groups.

333. In an encompassing framework that includes all activities defined as work and where these activities can potentially be recognized as informal, it becomes essential to indicate the groups that are of particular statistical interest to measure with some regularity. 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 unpaid activities. Instead, the focus would be on compiling data on the essential categories of informal productive activities for which there is a clear policy need. These additional essential categories of workers carrying out informal productive activities would function as a complement to data on 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.
334. Subsistence foodstuff producers would 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” (Paragraph 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 then 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.

335. Informal unpaid trainee work would also be identified as an essential 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.

336. 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 care work. This could be done, for example, by organizing care work in multiple dimensions such as paid/unpaid, public/private, formal/informal. (Taylor, 2004) or by making the distinction between formal and informal carers (SPC, DG-EMPL 2021). 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.

8 Contextualizing informal employment and the indicator framework

337. One of the most essential objectives of collecting data on informality is to support the development and monitoring of policies aimed at addressing the challenges associated with informality, improving the working conditions of workers both in informal and in formal employment and supporting the formalization of the informal market economy as a means to address decent work deficits, reduce poverty and inequality, and enhance productivity and inclusive growth. While the dichotomy of informality and formality contributes to this, there is still a strong need to provide more granular data that give a better
understanding of the diversity of characteristics, levels of protection and vulnerabilities of workers and economic units in the informal economy.

338. To meet this need, an indicator framework is being developed to support the new resolution. It allows for flexibility to serve the different objectives of countries given their stage of engagement in addressing informality and their national priorities in terms describing the informal economy, addressing decent work deficits and supporting the transition to formality. Thus, contributing to the second objective defined in the resolution i.e., that statistics on informal employment should not only describe the dichotomy of informality and formality but also contribute to provide data on the structure and extent of informal employment, identifying groups of persons in employment most represented and at risk of informality, and providing information on exposure to economic risk, decent work deficits and working conditions.

339. The indicators included in the resolution reflect the most essential indicators in the supporting Informal Economy Indicator Framework. This supporting framework is a dynamic framework that further defines and describes the indicators included in the resolution as well as providing additional indicators that can provide further insights. The supporting framework also provides a more detailed description of the link between the indicators and policy measures. The development of the supporting framework is expected to continue also after the adoption of the new standards at the 21st ICLS to allow the framework to continue to evolve based on countries increased experience with producing the indicators.

340. The indicators are organized around six dimensions and by the reference units of respectively jobs and economic units as can be seen in table 8.

Table 8. Structure of the indicator framework

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Observation units</th>
<th>Combined: Informal productive activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Persons and jobs</td>
<td>Sources: - LFS - Mixed surveys second stage, sections on the person leading the activity - Other household surveys (Income/expenditure)/ general purpose surveys</td>
<td>Combined sources to measure input of the informal economy to the GDP</td>
</tr>
<tr>
<td>Economic units</td>
<td>Sources: - Mixed surveys-sections on the economic unit/activity performance; - Informal sector surveys - Economic Census.</td>
<td></td>
</tr>
<tr>
<td>Combined: Informal productive activities</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

341. The first three dimensions i.e., extent of informality, Composition of informality and Exposure to informality are to be considered as headlines indicators that countries are strongly recommended to produce on a regular basis. The three dimensions include indicators that describe the informal market economy and provide support for the formulation of policies to address the challenges associated to informality and facilitate the transition to formality. The indicators in these three dimensions intend to:
(a) Provide data on the extent of informality in the country that is the number and share of persons in informal employment in the country.

(b) Identify categories of workers and economic units that are most exposed to the risk of informality, including indicators such as share of informal employment in total employment for different groups according to demographic and other personal characteristics (e.g., sex, age, level of education) and employment related features (e.g., status in employment, industries, occupations, size of enterprise).

(c) Identify categories of workers and economic units that are most represented, i.e., that make up the largest proportions among those in informal employment or formal employment, including indicators such as distribution of informal employment or formal employment by sex, status in employment, industry, education, etc.

342. Indicators relating to dimensions 4-6 contribute to a better understanding of working conditions, contextual vulnerabilities, and structural factors within the country. The need to produce and provide these indicators for data producers will depend on the national priorities, policy objectives and context. Countries are, however, encouraged to produce the indicators with some frequency for example ever 1-5 year, to allow a better assessment of the conditions and vulnerability of informal workers in the country.

343. The fourth dimension Working conditions for those in informal versus formal employment provides data on decent work deficits, including indicators such as working time (usual and actual hours of work), type and duration of employment agreement, forms of remuneration or place of work; as well as indicators on productivity and performance of formal and informal economic units.

344. The fifth-dimension Contextual vulnerability includes indicators that provide further context on the degree of informality and formality, degree of protection for informal and formal workers at the household level. This dimension is important to contextualize the situation of informal and formal workers within households. It provides a broader assessment of vulnerabilities but also of opportunities at the household level to complement the assessment of personal and job-related features and vulnerabilities at the individual level.

345. The sixth dimension, Other structural factors, includes the assessment of structural factors of informality associated to the structure of employment (e.g., prevalence of certain status in employment and sectors more at risk of informality) and to the level and composition of growth. In the supplementary indicator framework these structural factors are complemented with additional factors such as the legal coverage of formal arrangements. This allows an assessment of whether the source of informality is due to a lack of legal coverage, an inadequate level of protection or a lack of compliance with laws and regulations, which can provide important input for the design of policies addressing informality. Thus, this dimension is partly based on qualitative as well as quantitative indicators.

346. The indicators using jobs as reference unit should be provided in reference to the main job. However, data producers can, if feasible and relevant, apply the indicators also in relation to secondary jobs. When presenting and publishing the indicators, the term informal main job and formal main job used in the description of the indicators in the resolution can be replaced with the term informal employment. This corresponds to the conventional use of the concept of informal employment despite that it differs from
the concept of informal employment as defined in the resolution, which includes all informal productive activities for pay or profit that are not covered by formal arrangements independent of whether it is in relation to the main job or secondary jobs. For example, the SDG indicator 8.3.1 (that is parallel to indicator 123 a. in the draft resolution) is termed the share of informal employment out of total employment, even though it is defined as informal employment in relation to the main job.

347. The indicators should be produced for the overall target population and, for specific categories of workers or economic units relevant to areas of policy concern. Depending on the country context, policy needs and priorities this could for example include persons with disabilities, migrant workers, home-based workers, digital platform workers, micro and small economic units or workers and economic units in specific sectors. Applying the set of indicators for a specific category of workers or economic units that are of interest enables the possibility to assess and analyse these categories from the perspective of the six different dimensions. However, there might be limitations in the range of indicators that can be applied as well as the degree of possible disaggregation. This would depend on the sample design, the source used for collecting the data and the general statistical precision of the estimates.

348. When producing and analysing these indicators, particular attention should be paid to the gendered dimensions of informality. There is a high demand for gender data and countries are therefore strongly recommended to systematically disaggregate all indicators related to persons and jobs by sex, and, for all enterprise-related indicators related to the owner of the economic units. To allow for a more in-depth analyse of the gender dimension, the supporting indicator framework also includes specific gender indicators such as the gender pay gap, time spent on unpaid domestic and care work, and the situation of workers in male or female-dominated economic activities, occupations, or places of work. The ILO intends to publish further guidance on methods and tools for collecting and providing data on informality from a gender perspective, which will be made available from the ILO through published guides and technical support.

349. Indicators related to persons and jobs should be disaggregated by sex and other relevant socio-economic characteristics as well as employment-related characteristics. The socio-economic characteristics that are of high relevance to use for desegregation includes by age, educational level, area of residence (urban/rural), and geographic region. The employment-related characteristics that would be of high relevance for dissemination includes status in employment, economic activity, occupation, place of work, size of enterprise. Where it is feasible, taken the sample size and the representativeness of results into account, it is recommended to include multiple levels of disaggregation such as sex in combination with status in employment to highlight different intersectionality.

350. Indicators related to economic units should be disaggregated by sector of economic activity, size of enterprise (number of employees and business owner), level of output or sales, level of output or of value added per worker, level of profits, place of work. Also, by the socio-demographic characteristics of the owner(s), including sex, age, educational level, area of residence (urban/rural), and geographic region, as relevant in the country.

351. The accompany indicator framework provides more guidance on the different indicators including recommended disaggregation.
References


