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### **Informal employment – A conceptual framework developed by the ILO**

Invited paper submitted by the International Labour Office<sup>1</sup>

#### **I. Introduction**

1. In January 1993, the *Fifteenth International Conference of Labour Statisticians (15<sup>th</sup> ICLS)* adopted an international statistical definition of the informal sector that 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 for purposes 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).

2. From the beginning, it had been clear that an enterprise-based definition of the informal sector would not be able to capture all dimensions of a trend towards an increasing informalization of employment. In parallel to the growth of the informal sector in many countries, a rise in various forms of non-standard, atypical, alternative, irregular, precarious, etc. forms of employment can be observed. In order to identify persons in such employment situations, it was suggested to classify workers in the formal and informal sectors by their status in employment (*ILO 1992*). This should be done on the basis of the International Classification of Status in Employment (ICSE-93), at a level of detail sufficient to identify the relevant forms of employment. For the time being there is no internationally agreed set of sub-categories of status in employment referring to informal employment, as this aspect has not yet been defined and adequately addressed in statistics at the national level (*Husmanns 2001*).

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3. The purpose of this part of the paper is to present elements of a conceptual framework that makes it possible to complement statistical measures of employment in the informal sector with statistical measures of informal employment. Both types of measures are useful for analytical and policy-making purposes, as they refer to different aspects of informalization. One of the two concepts cannot replace the other. However, the two concepts need to be defined in such a way that one can be clearly distinguished from the other. Statistics' users often tend to confuse the two concepts because they are unaware of the different observation units involved (enterprises vs. jobs).

4. The framework presented below was developed by an interdepartmental Informal Sector Task Force (ISTF) of the ILO, which was established for the preparation of a report on *Decent work and the informal economy*, which the Director-General of the ILO has submitted to the 90<sup>th</sup> Session of the International Labour Conference (June 2002) for general discussion (*ILO, 2002*).

## II. Conceptual framework

5. In order to provide a visual reference, a two-dimensional matrix (attached as annex) has been developed, that illustrates how two major dimensions of informality (enterprises or production relationships, and jobs or employment relationships) interact. The matrix thus provides a framework that relates the concept of employment in the informal sector with the broader concept of informal employment.

6. Due to the existence of multiple job holding, jobs rather than employed persons are taken as the observation units for employment.<sup>2</sup> 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 the matrix provides a framework which makes it possible to disaggregate total employment according to two different dimensions: type of production unit (matrix rows) and type of job (matrix columns). Type of production unit is defined in terms of legal organization and other enterprise-related characteristics, while type of job is defined in terms of status in employment and other job-related characteristics.

7. Matrix cells shaded in dark grey refer to jobs that by definition do not exist in the type of production unit in question.<sup>3</sup> Matrix cells shaded in light grey refer to jobs which are found in the type of production unit in question, but which are not relevant in the present context.<sup>4</sup> The remaining un-shaded cells refer to types of jobs that represent different segments of informal employment. Each of these cells can and should be further disaggregated to identify specific types of jobs or production units for analysis and policy-making.

8. In the rows of the matrix, production units are grouped by type, and a distinction between formal sector enterprises, informal sector enterprises and households is made. In national accounting, a sector groups together similar kinds of production units, which in terms of their economic objectives, functions and behaviour 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. 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

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2 Note that a person can simultaneously have two or more formal and/or informal jobs.

3 For example, there cannot be contributing family workers in household non-market production units.

4 Examples are own-account workers and employers owning formal sector enterprises, employees with formal jobs in formal sector enterprises or members of formally established producers' cooperatives.

may be undertaken inside or outside the enterprise owner's home, and they may be carried out in identifiable premises or without fixed location. Accordingly, self-employed street vendors, taxi drivers, home-based workers, etc. are all considered enterprises.

9. *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.

10. The 15<sup>th</sup> ICLS (*ILO 2000*) defined *informal sector enterprises* on the basis of the following characteristics:

- They are private unincorporated enterprises (excluding quasi-corporations), 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 producing 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 circumstances, 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 governing trade licenses or business permits), and/or their employees are not registered .

11. *Households* as production units include households producing goods 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.).<sup>5</sup> Households producing *unpaid* domestic or personal services (e.g., housework, caring for family members) for their own final consumption are excluded as such activities fall presently outside the SNA production boundary and are not considered employment.

12. In the columns of the matrix, 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.

### **III. Defining informal employment**

13. For the time being, there are no internationally agreed guidelines for the definition of informal jobs. The basis used here for distinguishing informal jobs is that they are outside the framework of regulations either because (a) the enterprises, in which the jobs are located, are too small and/or not registered, or (b) labour legislation does not specifically cover or has not been tested in application relating to atypical jobs (such as

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<sup>5</sup> The 15th ICLS definition of the informal sector excludes households producing goods for their own final use, but provides an option to include households employing paid domestic workers. The framework presented in this paper excludes households employing paid domestic workers from the informal sector.

casual, part-time, temporary or home-based jobs) or to subcontracting arrangements in production chains (such as industrial outwork), so that the jobs (and, therefore, their incumbents) are unprotected by labour legislation. In order for most labour law to be implemented, it is necessary to recognize the existence of an employment relationship between employer and employee. Informal jobs, however, include forms of employment for which there is no clear employer-employee relationship.

14. In order to identify informal jobs, the following approach is suggested:

Cells 1 and 5: Contributing family workers, irrespective of whether they work in formal sector enterprises (cell 1) or informal sector enterprises (cell 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 their employment is not subject to labour legislation, social security regulations, collective agreements, etc.<sup>6</sup>

Cells 2, 6 and 10: Employees who have informal jobs, whether employed by formal sector enterprises (cell 2), informal sector enterprises (cell 6) or as paid domestic workers by households (cell 10). Employees are considered to have informal jobs if their employment relationship is not subject to standard labour legislation, 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 (e.g., clandestine workers, illegal immigrant workers); casual jobs or jobs of a limited short duration; jobs with hours of work or wages below a specified threshold; employment by unregistered enterprises or by persons in households; or jobs where the employee's place of work is outside the premises of the employer's or customer's enterprise.<sup>7</sup>

Cells 3 and 4: Own-account workers (cell 3) and employers (cell 4) who have their own informal sector enterprises. 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.

Cell 8: Members of informal producers' cooperatives. The informal nature of their jobs follows directly from the characteristics of the cooperative of which they are member.<sup>8</sup>

Cell 9: Own-account workers producing goods exclusively for own final use by their household. While excluded from the 15<sup>th</sup> ICLS definition of the informal sector, such persons are of particular relevance to the rural employment situation in many countries.

15. The grey shaded Cell 7 of the matrix refers to the special situation of employees working in informal sector enterprises but having formal jobs. Such cases 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

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6 Note that family workers with a contract of employment and/or wage would be considered employees.

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. Labour force surveys appear to be the most appropriate survey instrument for applying the definition. In order to do so, some countries (e.g., Mexico, India) have used the following operational criteria: lack of coverage by the social security system, or lack of entitlement to paid annual or sick leave.

8 Producers' co-operatives, which are formally established as legal entities, are incorporated enterprises and, hence, part of the formal sector. Members of such formally established producers' co-operatives are considered to have formal jobs. Producers' co-operatives, 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 meet all the criteria of the definition.

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 would 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 15<sup>th</sup> ICLS resolution, which includes the non-registration of the employees of the enterprise among the criteria for defining the informal sector (ILO 2000).

16. *Employment in the informal sector* encompasses the sum of Cells 3 to 8. It includes 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 employment* encompasses the sum of Cells 1 to 6 and 8 to 10. It refers to the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, or to the total number of persons engaged in informal jobs during a given reference period. It comprises: the activities of own-account workers and employers in informal sector enterprises; the activities of all contributing family workers (whether working in formal or informal sector enterprises); the employment of all employees in informal jobs in formal sector enterprises, informal sector enterprises, or households; members of informal producers' cooperatives; and the activities of persons engaged in the own-account production of goods for own final use by their household. The sum of Cells 1, 2, 9 and 10 may be called *informal employment outside the informal sector*.

17. It is widely recognized that certain types of workers 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 (homeworkers). The framework presented in this paper 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.

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## 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 <sup>(a)</sup>	3		4		5	6	7	8	
Households <sup>(b)</sup>	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 domestic workers.

Dark grey cells refer to jobs that by definition do not exist in the type of production units in question.

**Light grey cells refer to jobs which exist in the type of production units in question but which are not relevant to informal employment.**

The un-shaded cells refer to types of jobs that represent the different segments of informal employment.

**Cells 1 and 5:** Contributing family workers: no contract of employment and no legal or social protection arising from the job, in formal sector enterprises (cell 1) or informal sector enterprises (cell 5). The informal nature of their jobs follows directly from the status in employment.

**Cells 2, 6 and 10:** Employees who have informal jobs, whether employed by formal sector enterprises (cell 2), informal sector enterprises (cell 6) or as paid domestic workers by households (cell 10).

**Cells 3 and 4:** Own-account workers (cell 3) and employers (cell 4) who have their own informal sector enterprises. The informal nature of their jobs follows directly from the characteristics of the enterprise they own.

**Cell 7:** Employees working in informal sector enterprises but having formal jobs.

**Cell 8:** Members of informal producers' cooperatives. The informal nature of their jobs follows directly from the characteristics of the producers' cooperative of which they are member.

**Cell 9:** Producers of goods exclusively for own final use by their household (e.g. subsistence farming).

**Employment in the informal sector:** Cells 3 to 8.

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

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