

# **A Conceptual Framework for the Informal Economy**

**17<sup>th</sup> Meeting of the Advisory Expert  
Group on National Accounts**

**15 November 2021**

## 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

## 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.

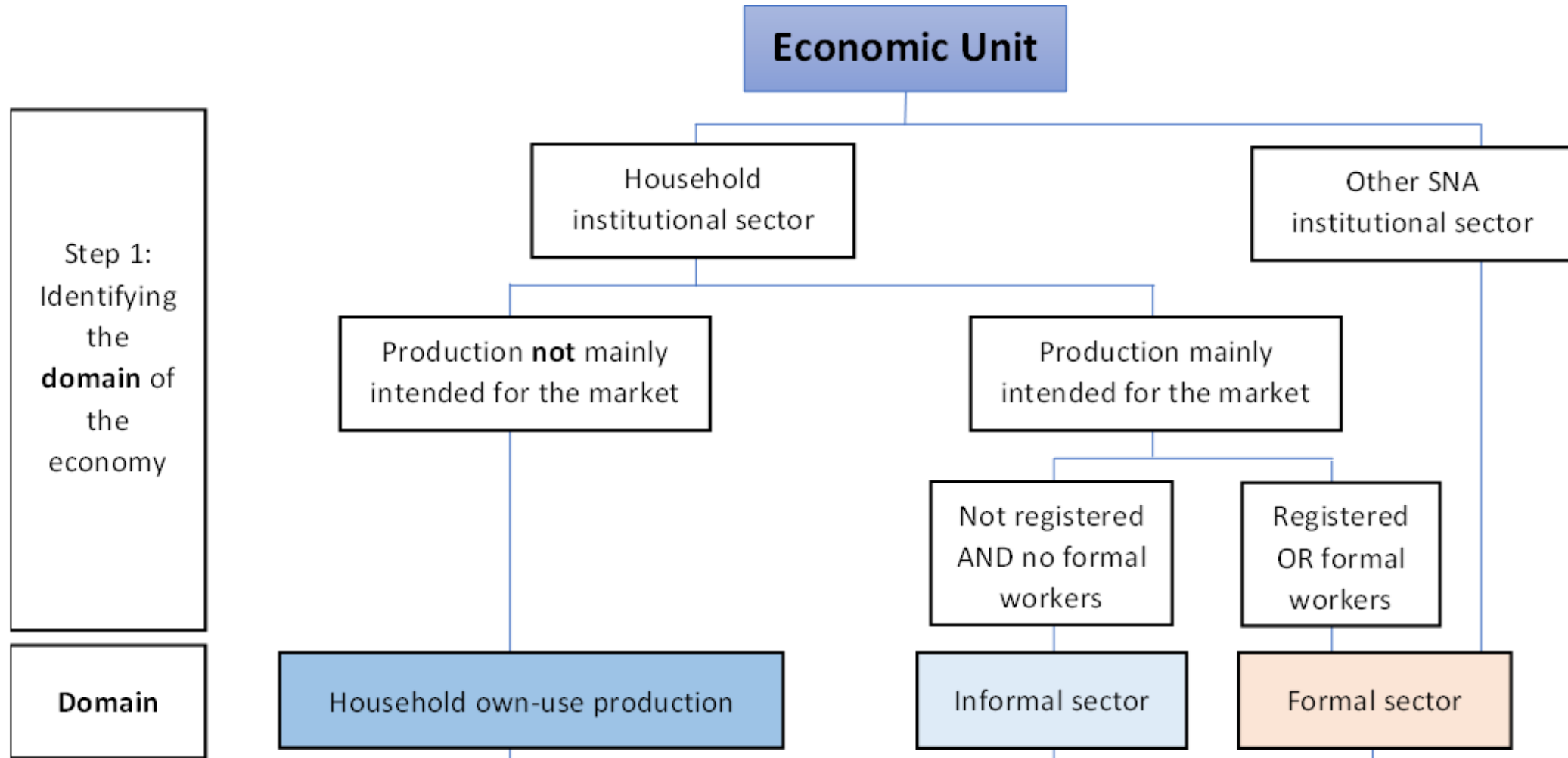
The **informal economy** is defined as constituting all informal productive activities.

SNA institutional units can be classified in **three domains of the economy**.

		<b>Production mainly intended for the market with the purpose of receiving a profit</b>	
		Yes	No
<b>Formally recognized economic unit</b>	Yes	Formal sector	Formal sector
	No	Informal sector	Household own-use production



# Domains of the Economy





# 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.

	<b>SNA institutional sectors</b>
	e) Households
Type of SNA institutional unit	Households
Main type of production	Market production
Operational definition as part of identifying the formal status	Unincorporated enterprise: <ul style="list-style-type: none"> <li>• not registered.</li> <li>• does not engage formal employees.</li> </ul>
Within SNA production boundary	Yes
Domain of the economy	Informal Sector
Productive activities are part of informal economy	Yes



# 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.

Informal productive activities within the domains of the economy	
	<b>Informal sector</b>
	All production of: informal household unincorporated enterprises
Labour input:	Informal employment
	Informal unpaid trainee work
	Informal volunteer work
Relation to SNA production boundary:	Goods and Services
	SNA production boundary
	SNA general production boundary
	Informal Economy



# Formal Sector

All **formally recognized** economic units:

- Corporations
- 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
- Production of informal establishments (of formal sector enterprises).

	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
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	Unincorporated enterprise: registered or engages formal employees.
Within SNA production boundary	Yes	Yes	Yes	Yes	Yes
Domain 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	Partly*	Partly*	Partly*	Partly*	Partly*





# Formal Sector

All **formally recognized** economic units:

- Corporations
- 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
- Production of informal establishments (of formal sector enterprises).

Informal productive activities within the domains of the economy	
	<p><b>Informal productive activities in the formal sector</b></p> <p>All productive activities of informal workers engaged by:</p> <p>formal household unincorporated enterprises, formal NPISHs, financial corporations, non-financial corporations, and general government</p> <p>Plus:</p> <p>production of informal establishments of formal sector enterprises</p>
Labour input:	Informal employment
	Informal unpaid trainee work
	Informal volunteer work
Relation to SNA production boundary:	Goods and Services
	SNA production boundary
	SNA general production boundary
	Informal Economy



# 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

	<b>SNA institutional sector</b>			
	e) Households			
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	Always formal	Production is informal if all employees are informal employees	Always informal	
Within SNA production boundary	Yes	Yes	Goods Yes	Services No
Domain of the economy	Household own-use production			
Productive activities are part of informal economy	No	Yes, if employees are informal. No otherwise.	Yes	



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Note: Beyond SNA production boundary

<b>Informal productive activities within the domains of the economy</b>			
	<b>Informal household own-use production</b>		
	Household production engaging informal employees	Informal production of: households producing for own use, informal or temporary NPISHs, direct volunteers	
Labour input:	Informal employment		
		Informal volunteer work	
		Own-use production work	
Relation to SNA production boundary:	Goods and Services	Goods	Services
	SNA production boundary		
	SNA general production boundary		
	Informal economy		



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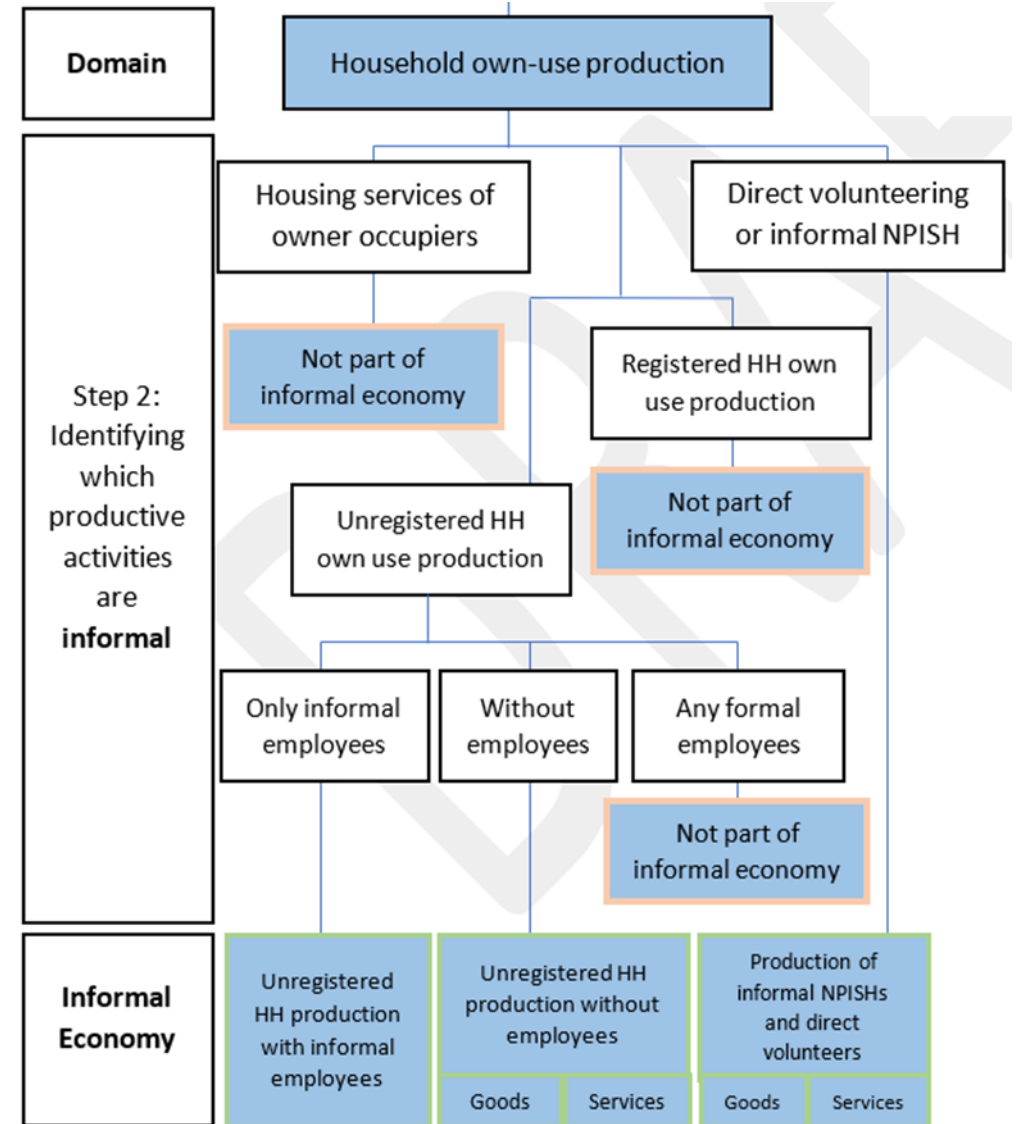
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- Housing services of owner-occupiers.
- Some production by household members for own-use being formal through registration.

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 should be separately identified to meet policy needs. Options:

- i) When economic units engaging in illegal production comply strictly to the principles of informality, include type a) illegal production in the informal economy and identify illegal production within the economy in an indicator; or
- ii) Exclude type a) illegal productive activities from the informal economy by convention and supplement statistics on informality with measures of type a) illegal productive activities.

## 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!**