

# A Conceptual Framework for the Informal Economy

## UNECA National Accounts

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## Outline

1. *Framework of the Informal Economy*
2. *Domains of the economy*
  - *Formal sector*
  - *Informal sector*
  - *Household own-use production*
3. *Dependent contractors*
4. *Treatment of illegal activities*
5. *Other issues to consider*
  - *Digitalization*
  - *Informal Cross Border Flows*
6. *Next steps for the guidance note*

## 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:

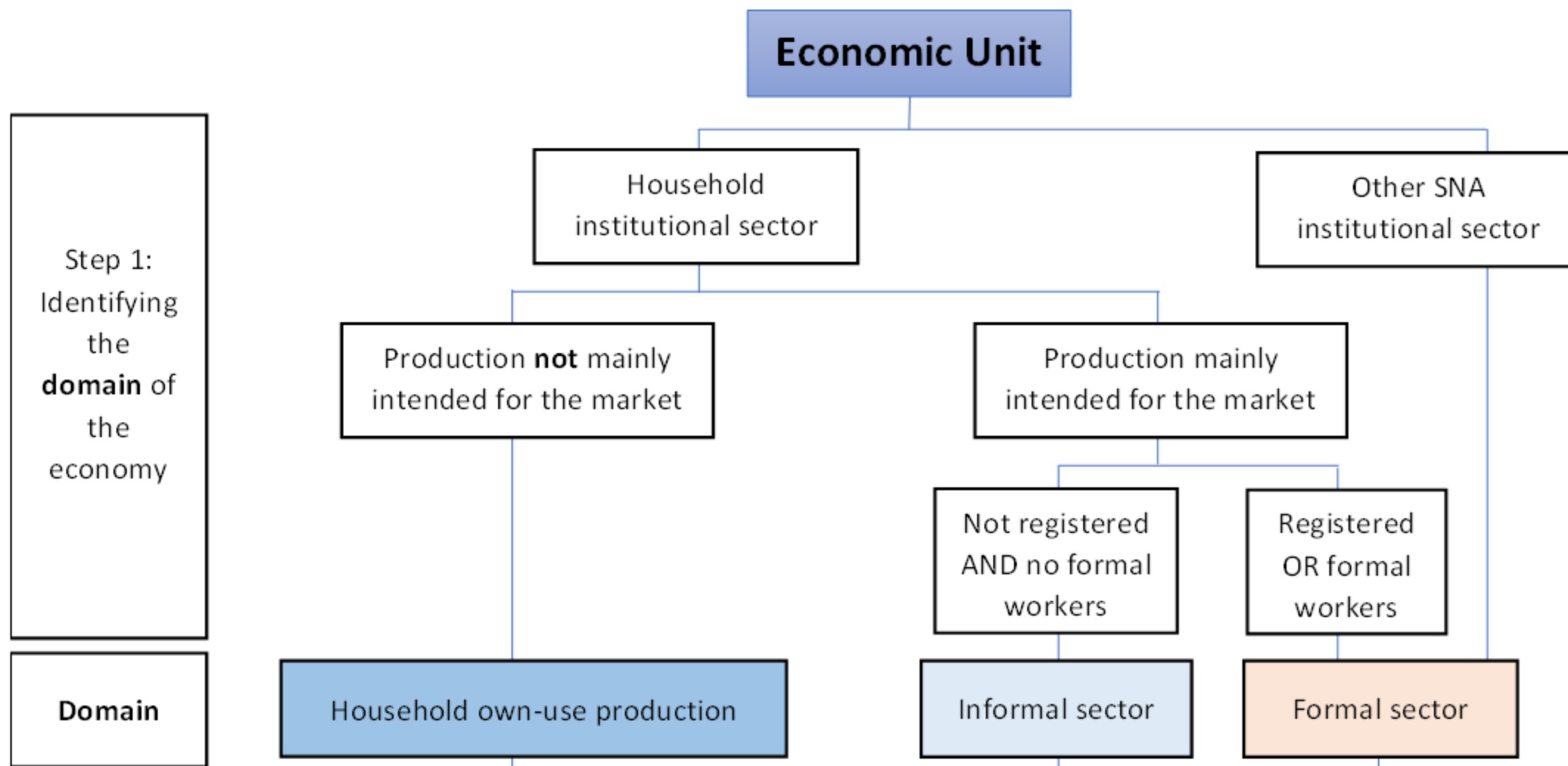
All productive activities carried out by persons and economic units that are  $\in$  in law or in practice  $\in$  not covered by formal arrangements.

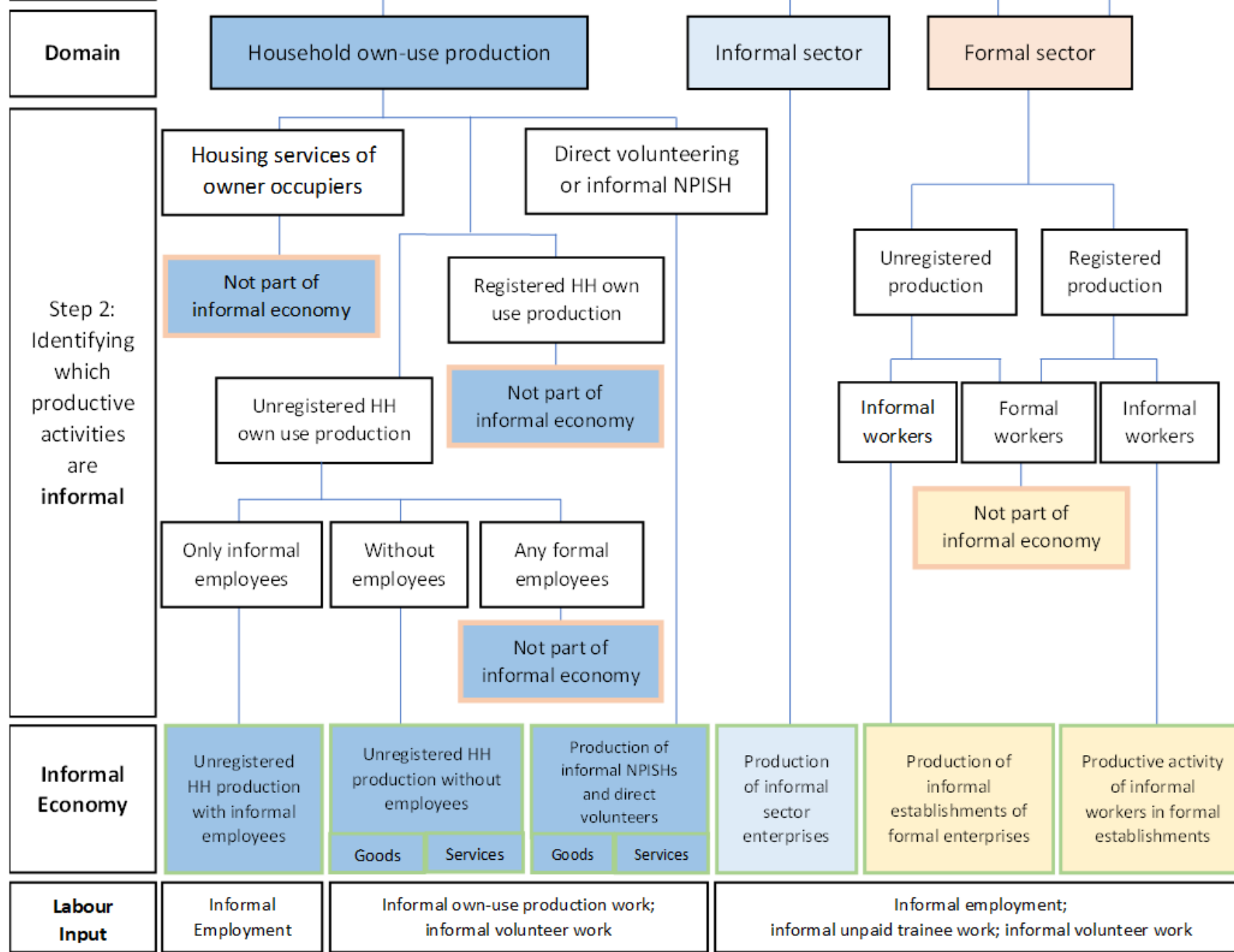
The **informal economy** is defined as constituting all informal productive activities.

## Domains of the economy

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

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





# 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   |            |           |               |
|---|-----------------|---|------------|-----------|---------------|
| <b>Informal productive activities within the domains of the economy</b> |                 | a) Non-financial corporations   | c) General | d) NPISHs | e) Households |
|   | and<br>b) Finan | <b>Informal productive activities in the formal sector</b>  |            |           |               |
| Type of SNA institutional unit  | Corpor          |   |            |           |               |
| Main type of production   | Market produc   | All productive activities of informal workers engaged by:<br>formal household unincorporated enterprises, formal NPISHs, financial corporations, non-financial corporations, and general government |            |           |               |
| Operational definition as part of identifying the formal status         | Incorp enterpr  |   |            |           |               |
|   |                 | Plus:<br>production of informal establishments of formal sector enterprises   |            |           |               |
|   |                 | Informal employment   |            |           |               |
| Within SNA labour input: boundary                                       | Ye              | Informal unpaid trainee work  |            |           |               |
|   |                 | Informal volunteer work   |            |           |               |
| Domain of the economy<br>Relation to SNA                                | For Sect        | Goods and Services  |            |           |               |
| production boundary: part of informal economy                           | Partly*         | SNA production boundary   |            |           |               |
|   |                 | SNA*  | Partly*    | Partly*   | Partly*       |
|   |                 | Informal 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.

| Informal productive activities within the domain of the economy | SNA institutional sectors   |
|---|---|
|   | <b>Informal sector</b>  |
| Type of SNA institutional unit                                  | All production of:<br>informal household unincorporated enterprises |
| Main type of production   |   |
| Operational definition as part of identifying the formal status |   |
|   | <b>Informal employment</b>  |
| Within SNA production boundary                                  | Informal unpaid trainee work  |
|   | Informal volunteer work   |
|   | Goods and Services  |
| Domain of the economy   | SNA production boundary   |
| Relation to SNA production boundary:                            | SNA general production boundary                                     |
| Productive activities are part of informal economy              | Yes   |
|   | 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

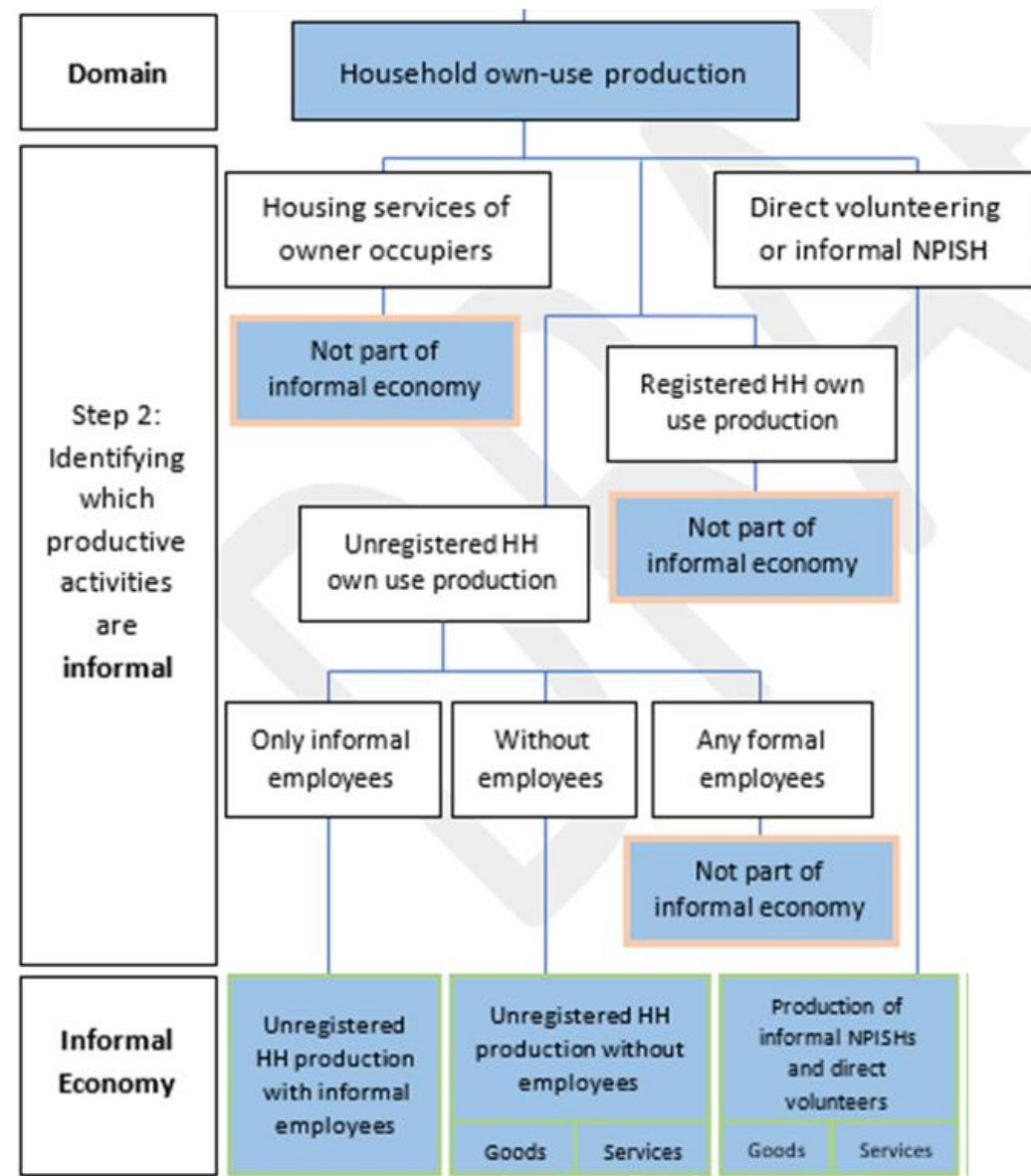
| Informal productive activities within the informal sector  |   | SNA institutional sector                                 |          |  |  |
|--|---|--|----------|--|--|
| Informal household own-use production                      |   |  |          |  |  |
| Type of SNA institutional unit                             | Informal production of: households producing for own use, informal or temporary NPISHs, direct volunteers |  |          |  |  |
| Main type of production                                    |   |  |          | Household production engaging informal employees |  |
| Operational definition as part of identifying the          |   |  |          |  |  |
| formal status  | Informal employment   |  |          |  |  |
| Who is SNA production boundary                             |   | Informal volunteer work                                  |          |  |  |
|  |   | Own-use production work                                  |          |  |  |
| Domain of the Relation to SNA economy production boundary: | Goods and Services  | Goods  | Services |  |  |
| Productive boundary:                                       | SNA production boundary   |  |          |  |  |
| activities are part of informal economy                    | No  | employees are SNA general production boundary otherwise. | Yes      |  |  |
|  |   | Informal economy   |          |  |  |

# Informal household own-use production

Separate identification of:

1. Unregistered HH production with only informal employees
2. Unregistered HH production without employees
  - a) Goods
  - b) Services
3. Production of informal NPISHs and direct volunteers
  - a) Goods
  - b) Services

This allows identifying which part of informal household own-use production is within the 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.

## Next steps

- Expert group consultation by ILO WG, BOPCOM, and AEG
- AEG and BP Task Team to approve GN for global consultation
- Global consultation of NA and BP Experts as well as Labour Statisticians
- BOPCOM and AEG consultation to endorse GN for publication
- SNA and BP lead editors to implementing the recommendations in the update of the SNA and BPM

**Thank you!**