D.2.1. Informal sector enterprises

7.66. According to the ILO:

The term “informal economy” refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs.[1]

7.67. Employment in the informal sector is associated with two concepts:

- Employment in the informal sector
- Informal employment

While these concepts are related and complement each other, they are different as they refer to different aspects of the informalization of employment, as employment in the informal sector is an enterprise-based concept and informal employment is a job-based concept. It is important to keep them separate for measurement, analysis and policymaking purposes.

7.68. The informal sector is 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.

7.69. 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 or social relations rather than contractual arrangements with formal guarantees. In many tourism characteristic activities mainly those related to accommodation and food serving services and mostly in less advanced countries or isolated regions such types of units prevail.

7.70. The size of these units 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 for issuing trade licences or business permits), and/or their employees (if any) are not registered.

7.71. Employment in the informal sector is defined 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.[2]

7.72. Informal employment refers to those jobs that generally lack basic social or legal protection or employment benefits. It comprises the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households (involving paid domestic workers or goods production for own consumption), during a given reference period.

7.73. Informal employment includes:

- Ownaccount workers and employers employed in their own informal sector enterprises
- Contributing family workers
- Employees holding informal jobs
- Members of informal producers’ cooperatives
- Ownaccount workers engaged in the production of goods exclusively for own final use by their household

7.74. Thus, employees 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 (e.g., advance notice of dismissal, severance pay, paid annual or sick leave).

Box VII.13

Factor associated with the existence of informal jobs of employees

- Nondeclaration 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)
- Employment by unincorporated enterprises or by persons in households
- Place of work of the employee (e.g., outworkers without an employment contract) is outside the premises of the employer’s enterprise
- Jobs for which labour regulations are not applied, enforced or complied with for other reasons.

Source: International Labour Organization (2003), para. 5.

7.75. Owing to the phenomenon of the holding of multiple jobs, the observation unit for informal employment is a job rather than an employed person. Data collected should be tabulated as total employment classified by type of production unit and type of job.
Box VII.14

Criteria for measuring informal jobs

The Seventeenth International Conference of Labour Statisticians (ICLS) recommends the following operational criteria for measuring informal jobs of employees:

(a) Lack of coverage by social security system;
(b) Lack of entitlement to paid annual or sick leave;
(c) Lack of written employment contract;
(d) Casual or temporary nature of work.

It should be noted that a job’s fulfilment merely of criteria (c) or (d) is not sufficient to justify that job’s being considered informal.

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