

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

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 and data are needed for designing, implementing, monitoring and analyzing macro-economic and social policies and to assess their 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.
- Not a tool to achieve exhaustive measures of production.

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.

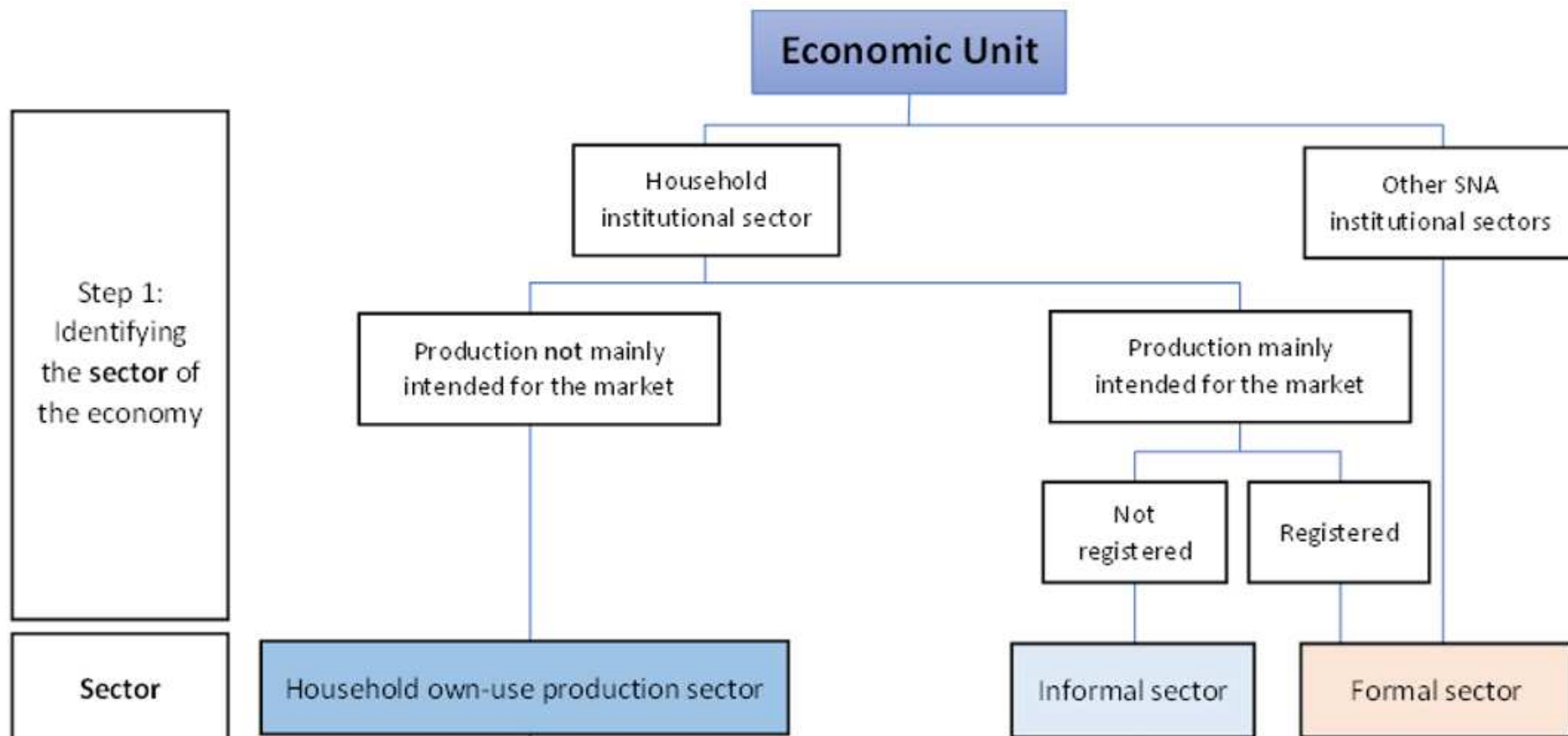
The **informal economy** is defined as constituting all informal productive activities.



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	
Relation to SNA production boundary:	Goods and Services			Goods	Services
	SNA production boundary				
	General production boundary				

Decision tree to identify informal productive activities



Informal Sector

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

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

All production in the informal sector is 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 productive activities of informal workers engaged by formal economic units

	SNA institutional sectors				
	a) Non-financial corporations and b) <u>Financial</u> 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.

Type of SNA institutional unit	Households			
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	

Note: Beyond SNA production boundary

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 and do not have an incorporated enterprise, thus are in employment for profit;
- 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.

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

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

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.

Informal 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:

- Shuttle trade and smuggling by informal units
- Informal tourism services for non-residents by households.
- Remittances transmitted through informal channels.

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

Thank you!