

A Conceptual Framework for the Informal Economy

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Outline

1. Framework of the Informal Economy
 - Formal sector
 - Informal sector
 - Household own-use production
2. Dependent contractors
3. Treatment of illegal activities
4. Digitalization
5. Informal Cross Border Flows
6. Illicit Financial Flows
7. Non-observed economy



Policy needs

- Interest in the informal economy continues to attract considerable attention.
- New informal types of economic activities are emerging, creating new types of jobs that could be characterized as being less formal or even informal in nature
- The quantification of the informal economy needed for designing, implementing, monitoring and analyzing macro-economic and social policies and to assess impact.
- The framework for the informal economy aims to ensure consistent measures of informal production and informal labour inputs.
- Inform policy decisions to formalize economic units and to decrease the vulnerability of informal workers.
- **Closely linked to the ILO work on the revision of the standards of statistics on informality.**

Framework for the Informal Economy

Goal:

Complete presentation of the informal economy (focusing on the perspective of the economic unit)

Not focusing on exhaustiveness.

Informal productive activities are:

All productive activities carried out by persons and economic units that are – in law or in practice – not covered by formal arrangements.

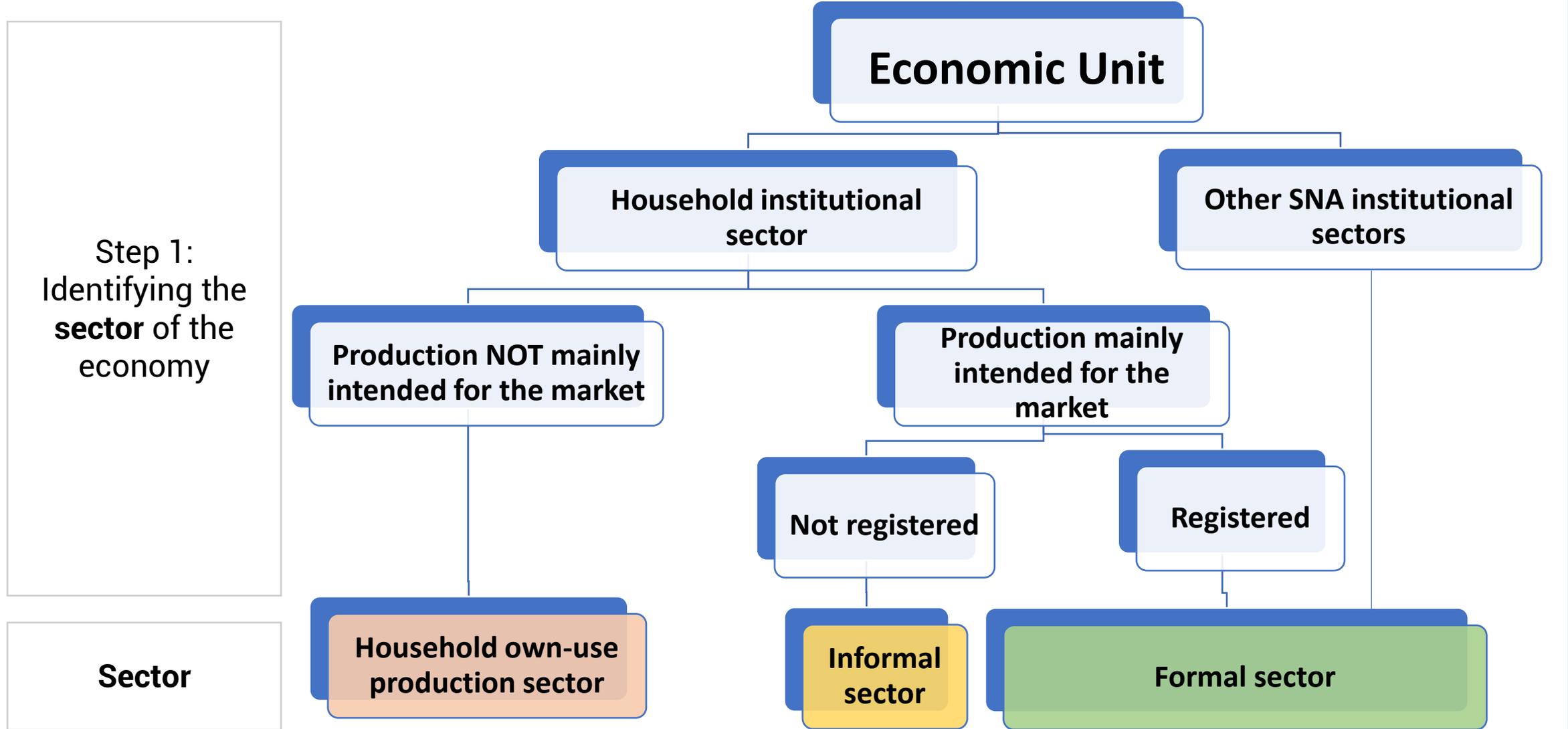
The **informal economy** is defined as constituting all informal productive activities.

Informal productive activities – The Informal Economy

Sector		Formal sector	Informal sector	Household own-use production sector		
Informal productive activities		Production in the formal sector is never informal All informal labour inputs of workers engaged by: formal household unincorporated market enterprises, formal NPISHs, corporations, and general government	All production of informal household unincorporated market enterprises & All labour inputs used to undertake this production	Household production engaging informal domestic employees & All labour inputs used to undertake this production	Unregistered household own-use production including informal or temporary NPISHs and direct volunteers & All labour inputs used to undertake this production	
Type of informal labour inputs	For pay or profit	Informal employment	Informal employment	Informal employment		
		Informal labour inputs of workers in formal employment				
	Not for pay or profit	Informal unpaid trainee work	Informal unpaid trainee work		Informal volunteer work	
		Informal volunteer work	Informal volunteer work		Own-use production work	
Relation to SNA production boundary:		Goods and Services			Goods	Services
		SNA production boundary				
		General production boundary				



Decision tree to identify informal productive activities





In formal Sector

All production by **informal unincorporated household enterprises:**

- Production mainly intended for the market.
- Not registered for tax or similar.
- No formal employees.

All production and labour inputs in the informal sector are part of the informal economy.

Type of SNA institutional unit	Unincorporated household market enterprises
Main type of production	Market production
Operational definition as part of identifying the formal status	Not registered and does not engage formal employees
Within SNA production boundary	Yes
Sector of the economy	Informal sector
Productive activities are part of informal economy	Yes, both production and labour inputs



Formal Sector

All **formally recognized** economic units:

- Financial Corporations
- Non-Financial corporations
- General government
- NPISHs
- Formal household unincorporated enterprises

Informal productive activities in the formal sector:

- All informal labour inputs

SNA institutional sectors					
	a) Non-financial corporations and b) Financial corporations		c) General government	d) NPISHs	e) Households
Type of SNA institutional unit	Corporations	Quasi-corporations	Government units	NPISH	Unincorporated household market enterprises
Main type of production	Market production	Market production	Non-market production	Non-market production	Market production
Operational definition as part of identifying the formal status	Incorporated enterprise	Have a complete set of account for tax purposes; registered for tax or similar	Always formally recognized	Registration	Registered or engages formal employees.
Within SNA production boundary	Yes	Yes	Yes	Yes	Yes
Sector of the economy	Formal Sector 1	Formal Sector 2	Formal Sector 3	Formal Sector 4	Formal Sector 5
Productive activities are part of informal economy	Only informal labour inputs				

Household own-use production

Households producing **goods and services** mainly intended for own use.

Including:

- Informal or temporary NPISHs.
- Direct volunteer work.

Excluded from informal economy:

- HH engaging formal paid domestic staff.
- Housing services of owner-occupiers.
- Some production by household members for own-use being formal through registration.

Note: Beyond SNA production boundary

Type of SNA institutional unit	Household			
Main type of production	Own-use production			
	Housing services of owner-occupiers	Production of households for own use with employees	Production of Households for own use without employees. Including informal and temporary NPISHs and direct volunteers.	
Operational definition as part of identifying the formal status	Never informal	Production is informal if employees are informal employees	Direct volunteers and informal and temporary NPISHs are always informal; other HH production for own use without employees is informal unless production is registered.	
Within SNA production boundary	Yes	Yes	Goods Yes	Services No
Sector of the economy	Household own-use production sector			
Productive activities are part of informal economy	No	Yes, both production and labour inputs if employees are informal.	Yes, both production and labour inputs unless production is registered	

Formal sector, informal sector and household production for own use and relation to the SNA institutional sectors

	SNA institutional sectors									
	a) Non-financial corporations and b) Financial corporations		c) General government	d) NPISHs	e) Households					
Type of SNA institutional unit	Corporations	Quasi-corporations	Government units	NPISH	Households (excluding institutional HH and HH as consumers)					
					Unincorporated household market enterprises					
Main type of production	Market production	Market production	Non-market production	Non-market production	Market production	Market production	Own-use production			
							Housing services of owner-occupiers	Production of households for own use with employees	Production of Households for own use without employees. Including informal and temporary NPISHs and direct volunteers.	
Operational definition as part of identifying the formal status	Incorporated enterprise	Have a complete set of account for tax purposes; registered for tax or similar	Always formally recognized	Registration	Registered or engages formal employees.	Not registered and does not engage formal employees.	Never informal	Production is informal if employees are informal employees	Direct volunteers and informal and temporary NPISHs are always informal; other HH production for own use without employees is informal unless production is registered.	
Within SNA production boundary	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Goods Yes	Services No
Sector of the economy	Formal Sector 1	Formal Sector 2	Formal Sector 3	Formal Sector 4	Formal Sector 5	Informal Sector	Household own-use production sector			
Productive activities are part of informal economy	Only informal labour inputs					Yes, both production and labour inputs	No	Yes, both production and labour inputs if employees are informal.	Yes, both production and labour inputs unless production is registered	

Treatment of illegal activities

There are two kinds of illegal production (2008 SNA para. 6.43):

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

Type **a)** illegal activities are by convention **excluded** from the informal economy

Type **b)** illegal activities are **always part** of the informal economy.

Treatment of dependent contractors

Dependent contractors:

- have contractual arrangements of a commercial nature (but not a contract of employment) to provide goods or services for or through another economic unit;
- are paid by commercial transactions, thus are in employment for profit;
- do not have an incorporated enterprise;
- are usually responsible for arranging their own social insurance and income tax;
- do not employ one or more persons as an employee; and
- are operationally and/or economically dependent on another entity that exercises control over their productive activities and directly benefits from the work performed by them.

Treatment discussed at ILO working group. Preferred by Task Team:

- All dependent contractors are **owner-operators of household unincorporated enterprises**.
- This economic unit is part of the informal sector if it is not registered for tax or similar and in the formal sector otherwise.

Digitalization

Digitalization facilitates production in various ways. Among them are:

Dependent contractors dependent on large formal enterprise that provide a digital intermediation service. These enterprises can facilitate formality for the dependent contractor.

Household participation in **production activities** for example through digital marketplaces. Their classification in the domains of the economy are dependent on:

- Whether the sale of the goods and services constitutes production;
- Other criteria for categorization established above.

In formal Cross Border Flows

Extension of the framework to account for the relationship between domestic production in the informal economy and external transactions by considering **informal cross-border transactions**, for example:

- Informal cross border transactions in goods (exports and imports): This includes shuttle trade and smuggling of legitimate goods by informal units .
- Informal services: primarily tourism services such as room rental, informal restaurants and bars by **households** to **non-residents**.
- Remittances transmitted through informal channels.

Illegal cross-border flows, that can be considered informal, should be treated like domestic illegal activities outlined above.

Illicit Financial Flows (IFFs)

IFFs should be distinguished from cross-border informal economy flows

IFFs are financial flows that are illicit in origin, transfer or use, that reflect an exchange of value and that cross-country borders (UNODC and UNCTAD, 2020)

Based on the treatment of illegal activities, IFFs are **excluded** from the informal economy.

Non-observed economy

- Main aim of **the non-observed economy framework** is exhaustive measures that include production in the informal sector, illegal production, underground production, household production for own final use within the SNA production boundary, and other production that is not covered due to deficiencies in the data collection programmes.
- The **informal economy framework** aims to ensure consistent measures of informal production and informal labour inputs to inform policy decisions to formalize economic units and to decrease the vulnerability of informal workers.

Thank you!

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