

Measuring the informal economy: From employment in the informal sector to informal employment

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to stimulate discussion and obtain comments

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Preface

The development of statistics on the informal economy helps to improve labour statistics and national accounts. The informal economy plays an important role for employment creation, income generation and poverty reduction in many countries, especially developing and transition countries. Statistics on the informal economy are needed as an evidence-based tool for research and policy-making. They enhance the visibility of the many workers in the informal economy and of their economic contribution.

The purpose of the present working paper is (i) to explain the international statistical definitions of employment in the informal sector and of informal employment, which were adopted by the Fifteenth and Seventeenth International Conferences of Labour Statisticians (ICLS) in January 1993 and December 2003, and (ii) to illustrate the practical application in household surveys of these definitions in providing examples of their translation into survey questions.

This Working Paper contributes to follow-up being given across the International Labour Office to conclusions on Decent Work and the Informal Economy, adopted by the International Labour Conference at its 90th Session in June 2002. These conclusions called upon the ILO to “assist member States to collect, analyse and disseminate consistent, disaggregated statistics on the size, composition and contribution of the informal economy that will help enable identification of specific groups of workers and economic units and their problems in the informal economy.” (International Labour Conference, 90th Session, 2002, Provisional Record No. 25, paragraph 37(n)). The aim is to have statistics that will inform the formulation of appropriate policies and programmes. An informal Working Group on the Informal Economy, chaired by Anne Trebilcock, Deputy Director of the Policy Integration Department, encourages analysis across the various technical specialities of the ILO, including statistics.

Prepared by Ralf Hsmanns, Senior Statistician and Head of Employment and Wages Statistics of the ILO Bureau of Statistics, this working paper builds on papers presented by the author to the Seventh Meeting of the Expert Group on Informal Sector Statistics (Delhi Group), which was held in New Delhi from 2-4 February 2004, and to the Seminar “Non-observed Economy: Issues of Measurement”, which was organised jointly by the Federal Service of State Statistics of the Russian Federation and the Central Statistical Office of Poland and held in Saint Petersburg from 23-25 June 2004.

Working papers of the Policy Integration Department are meant to stimulate discussion. The ILO will therefore welcome all comments and suggestions concerning the contents of this paper. They should be addressed to the Director, Bureau of Statistics, International Labour Office, CH-1211 Geneva 22, Switzerland, fax. no. + 41 22 799 6957, e-mail: sat(at)ilo(dot)org

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1. Introduction

In January 1993, the *Fifteenth International Conference of Labour Statisticians (15th ICLS)* adopted an international statistical definition of the informal sector, which was subsequently included in the revised international *System of National Accounts (SNA 1993)*. Inclusion in the SNA of the informal sector definition was considered essential as it would make it possible to identify the informal sector separately in the accounts and, hence, to quantify the contribution of the informal sector to the gross domestic product. In order to obtain an internationally agreed definition of the informal sector, which was acceptable to labour statisticians as well as national accountants, the informal sector had to be defined in terms of characteristics of the production units (enterprises) in which the activities take place (enterprise approach), rather than in terms of the characteristics of the persons involved or of their jobs (labour approach).

A criticism sometimes made of the informal sector definition adopted by the 15th ICLS is that persons engaged in very small-scale or casual self-employment activities may not report in statistical surveys that they are self-employed, or employed at all, although their activity falls within the enterprise-based definition. Another criticism is that informal sector statistics may be affected by errors in classifying certain groups of employed persons by status in employment, such as outworkers, subcontractors, free-lancers or other workers whose activity is at the borderline between self-employment and wage employment. Women are more likely than men to be engaged in such activities. Still another criticism is that an enterprise-based definition of the informal sector is unable to capture all aspects of the increasing so-called ‘informalisation’ of employment, which has led to a rise in various forms of informal (or non-standard, atypical, alternative, irregular, precarious, etc) employment, in parallel to the growth of the informal sector that can be observed in many countries. From the very beginning, it had however been clear that the informal sector definition adopted by the 15th ICLS was not meant to serve this purpose, which goes far beyond the measurement of employment in the informal sector.

For the above-mentioned reasons, the Expert Group on Informal Sector Statistics (Delhi Group) joined statistics users in concluding that “the definition and measurement of employment in the informal sector need(ed) to be complemented with a definition and measurement of informal employment” (*CSO/India 2001*).

‘Employment in the informal sector’ and ‘informal employment’ are concepts, which refer to different aspects of the ‘informalisation’ of employment and to different targets for policy-making. One of the two concepts cannot replace the other. They are both useful for analytical purposes and, hence, complement each other. However, the two concepts need to be defined and measured in a coherent and consistent manner, so that one can be clearly distinguished from the other. Statistics users and others often tend to confuse the two concepts because they are unaware of the different observation units involved: enterprises on the one hand, and jobs on the other.

During its 90th Session (2002), the International Labour Conference (ILC) engaged in an extensive discussion on ‘*Decent work and the informal economy*’, which emphasised repeatedly the need for more and better statistics on the informal economy and requested the ILO to assist member States in the collection, analysis and dissemination of consistent, disaggregated statistics on the size, composition and contribution of the informal economy (*ILO 2002a*).

However, in order to be able to collect statistics on the informal economy, one needs to have a definition of the informal economy. The ILC used the term ‘informal economy’ as referring to “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements” (*ILO 2002a*). The ILO report on ‘*Decent work and the Informal Economy*’ (*ILO 2002b*), which had been prepared as a basis for the discussion by the ILC, defined employment in the informal economy as comprising two components: (i) employment in the informal sector as defined by the 15th ICLS, and (ii) other forms of informal employment (i.e. informal employment outside the informal sector).

As part of the report, the ILO developed a conceptual framework for employment in the informal economy. The framework lent itself to statistical measurement as it built upon internationally agreed statistical definitions, which were used because of their consistency and coherence. It enables measures of employment in the informal sector to be complemented with broader measures of informal employment (*Hussmanns 2001; 2002*). At its fifth meeting, the Delhi Group endorsed the framework and recommended it to countries for testing (*CSO/India 2001*). Subsequently, several countries (Brazil, Georgia, India, Mexico and the Republic of Moldova) tested the framework successfully.

The conceptual framework developed by the ILO was submitted to the 17th ICLS (November-December 2003) for discussion. The 17th ICLS examined the framework, made some minor amendments to it, and adopted guidelines endorsing it as an international statistical standard (*ILO 2003*). These guidelines, which are attached as an annex to the present paper, complement the 15th ICLS Resolution concerning statistics of employment in the informal sector. The work by the Delhi Group and its members was essential to the development and adoption of the guidelines.

The 17th ICLS unanimously agreed that international guidelines were useful in assisting countries in the development of national definitions of informal employment, and in enhancing the international comparability of the resulting statistics to the extent possible. It also realized that such guidelines were needed in support of the request, which had been made by the ILC in 2002, that the ILO should assist countries in the collection, analysis and dissemination of statistics on the informal economy.

The concept of informal employment is considered to be relevant not only for developing and transition countries, but also for developed countries, for many of which the concept of the informal sector is of limited relevance. The 17th ICLS acknowledged, however, that the relevance and meaning of informal employment varied among countries, and that therefore a decision to develop statistics on it would depend on national circumstances and priorities.

During discussions on terminology, some considered the term ‘informal employment’ as being too positive and thus potentially misleading for policy purposes. Others feared that statistics users might have difficulties to understand the difference between ‘informal employment’ and ‘employment in the informal sector’ and confuse the two terms. Nevertheless, the term ‘informal employment’ was retained by the 17th ICLS because of its broadness, and because there was no agreement regarding the use of an alternative term, such as ‘unprotected employment’.

The paper is organised as follows: Section 2 of the paper summarises and explains the international statistical definitions of the informal sector and of informal employment as adopted by the 15th and 17th ICLS in 1993 and 2003. It also deals with a number of related issues, including the links of the concepts of informal sector and informal employment with the concept of the non-observed economy. Section 3 discusses the possibilities and limitations of labour force surveys as a source of data on employment in the informal sector and informal employment. To illustrate how the information can be obtained, examples of possible survey questions are included.

2. Definitions

2.1 International statistical definition of employment in the informal sector

The 15th ICLS (*ILO 2000*) defined *employment in the informal sector* as comprising all jobs in informal sector enterprises, or all persons who, during a given reference period, were employed in at least one informal sector enterprise, irrespective of their status in employment and whether it was their main or a secondary job.

Informal sector enterprises were defined by the 15th ICLS on the basis of the following criteria:

They are private unincorporated enterprises (excluding quasi-corporations)¹, i.e. enterprises owned by individuals or households that are not constituted as separate legal entities independently of their owners, and for which no complete accounts are available that would permit a financial separation of the production activities of the enterprise from the other activities of its owner(s). Private unincorporated enterprises include unincorporated enterprises owned and operated by individual household members or by several members of the same household, as well as unincorporated partnerships and co-operatives formed by members of different households, if they lack complete sets of accounts.

All or at least some of the goods or services produced are meant for sale or barter, with the possible inclusion in the informal sector of households which produce domestic or personal services in employing paid domestic employees.

Their size in terms of employment is below a certain threshold to be determined according to national circumstances², and/or they are not registered under specific forms of national legislation (such as factories' or commercial acts, tax or social security laws, professional groups' regulatory acts, or similar acts, laws or regulations established by national legislative bodies as distinct from local regulations for issuing trade licenses or business permits), and/or their employees (if any) are not registered.

They are engaged in non-agricultural activities, including secondary non-agricultural activities of enterprises in the agricultural sector³.

The relevant paragraphs of the 15th ICLS Resolution are reproduced in Annex I to this paper.

The meaning of the term '*sector*' follows the SNA 1993. For national accounting purposes, a sector (institutional sector) is different from a branch of economic activity (industry). It simply groups together similar kinds of production units, which in terms of

¹ In the SNA 1993, such enterprises are called 'household unincorporated enterprises' or 'household enterprises' because they form part of the SNA institutional sector 'households'. Since readers, who are not familiar with the SNA framework, often misinterpret these terms, the term 'private unincorporated enterprises' is used in this paper.

² During its third meeting, the Delhi Group recommended that for international reporting the size criterion should be defined as less than five employees (*CSO/India 1999*).

³ The 15th ICLS recognised that, from a conceptual point of view, there was nothing against the inclusion, within the scope of the informal sector, of private unincorporated enterprises engaged in agricultural and related activities, if they met the criteria of the informal sector definition. The recommendation to exclude agricultural and related activities from the scope of informal sector surveys, and to measure them separately, was however made for practical data collection reasons.

their principal functions, behaviour and objectives have certain characteristics in common. The result is not necessarily a homogeneous set of production units. For the purposes of analysis and policy-making, it may thus be useful to divide a sector into more homogeneous sub-sectors. Informal sector enterprises as defined by the 15th ICLS are a sub-sector of the SNA institutional sector ‘households’.

The term ‘enterprise’ is used here in a broad sense, referring to any unit engaged in the production of goods or services for sale or barter. It covers not only production units, which employ hired labour, but also production units that are owned and operated by single individuals working on own account as self-employed persons, either alone or with the help of unpaid family members. The activities may be undertaken inside or outside the enterprise owner’s home, and they may be carried out in identifiable premises, unidentifiable premises or without fixed location. Accordingly, self-employed street vendors, taxi drivers, home-based workers, etc. are all considered enterprises.

2.2 International statistical definition of informal employment

The conceptual framework endorsed by the 17th ICLS relates the enterprise-based concept of employment in the informal sector in a coherent and consistent manner with a broader, job-based concept of informal employment.

A person can simultaneously have two or more formal and/or informal jobs. Due to the existence of such multiple jobholding, jobs rather than employed persons were taken as the observation units for employment. Employed persons hold jobs that can be described by various job-related characteristics, and these jobs are undertaken in production units (enterprises) that can be described by various enterprise-related characteristics.

Thus, using a building-block approach the framework disaggregates total employment according to two dimensions: type of production unit and type of job (see the matrix included in Annex II). Type of production unit (rows of the matrix) is defined in terms of legal organisation and other enterprise-related characteristics, while type of job (columns of the matrix) is defined in terms of status in employment and other job-related characteristics.

Production units are classified into three groups: formal sector enterprises, informal sector enterprises, and households. *Formal sector enterprises* comprise corporations (including quasi-corporate enterprises), non-profit institutions, unincorporated enterprises owned by government units, and those private unincorporated enterprises producing goods or services for sale or barter which are not part of the informal sector. The definition of *informal sector enterprises* has already been given in Section 2.1 above. *Households* as production units are defined here as including households producing goods exclusively for their own final use (e.g. subsistence farming, do-it-yourself construction of own dwellings), as well as households employing paid domestic workers (maids, laundresses, gardeners, watchmen, drivers, etc.)⁴. Households producing *unpaid* domestic or personal services (e.g., housework, caring for family members) for their own final consumption are

⁴ The 15th ICLS definition of the informal sector excludes households producing *goods* exclusively for their own final use, but provides an option to include households employing paid domestic workers. The framework presented in this paper and adopted by the 17th ICLS does not use this option and, hence, *excludes* households employing paid domestic workers from the informal sector. The exclusion is in line with a recommendation made by the Delhi Group during its third meeting (CSO/India 1999).

excluded, as such activities fall presently outside the SNA production boundary and are not considered employment.

Jobs are distinguished according to status-in-employment categories and according to their formal or informal nature. For status in employment, the following five ICSE-93 groups are used: own-account workers; employers; contributing family workers; employees; and members of producers' cooperatives. The breakdown by status in employment was needed for definitional purposes; however, it was also considered useful for analytical and policy-making purposes.

There are three different types of cells in the matrix included in Annex II. Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit in question. For example, there cannot be contributing family workers in household non-market production units. Cells shaded in light grey refer to formal jobs. Examples are own-account workers and employers owning formal sector enterprises, employees holding formal jobs in formal sector enterprises, or members of formally established producers' cooperatives. The remaining, un-shaded cells represent the various types of informal jobs.

The 17th ICLS defined *informal employment* as the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period (see Annex II). It comprises:

Own-account workers and employers employed in their own informal sector enterprises (Cells 3 and 4). The employment situation of own-account workers and employers can hardly be separated from the type of enterprise, which they own. The informal nature of their jobs follows thus directly from the characteristics of the enterprise.

Contributing family workers, irrespective of whether they work in formal or informal sector enterprises (Cells 1 and 5). The informal nature of their jobs is due to the fact that contributing family workers usually do not have explicit, written contracts of employment, and that usually their employment is not subject to labour legislation, social security regulations, collective agreements, etc.⁵.

⁵ Family workers with a contract of employment and/or wage would be considered employees.

Employees holding informal jobs, whether employed by formal sector enterprises, informal sector enterprises, or as paid domestic workers by households (Cells 2, 6 and 10)⁶. According to the guidelines endorsed by the 17th ICLS, employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.) for reasons such as: non-declaration of the jobs or the employees; casual jobs or jobs of a limited short duration; jobs with hours of work or wages below a specified threshold (e.g. for social security contributions); employment by unincorporated enterprises or by persons in households; jobs where the employee's place of work is outside the premises of the employer's enterprise (e.g. outworkers without employment contract); or jobs, for which labour regulations are not applied, not enforced, or not complied with for any other reason⁷.

Members of informal producers' cooperatives (Cell 8). The informal nature of their jobs follows directly from the characteristics of the cooperative of which they are member⁸.

Own-account workers engaged in the production of goods exclusively for own final use by their household (such as subsistence farming or do-it-yourself construction of own dwellings), if considered employed according to the 13th ICLS definition of employment⁹ (Cell 9).

⁶ Cell 7 refers to employees holding formal jobs in informal sector enterprises. Such cases, which are included in employment in the informal sector but excluded from informal employment, may occur when enterprises are defined as informal in using size as the only criterion, or where there is no administrative link between the registration of employees and the registration of their employers. However, the number of such employees is likely to be small in most countries. Where the number is significant, it might be useful to define the informal sector in such a way that enterprises employing formal employees are excluded. Such a definition has been proposed, for example, for Argentina (*Pok 1992*) and is in line with the 15th ICLS resolution, which includes the non-registration of the employees of the enterprise among the criteria for defining the informal sector (*ILO 2000*).

⁷ The definition corresponds to the definition of unregistered employees as specified in paragraph 9 (6) of the informal sector resolution adopted by the 15th ICLS. It encompasses the ICSE-93 definitions of non-regular employees, workers in precarious employment (casual workers, short-term workers, seasonal workers, etc.) and contractors.

⁸ Producers' cooperatives, which are formally established as legal entities, are incorporated enterprises and, hence, part of the formal sector. Members of such formally established producers' cooperatives are considered to have formal jobs. Producers' cooperatives, which are not formally established as legal entities, are treated as private unincorporated enterprises owned by members of several households. They are part of the informal sector if they also meet the other criteria of the definition.

⁹ The definition specifies that persons engaged in household production for own final use should be considered employed if their production represents an important contribution to the total consumption of the household.

The major new element is the above definition of informal jobs of employees. However, given the large diversity of informal employment situations found in different countries, the 17th ICLS had to leave the operational criteria for defining informal jobs of employees for determination by countries in accordance with national circumstances and data availability. The impact on the international comparability of the resulting statistics was recognized by the 17th ICLS.

An important definitional issue is the possible discrepancy between the formality of employment situations and their reality. Sometimes employees, although in theory protected by labour legislation, covered by social security, entitled to employment benefits, etc., are in practice not in a position to claim their rights because mechanisms to enforce the existing regulations are lacking or deficient. Or the regulations are not applied when the employees agree to waive their rights, because they prefer to trade in higher take-home pay for legal and social protection. For these reasons, the 17th ICLS definition of informal jobs of employees covers not only employment situations, which are *de jure* informal, but also employment situations, which are *de facto* informal (“in law or in practice”).

Employment in the informal sector encompasses the sum of Cells 3 to 8. *Informal employment* encompasses the sum of Cells 1 to 6 and 8 to 10. The sum of Cells 1, 2, 9 and 10 is called *informal employment outside the informal sector*.

Informal employment outside the informal sector comprises the following types of jobs:

Employees holding informal jobs in formal sector enterprises (Cell 2) or as paid domestic workers employed by households (Cell 10);

Contributing family workers working in formal sector enterprises (Cell 1);

Own-account workers engaged in the production of goods exclusively for own final use by their household, if considered employed according to the 13th ICLS definition of employment (Cell 9).

Of these, Cell 2 (employees holding informal jobs in formal sector enterprises) tends to generate the largest interest among researchers, social partners and policy-makers.

It should be noted that the 17th ICLS did not endorse the term ‘*employment in the informal economy*’, which had been used by the ILO to refer to the sum of employment in the informal sector and informal employment outside the informal sector (Cells 1 to 10). The 17th ICLS agreed that, for statistical purposes, it would be better to keep the concepts of informal sector and of informal employment separate. The informal sector concept, as defined by the 15th ICLS, needed to be retained because it had become part of the SNA 1993, and because a large number of countries, as documented by the ILO (*ILO 2002c*), were collecting statistics based on it.

2.3 Related issues

2.3.1 *Jobs at the borderline of status-in-employment categories*

It is widely recognized that certain types of jobs are difficult to classify by status in employment because they are at the borderline of two or more of the ICSE-93 groups, especially between own-account workers and employees. An example is outworkers (home-workers). The framework presented in this paper and adopted by the 17th ICLS makes it possible to capture all outworkers in informal employment, irrespective of their classification by status in employment. Outworkers would be included in Cells 3 or 4, if they are deemed to constitute enterprises of their own as self-employed persons, and if

these enterprises meet the criteria of the informal sector definition. Persons working for such informal outworking enterprises as contributing family workers would be included in Cell 5, and persons working for them as employees in Cells 6 or 7. Outworkers working as employees for formal sector enterprises would be included in Cell 2, if they have informal jobs, and in the light grey cell next to Cell 2, if they have formal jobs.

Thus, problems in assigning jobs to status-in-employment categories affect data on informal employment based on the labour approach to a lesser extent than they affect data on employment in the informal sector based on the enterprise approach. They would lead to classification errors rather than coverage errors. However, further work is needed to develop methodologies, which would help to reduce such classification errors.

2.3.2 Further sub-divisions of informal jobs

As part of its guidelines, the 17th ICLS mentions that, for purposes of analysis and policy-making, it may be useful to disaggregate the different types of informal jobs, especially those held by employees. Such a typology and definitions should be developed as part of further work on classifications by status in employment at the international and national levels. A strategy for developing a typology of atypical forms of employment, based on the International Classification of Status in Employment (ICSE-93), has been outlined by *Mata Greenwood and Hoffmann (2002)*.

2.3.3 Statistics on informal employment in the absence of data on informal sector employment

Some countries may wish to develop statistics on informal employment, although they do not have statistics on employment in the informal sector. Other countries may wish to develop statistics on informal employment, but find that a classification of employment by type of production unit is not much relevant to them. Unless such countries want to limit the measurement of informal employment to employee jobs, they need to specify appropriate definitions of informal jobs of own-account workers, employers and members of producers' cooperatives, which do not explicitly use the informal sector concept.

2.3.4 Informal jobs in agriculture

In respect of the statistical treatment of persons engaged in agricultural activities a similar issue arises for countries, which, in line with paragraph 16 of the 15th ICLS resolution, exclude agriculture from the scope of their informal sector statistics. In order to be able to classify all jobs (including agricultural jobs) as formal or informal, these countries will have to develop suitable definitions of informal jobs in agriculture other than those held by persons engaged in subsistence farming (Cell 9). This applies, in particular, to jobs held in agriculture by own-account workers, employers and members of producers' cooperatives. Regarding the definition of informal employee jobs in agriculture, it is most likely that the same criteria can be used as for the definition of informal employee jobs in other activities¹⁰.

¹⁰ Negrete (2002) already discussed these issues in his paper for the sixth meeting of the Delhi Group and made some suggestions for Mexico.

2.3.5 ***Informal sector/employment vs. underground/illegal production***

The 17th ICLS requested the links between the concepts of informal employment and non-observed economy to be indicated. In the preamble to its guidelines, it therefore mentioned that an international conceptual framework for measurement of the non-observed economy already existed. The framework was developed as part of a handbook for measurement of the non-observed economy, which was published in 2002 by the OECD, IMF, ILO and CIS STAT (Interstate Statistical Committee of the Commonwealth of Independent States) as a supplement to the SNA 1993 (*OECD et. al. 2002*). The handbook puts the informal sector in a broader context of non-observed economy and relates it to three other concepts, with which it is often confused: underground production; illegal production; and household production for own final use¹¹.

The SNA 1993 defines *illegal production* as production activities which are forbidden by law, or which become illegal when carried out by unauthorised producers (*Inter-Secretariat Working Group 1993*). Examples are drug trafficking or abortions practiced by unauthorised persons. Thus, illegal production can be considered to represent a contravention of the *criminal* code.

Underground production is defined in the SNA 1993 as production activities, which are legal when performed in compliance with regulations, but which are deliberately concealed from public authorities. An example is the sale of legal goods or services without tax declaration. Thus, underground production can be considered to represent a contravention of the *civil* code.

The SNA 1993 acknowledges that, in practice, it may not always be easy to draw a clear borderline between underground production and illegal production. For conceptual purposes, one can however use the above-mentioned definitions to distinguish three types of production activities: (i) activities, which are legal and not underground; (ii) activities, which are legal, but underground; and (iii) activities, which are illegal.

As indicated in Diagram 1 below, any type of production units (formal sector enterprises; informal sector enterprises; households) can be engaged in any type of activities (legal, not underground; legal, underground; illegal). Nevertheless, it is widely known that in developing and transition countries most informal sector activities are neither underground nor illegal, as they represent simply a survival strategy for the persons involved in them and for their households. This greatly facilitates the conduct of surveys on the informal sector in these countries.

¹¹ The need to distinguish the concept of the informal sector from the concept of the hidden or underground economy had already been recognized by the 15th ICLS in paragraph 5 (3) of its Resolution concerning statistics of employment in the informal sector.

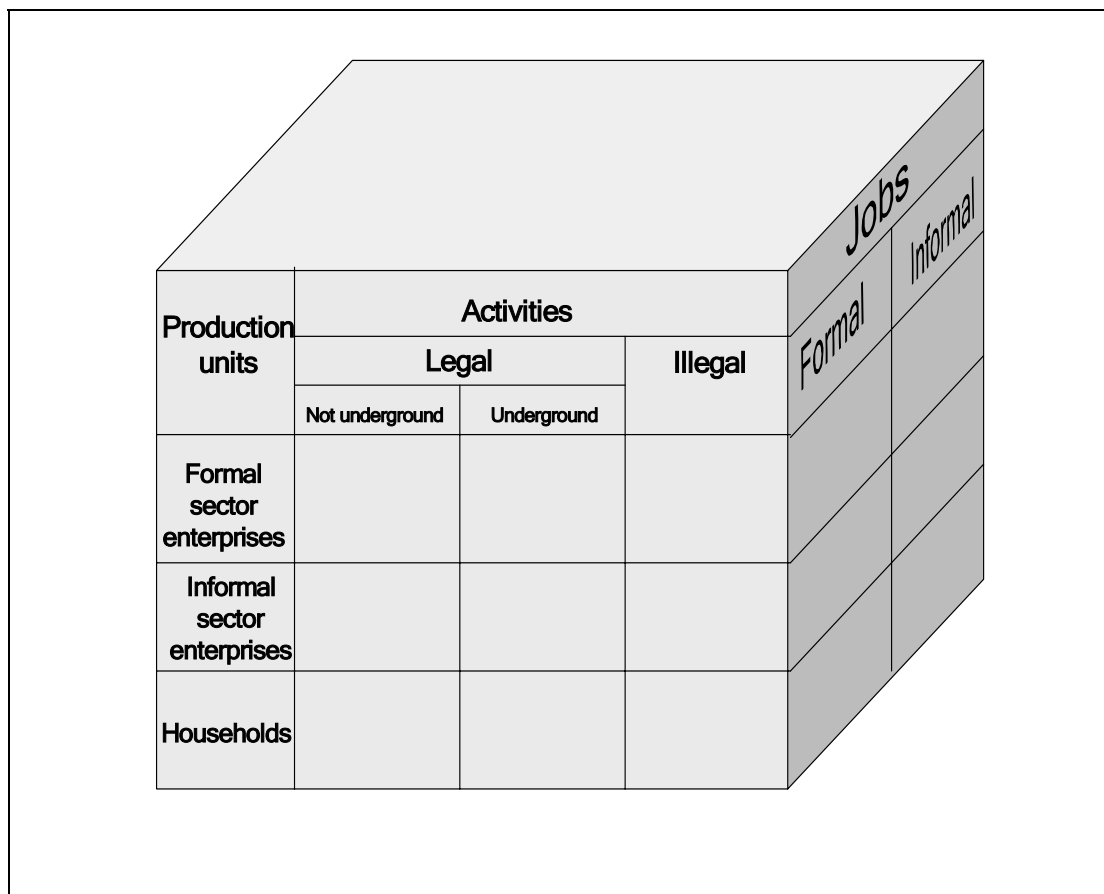
Diagram 1

Production units	Activities		
	Legal		Illegal
	Not underground	Underground	
Formal sector enterprises			
Informal sector enterprises (a)			
Households (b)			

- (a) As defined by the 15th ICLS (excluding households employing paid domestic workers).
(b) Households producing goods exclusively for their own final use and households employing paid domestic workers.

The activities carried out by production units are undertaken by persons employed in formal jobs or in informal jobs. This conceptual link is shown in Diagram 2 below, which combines Diagram 1 with a simplified version of the matrix adopted by the 17th ICLS as part of its guidelines. The result is a three-dimensional cube composed of 18 smaller cubes (or 45 smaller cubes, if the full version of the matrix is used). Each of the smaller cubes stands for a specific combination of type of production unit, type of activity, and type of job. Work is currently being undertaken by the ILO to define the smaller cubes, and to give examples for the employment situations represented by each of them. It is hoped that the results of this work will help to sort out the widespread confusion concerning the use of the terms ‘informal sector’, ‘informal employment’ and ‘underground or illegal production’, which currently still exists.

Diagram 2



3. Measurement

3.1 Labour force surveys as a source of data on informal sector employment/ informal employment

Many countries have already made positive experiences in the use of labour force surveys as a source of data on employment in the informal sector (*ILO 2002c*). In addition, labour force surveys appear to be the most appropriate survey instrument for applying the definition of informal employment adopted by the 17th ICLS.

Monitoring the number and characteristics of the persons working in the informal sector, or in informal employment, and the conditions of their employment and work can be achieved by periodically including, in an existing labour force survey, a few additional questions pertaining to the informal sector or informal employment definitions and to the characteristics of informal sector employment or informal employment. The costs of doing so are relatively low. The additional questions should be asked of all persons employed during the reference period of the survey, irrespective of their status in employment. In this way, it is possible to collect comprehensive data on the volume and characteristics of informal sector employment or informal employment and to obtain information on

employment and working conditions from all categories of informal workers, including employees and contributing family workers¹².

These data can be related at the macro-level to the corresponding data on formal sector employment or formal employment and on unemployment as obtained from the same source, and at the micro-level to all the other information collected in the same survey concerning the persons in question. In other words, the total population (or working age population) can be classified into employed, unemployed and economically inactive persons, and the employed can be sub-classified by status in employment, the informal vs. formal nature of their jobs, the type of production units (formal sector enterprises, informal sector enterprises, or households) in which the activities are undertaken, etc. A labour force survey can also be used as the first phase of a mixed household and enterprise survey on the informal sector.

Labour force surveys are often conducted at a higher frequency than specialised, in-depth informal sector surveys. Thus, the data obtained from the former concerning the evolution of labour inputs to informal sector activities or informal jobs can be used to extrapolate data from the latter concerning other characteristics (e.g. value added) of the informal sector or informal employment.

Employees may find it difficult to provide information on some of the criteria used to define the informal sector, especially the legal organisation, bookkeeping practices and registration of the enterprise for which they work. It is, however, possible to obtain an estimate of the total number of persons employed in the informal sector using only the information on the characteristics of their enterprise (including legal organisation, bookkeeping practices, registration and/or number of persons engaged) provided by respondents identified as employers or own-account workers. Another possibility is to base the estimate on all respondents irrespective of their status in employment, and to obtain from respondents, who are employees, approximate information on the legal organisation, type of accounts and registration of the enterprise for which they work. For this purpose, one or two questions on the type of enterprise (government agency, public enterprise, factory, bank, insurance company, commercial chain, small workshop, shop or restaurant, etc.) are required. Both approaches have been used in the sequence of questions included in Section 3.2.1 below.

Persons can be classified in the informal sector or informal employment only if they have been identified as employed in the first place. To ensure that all informal sector activities or informal jobs are covered, it is often necessary to make special probes on activities or jobs that might otherwise go unreported as employment. For example, special probes may be required for unpaid work in small family enterprises, activities undertaken by women on their own account at or from home, undeclared activities, casual jobs, and informal activities performed as secondary jobs by farmers, government officials or employees of the private formal sector¹³. In order to capture adequately the work of children in the informal sector or in informal jobs, it may also be necessary to lower the minimum age limit, which the surveys use for measurement of the economically active population. In designing or re-designing the survey sample, care should be taken to include an adequate number of areas where informal workers live.

¹² This is an advantage as compared with stand-alone informal sector surveys, where usually all information on the informal sector enterprise and its work force is obtained from the enterprise owner.

¹³ The underreporting of secondary jobs in labour force surveys is a widespread phenomenon requiring special attention.

There are certain limitations to the use of labour force surveys as a source of data on informal sector employment or informal employment:

Often, labour force surveys only collect information on the characteristics of the respondent's main job. In many countries, however, a large number of informal sector activities or informal jobs are undertaken as secondary jobs. Thus, it is essential that the questions for identification of the informal sector or informal employment be asked not only in respect of the respondents' main jobs, but also in respect of their secondary jobs. Otherwise, the size of the informal sector or informal employment is likely to be underestimated.

Informal sector employment or informal employment is obtained as part of total employment, which is usually measured in relation to a short reference period such as one week. Since many informal sector activities or informal jobs are characterised by seasonal and other variations over time, the data on informal sector employment or informal employment obtained for a short reference period may not be representative for the whole year. Improved representation of the time dimension can be achieved by repeating the measurement several times during the year in the case of quarterly, monthly or continuous surveys, or by using a longer reference period such as one year in the case of annual or less frequent surveys.

Estimation of the number of informal sector enterprises is difficult, if not impossible. This is because the number of informal sector enterprises is not identical with the number of informal sector entrepreneurs, due to the existence of business partnerships.

The possibilities for disaggregating the data by branch of economic activity (industry) and other characteristics depend upon the sample size and design. Sometimes, the number of informal workers included in the survey sample is too small to make any detailed sub-classifications.

3.2 Survey questions

3.2.1 *Employment in the informal sector*

Usually, the following information on persons employed in the informal sector or informal employment is already available from a labour force survey:

Socio-demographic characteristics: sex, age, marital status, relationship to the reference person of the household, level of education, place of usual residence, urban vs. rural area, etc.;

Household/family characteristics: number of household/family members, household/family type, etc.;

Hours of work and earnings;

Branch of economic activity (industry), occupation and status in employment;

Other characteristics of the job: full-time vs. part-time work, job permanency (permanent, temporary, seasonal, occasional, etc. job).

The information obtained from the survey question(s) on branch of economic activity makes it possible to identify persons engaged in agriculture, hunting, forestry and fishing activities (ISIC, Rev. 3 divisions 01, 02 and 05), domestic employees employed by households (ISIC, Rev. 3.1 division 95 – Activities of private households as employers of domestic staff), as well as persons exclusively engaged in the production of goods for own

final use (ISIC, Rev. 3.1 division 96 - Undifferentiated goods-producing activities of private households for own use).

It should also be noted that, if properly designed, questions on the form of registration of the enterprise cover not only the criterion of non-registration, but at the same time also the criteria of kind of ownership, legal organisation and type of accounts, which are used to define private unincorporated enterprises (excluding quasi-corporations)¹⁴. Thus, only few questions need to be added to a labour force survey questionnaire in order to identify *persons employed in the informal sector*. An example based on the type of questions asked in the labour force surveys of many countries is given below.

For all respondents:

Q1: How many persons (including yourself) usually work in your enterprise/the enterprise where you are employed?

(If the enterprise has more than one establishment, the number of persons usually working in the largest establishment should be reported.)

- | | | |
|-----------------|---|----------|
| 1. Less than 10 | | Continue |
| 2. 10 to 19 |) | |
| 3. 20 to 49 |) | Go to Q4 |
| 4. 50 to 99 |) | |
| 5. 100 or more |) | |

(Size classes to be determined according to national circumstances.)

Q2: Please give the exact number: /_/_/

Q3: How many of the persons working in your enterprise/the enterprise where you are employed are ... ?

	Total	Male	Female
1. Owners (incl. business partners)	/_/_/	/_/_/	/_/_/
2. Contributing family workers	/_/_/	/_/_/	/_/_/
3. Paid employees	/_/_/	/_/_/	/_/_/
4. Unpaid employees	/_/_/	/_/_/	/_/_/

(Note: If it is difficult to obtain information on the characteristics of enterprises from employees, an estimate of employment in the informal sector by sex and status in employment can be obtained only on the basis of the answers to Q3 provided by informal own-account workers and employers. Q3 is also needed for application of the harmonised definition of informal sector recommended by the Delhi Group, which specifies the size criterion in terms of less than five paid employees (*Central Statistical Organisation/India 1999*.)

For employers, own-account workers and contributing family workers:

¹⁴ In some countries (e.g. Turkey), the type of tax payment by enterprises depends upon their legal organisation and registration, which also determine the type of accounts to be submitted by the enterprise. In such cases, a question on the type of tax payment may be more easily understood by survey respondents than questions on the registration of the enterprise.

Q4: Has the enterprise already been registered?

- | | | |
|--|---|-----------|
| 1. Yes |) | Continue |
| 2. Is in the process of being registered |) | |
| 3. No |) | Go to Q10 |
| 4. Do not know |) | |
| 5. Do not want to answer |) | |

Q5: Under which form is the enterprise registered?

(Response categories to be determined according to national circumstances.)

Go to Q10

Or instead of Q4 and Q5:

Q6: Which is the type of tax payment by the enterprise?

(Response categories to be determined according to national circumstances, e.g.: corporate tax, real tax declaration, lump sum tax, no tax payment.)

For employees:

Q7: Are you employed by the government, a public or state-owned enterprise, or a non-profit institution, NGO, association, etc.?

- | | | |
|--------|--|-----------|
| 1. Yes | | Go to Q10 |
| 2. No | | Continue |

Q8: Which is the legal organisation/status of the enterprise where you are employed?

- | | | |
|---|---|-----------|
| 1. Joint stock company, corporation |) | |
| 2. Limited liability company/partnership |) | |
| 3. Registered cooperative |) | Go to Q10 |
| 4. Ordinary partnership |) | |
| 5. Individual ownership |) | |
| 6. Private household employing domestic staff |) | |
| 7. Other, specify ... |) | |
| 8. Do not know |) | Continue |

Q9: By which type of enterprise are you employed?

1. Factory or plantation
2. Bank or insurance company
3. Commercial/restaurant/service chain
4. Construction company
5. Private hospital or school

-
6. Engineering firm, architects'/lawyer's/doctor's office, etc.
 7. Farm, small workshop/garage/shop/restaurant/service undertaking
 8. Other, specify ...

Continue

(Note: Code 7 may serve as a proxy for informal sector enterprises.)

For all respondents:

Q10: Where do you mainly undertake your work?

1. At your home (no special work space)
2. Work space inside or attached to your home
3. Factory, office, workshop, shop, kiosk, etc. independent from home
4. Farm or agricultural plot
5. Home or workplace of client
6. Employer's home
7. Construction site
8. Market or bazaar stall
9. Street stall
10. No fixed location (mobile)
11. Other, specify ...

(Note: While 'place of work' is not used as a criterion to define the informal sector or informal employment, a question on it is nevertheless useful to help identify certain sub-groups of informal workers, such as home-based workers and street vendors.)

3.2.2 Informal employment

To obtain data on the number of *persons in informal employment*, it suffices to include some questions for the identification of informal jobs of employees. For all other categories of status in employment, the classification of jobs as informal follows directly from the status in employment of the job and/or the characteristics of the enterprise in which the job is undertaken. Thus, the survey questions, which are suggested below as a possible basis to start from, refer to employees only.

Countries such as Brazil, Georgia, India, Mexico, Turkey and the Ukraine have used the following operational criteria to define informal employment: lack of a work book (*carteira assinada*), lack of coverage by the social security system, lack of entitlement to paid annual or sick leave, lack of a written employment contract, or the casual/temporary nature of the work.

The following example is based on a sequence of questions that was tested during 2003 in the quarterly labour force survey of the Republic of Moldova (*Department for Statistics and Sociology 2003*).

For employees only:

Q11: Are you employed permanently or temporarily?

1. Permanently
2. Temporarily

Q12: Are you employed on the basis of a written contract or agreement?

1. Yes
2. No

Q13: Does your employer pay contributions to the pension fund for you?

1. Yes
2. No
3. Do not know

Q14: Do you benefit from paid annual leave or from compensation instead of it?

1. Yes
2. No
3. Do not know

Q15: In case of incapacity to work due to health reasons, would you benefit from paid sick leave?

1. Yes
2. No
3. Do not know

Q16: In case of birth of a child, would you be given the opportunity to benefit from maternity leave?

1. Yes
2. No
3. Do not know
4. Not applicable

Q17: Unless there is a fault of yours, could you be dismissed by your employer without advance notice?

1. Yes
2. No
3. Do not know

Q18: In case of dismissal, would you receive the benefits and compensation specified in the labour legislation?

1. Yes
2. No
3. Do not know

As a result of the test, the principle ‘no work, no pay’ was used to classify employee jobs as informal. Accordingly, questions Q13, Q14 and Q15 were chosen for defining informal jobs of employees in operational terms. Q17 and Q18, which did not work well, were deleted from the survey questionnaire as from January 2004.

On the basis of the sequence of questions presented in Section 3.2.1 above, *employers, own-account workers and contributing family workers employed in the informal sector* (excluding persons producing goods exclusively for own final use by their household) can be identified through the following combination of response categories:

Q1 = 1 and Q3.3 < 5 and (((Q4 = 2-5 or (Q4 = 1 and Q5 = unincorporated enterprise with invalid form of registration)) or Q6 = e.g. lump sum tax or no tax payment)

Employees employed in the informal sector (excluding paid domestic workers) can be identified through the following combination of response categories:

Q1 = 1 and Q3.3 < 5 and ((Q7 = 2 and (Q8 = 4-5 or (Q8 = 8 and Q9 = 7))

Persons in informal employment would include (i) employers and own-account workers having informal sector enterprises, (ii) all contributing family workers, (iii) producers of goods exclusively for own final use by their household (if considered employed), and (iv) those employees (including paid domestic workers) who respond with “No” to questions Q13 or Q14 or Q15.

It should be emphasised that the questions Q1-Q18 shown above and their response categories are meant to be merely indicative of the kind of information needed to identify employment in the informal sector and informal employment. Their exact wording will have to be determined by each country itself in light of its national circumstances. Some of the questions may not even be relevant to all countries, in which case they should be omitted or be replaced by other, more pertinent questions.

Not only self-respondents, but also proxy-respondents should be able to answer such questions, if properly designed. In the case of proxy-respondents, it will however be more difficult to obtain accurate information for some of the questions.

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Annex I

Resolution concerning statistics of employment in the informal sector, adopted by the 15th International Conference of Labour Statisticians (January 1993)

[Extract]

Concept

5 (1) The informal sector may be broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production and on a small scale. Labour relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.

(2) Production units of the informal sector have the characteristic features of household enterprises. The fixed and other assets used do not belong to the production units as such but to their owners. The units as such cannot engage in transactions or enter into contracts with other units, nor incur liabilities, on their own behalf. The owners have to raise the necessary finance at their own risk and are personally liable, without limit, for any debts or obligations incurred in the production process. Expenditure for production is often indistinguishable from household expenditure. Similarly, capital goods such as buildings or vehicles may be used indistinguishably for business and household purposes.

Operational definitions

Informal sector

6 (1) For statistical purposes, the informal sector is regarded as a group of production units which, according to the definitions and classifications provided in the United Nations System of National Accounts (Rev. 4), form part of the household sector as household enterprises or, equivalently, unincorporated enterprises owned by households as defined in paragraph 7.

(2) Within the household sector, the informal sector comprises (i) "informal own-account enterprises" as defined in paragraph 8; and (ii) the additional component consisting of "enterprises of informal employers" as defined in paragraph 9.

(3) The informal sector is defined irrespective of the kind of workplace where the productive activities are carried out, the extent of fixed capital assets used, the duration of the operation of the enterprise (perennial, seasonal or casual), and its operation as a main or secondary activity of the owner.

Household enterprises

7. According to the United Nations System of National Accounts (Rev. 4), household enterprises (or, equivalently, unincorporated enterprises owned by households) are distinguished from corporations and quasi-corporations on the basis of the legal organization of the units and the type of accounts kept for them. Household enterprises are units engaged in the production of goods or services which are not constituted as separate legal entities independently of the households or household members that own them, and for which no complete sets of accounts (including balance sheets of assets and liabilities) are available which would permit a clear distinction of the production

activities of the enterprises from the other activities of their owners and the identification of any flows of income and capital between the enterprises and the owners. Household enterprises include unincorporated enterprises owned and operated by individual household members or by two or more members of the same household as well as unincorporated partnerships formed by members of different households.

Informal own-account enterprises

8 (1) Informal own-account enterprises are household enterprises (in the sense of paragraph 7) owned and operated by own-account workers, either alone or in partnership with members of the same or other households, which may employ contributing family workers and employees on an occasional basis, but do not employ employees on a continuous basis and which have the characteristics described in subparagraphs 5 (1) and (2).

(2) For operational purposes, informal own-account enterprises may comprise, depending on national circumstances, either all own-account enterprises or only those which are not registered under specific forms of national legislation.

(3) Registration may refer to registration under factories or commercial acts, tax or social security laws, professional groups' regulatory acts, or similar acts, laws, or regulations established by national legislative bodies.

Enterprises of informal employers

9 (1) Enterprises of informal employers are household enterprises (in the sense of paragraph 7) owned and operated by employers, either alone or in partnership with members of the same or other households, which employ one or more employees on a continuous basis and which have the characteristics described in subparagraphs 5 (1) and (2).

(2) For operational purposes, enterprises of informal employers may be defined, depending on national circumstances, in terms of one or more of the following criteria:

(i) size of the unit below a specified level of employment;

(ii) non-registration of the enterprise or its employees.

(3) While the size criterion should preferably refer to the number of employees employed on a continuous basis, in practice, it may also be specified in terms of the total number of employees or the number of persons engaged during the reference period.

(4) The upper size limit in the definition of enterprises of informal employers may vary between countries and branches of economic activity. It may be determined on the basis of minimum size requirements as embodied in relevant national legislations, where they exist, or in terms of empirically determined norms. The choice of the upper size limit should take account of the coverage of statistical inquiries of larger units in the corresponding branches of economic activity, where they exist, in order to avoid an overlap.

(5) In the case of enterprises, which carry out their activities in more than one establishment, the size criterion should, in principle, refer to each of the establishments separately rather than to the enterprise as a whole. Accordingly, an enterprise should be considered to satisfy the size criterion if none of its establishments exceeds the specified upper size limit.

(6) Registration of the enterprise may refer to registration under specific forms of national legislation as specified in subparagraph 8 (3). Employees may be considered registered if they are employed on the basis of an employment or apprenticeship contract which commits the employer to pay relevant taxes and social security contributions on behalf of the employee or which makes the employment relationship subject to standard labour legislation.

10. For particular analytical purposes, more specific definitions of the informal sector may be developed at the national level by introducing further criteria on the basis of the data collected. Such definitions may vary according to the needs of different users of the statistics.

Population employed in the informal sector

11 (1) The population employed in the informal sector comprises all persons who, during a given reference period, were employed (in the sense of paragraph 9 of resolution I adopted by the Thirteenth International Conference of Labour Statisticians) in at least one informal sector unit as defined in paragraphs 8 and 9, irrespective of their status in employment and whether it is their main or a secondary job.

Treatment of particular cases

14. Household enterprises, which are exclusively engaged in non-market production, i.e. the production of goods or services for own final consumption or own fixed capital formation as defined by the United Nations System of National Accounts (Rev. 4), should be excluded from the scope of the informal sector for the purpose of statistics of employment in the informal sector. Depending on national circumstances, an exception may be made in respect of households employing domestic workers as referred to in paragraph 19.

16. For practical reasons, the scope of the informal sector may be limited to household enterprises engaged in non-agricultural activities. With account being taken of paragraph 14, all non-agricultural activities should be included in the scope of the informal sector, irrespective of whether the household enterprises carry them out as main or secondary activities. In particular, the informal sector should include secondary non-agricultural activities of household enterprises in the agricultural sector if they fulfil the requirements of paragraphs 8 or 9.

17. Units engaged in professional or technical activities carried out by self-employed persons, such as doctors, lawyers, accountants, architects or engineers, should be included in the informal sector if they fulfil the requirements of paragraphs 8 or 9.

18 (1) Outworkers are persons who agree to work for a particular enterprise, or to supply a certain quantity of goods or services to a particular enterprise, by prior arrangement or contract with that enterprise, but whose place of work is not within any of the establishments, which make up that enterprise.

(2) In order to facilitate data collection, all outworkers should be potentially included in the scope of informal sector surveys, irrespective of whether they constitute production units on their own (self-employed outworkers) or form part of the enterprise, which employs them (employee outworkers). On the basis of the information collected, self-employed and employee outworkers should be distinguished from each other by using the criteria recommended in the United Nations System of National Accounts (Rev. 4). Outworkers should be included in the informal sector, or in the population employed in the informal sector, if the production units, which they constitute as self-employed persons or for which they work as employees fulfil the requirements of paragraphs 8 or 9.

19. Domestic workers are persons exclusively engaged by households to render domestic services for payment in cash or in kind. Domestic workers should be included in or excluded from the informal sector depending upon national circumstances and the intended uses of the statistics. In either case, domestic workers should be identified as a separate sub-category in order to enhance international comparability of the statistics.

Annex II

Guidelines concerning a statistical definition of informal employment, endorsed by the Seventeenth International Conference of Labour Statisticians (November-December 2003)

The Seventeenth International Conference of Labour Statisticians (ICLS),

Acknowledging that the relevance of informal employment varies among countries, and that a decision to develop statistics on it is therefore determined by national circumstances and priorities,

Noting that the term 'informal economy' is used by the ILO as including the informal sector as well as informal employment, and that as a supplement to the System of National Accounts 1993 an international conceptual framework for measurement of the non-observed economy already exists, which distinguishes the informal sector from underground production, illegal production, and household production for own final use,

Recalling the existing international standards on statistics of employment in the informal sector contained in the Resolution concerning statistics of employment in the informal sector adopted by the Fifteenth ICLS (January 1993),

Noting the recommendation made by the Expert Group on Informal Sector Statistics (Delhi Group), during its Fifth Meeting, that the definition and measurement of employment in the informal sector need to be complemented with a definition and measurement of informal employment,

Emphasizing the importance of consistency and coherence in relating the enterprise-based concept of employment in the informal sector to a broader, job-based concept of informal employment,

Considering the methodological work, which the International Labour Office and a number of countries have already undertaken in this area,

Supporting the request, which was made by the International Labour Conference in paragraph 37(n) of the Resolution concerning decent work and the informal economy adopted during its 90th Session (2002), that the International Labour Office should assist countries in the collection, analysis and dissemination of statistics on the informal economy,

Recognizing that the considerable diversity of informal employment situations poses limits to the extent to which statistics on informal employment can be harmonized across countries,

Realizing the usefulness of international guidelines in assisting countries in the development of national definitions of informal employment, and in enhancing the international comparability of the resulting statistics to the extent possible,

Endorses the following guidelines, which complement the Resolution concerning statistics of employment in the informal sector of the Fifteenth ICLS, and encourages countries to test the conceptual framework on which they are based.

1. The concept of informal sector refers to production units as observation units, while the concept of informal employment refers to jobs as observation units. Employment is defined in the sense of paragraph 9 of the Resolution concerning statistics of the economically active population, employment, unemployment and underemployment adopted by the Thirteenth ICLS.

2. *Informal sector enterprises and employment in the informal sector* are defined according to the Resolution concerning statistics of employment in the informal sector adopted by the Fifteenth ICLS. For the purpose of statistics on informal employment, paragraph 19 of the Resolution concerning statistics of employment in the informal sector adopted by the Fifteenth ICLS should be applied to exclude households employing paid domestic workers from informal sector enterprises, and to treat them separately as part of a category named 'households'.

3. (1) *Informal employment* comprises the total number of informal jobs as defined in subparagraphs (2) to (5) below, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period.

As shown in the attached matrix, informal employment includes the following types of jobs:

- (i) own-account workers employed in their own informal sector enterprises (cell 3);
- (ii) employers employed in their own informal sector enterprises (cell 4);
- (iii) contributing family workers, irrespective of whether they work in formal or informal sector enterprises (cells 1 and 5);
- (iv) members of informal producers' cooperatives (cell 8);
- (v) employees holding informal jobs (as defined in subparagraph (5) below) in formal sector enterprises, informal sector enterprises, or as paid domestic workers employed by households (cells 2, 6 and 10);
- (vi) own-account workers engaged in the production of goods exclusively for own final use by their household (cell 9), if considered employed according to paragraph 9 (6) of the Resolution concerning statistics of the economically active population, employment, unemployment and underemployment adopted by the Thirteenth ICLS.

(3) Own-account workers, employers, members of producers' cooperatives, contributing family workers, and employees are defined in accordance with the latest version of the International Classification of Status in Employment (ICSE).

(4) Producers' cooperatives are considered informal, if they are not formally established as legal entities and also meet the other criteria of informal sector enterprises specified in the Resolution concerning statistics of employment in the informal sector adopted by the Fifteenth ICLS.

(5) Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.). The reasons may be the following: non-declaration of the jobs or the employees; casual jobs or jobs of a limited short duration; jobs with hours of work or wages below a specified threshold (e.g. for social security contributions); employment by unincorporated enterprises or by persons in households; jobs where the employee's place of work is outside the premises of the employer's enterprise (e.g. outworkers without employment contract); or jobs, for which labour regulations are not applied, not enforced, or not complied with for any other reason. The operational criteria for defining informal jobs of employees are to be determined in accordance with national circumstances and data availability.

(6) For purposes of analysis and policy-making, it may be useful to disaggregate the different types of informal jobs listed in paragraph 3 (2) above, especially those held by employees. Such a typology and definitions should be developed as part of further work on classifications by status in employment at the international and national levels.

4. Where they exist, employees holding formal jobs in informal sector enterprises (cell 7 of the attached matrix) should be excluded from informal employment.

5. *Informal employment outside the informal sector* comprises the following types of jobs:

(i) employees holding informal jobs (as defined in paragraph 3 (5) above) in formal sector enterprises (cell 2) or as paid domestic workers employed by households (cell 10);

(ii) contributing family workers working in formal sector enterprises (cell 1);

(iii) own-account workers engaged in the production of goods exclusively for own final use by their household (cell 9), if considered employed according to paragraph 9 (6) of the Resolution concerning statistics of the economically active population, employment, unemployment and underemployment adopted by the Thirteenth ICLS.

6. Countries, which do not have statistics on employment in the informal sector, or for which a classification of employment by type of production unit is not relevant, may develop statistics on informal employment, if desired, in specifying appropriate definitions of informal jobs of own-account workers, employers and members of producers' cooperatives. Alternatively, they may limit the measurement of informal employment to employee jobs.

7. Countries, which exclude agricultural activities from the scope of their informal sector statistics, should develop suitable definitions of informal jobs in agriculture, especially with respect to jobs held by own-account workers, employers and members of producers' cooperatives.

Conceptual Framework: Informal Employment

Production units by type	Jobs by status in employment									
	Own-account workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives		
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal	
Formal sector enterprises					1	2				
Informal sector enterprises ^(a)	3		4		5	6	7	8		
Households ^(b)	9					10				

(a) As defined by the Fifteenth International Conference of Labour Statisticians (excluding households employing paid domestic workers).

(b) Households producing goods exclusively for their own final use and households employing paid domestic workers.

Note: Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit in question. Cells shaded in light grey refer to formal jobs. Un-shaded cells represent the various types of informal jobs.

Informal employment: Cells 1 to 6 and 8 to 10.

Employment in the informal sector: Cells 3 to 8.

Informal employment outside the informal sector: Cells 1, 2, 9 and 10.

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The informal economy plays an important role for employment creation, income generation and poverty reduction in many countries, especially developing and transition countries. Statistics on the informal economy are needed as an evidence-based tool for research and policy-making. They enhance the visibility of the many workers in the informal economy and of their economic contribution.Â

â€Employment in the informal sectorâ€TM and â€informal employmentâ€TM are concepts, which refer to different aspects of the â€informalisationâ€TM of employment and to different targets for policy-making. One of the two concepts cannot replace the other. They are both useful for analytical purposes and, hence, complement each other.