

Statistical definition of the informal sector - International standards and national practices

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1. Introduction

The informal sector represents an important part of the economy and certainly of the labour market in many countries, especially developing countries, and thus plays a major role in employment creation, production and income generation. In countries with high rates of population growth and/or urbanization, the informal sector tends to absorb most of the growing labour force in the urban areas. Informal sector employment is a necessary survival strategy in countries that lack social safety nets such as unemployment insurance or where wages, especially in the public sector, and pensions are low. In such situations, indicators such as the unemployment rate and time-related underemployment are not sufficient to describe the labour market situation. In other countries, the process of industrial restructuring in the formal sector is seen as leading to a greater decentralization of production through subcontracting to small enterprises, many of which are in the informal sector.

The informal sector represents a challenge to policy-makers with regard to issues such as: improvement of the working conditions and legal and social protection of the persons employed in the informal sector; increasing the productivity of informal sector activities; training and skills development; organization of informal sector producers and workers; development of appropriate regulatory frameworks; government reforms; urban development. Since many women and children are employed in the informal sector, issues emerge concerning the contribution of women to economic activities and concerning child labour.

It is worth noting that the informal sector was included in the UN Minimum National Social Data Set as a sub-indicator to the employment-to-population ratio. Urban informal sector employment as a percentage of total urban employment was chosen as one of the ILO Key Indicators of the Labour Market. Statistics on the informal sector are needed as a tool for evidence-based policy-making and advocacy, and an operational definition of the informal sector is needed to develop such statistics.

2. International statistical definition

In 1993, the Fifteenth International Conference of Labour Statisticians (15th ICLS) adopted an international statistical definition of the informal sector; the definition was subsequently included in the revised System of National Accounts (SNA 1993). The 15th ICLS defined the informal sector in terms of characteristics of the enterprises (production units) in which the activities take place, rather than in terms of the characteristics of the persons involved or of their jobs. Accordingly, persons employed in the informal sector were defined as comprising all persons who, during a given reference

period, were employed in at least one production unit of the informal sector, irrespective of their status in employment and whether it was their main or a secondary job.

Production units of the informal sector were defined by the 15th ICLS as a subset of unincorporated enterprises owned by households, i.e. as a subset of production units which are not constituted as separate legal entities independently of the households or household members who own them, and for which no complete sets of accounts (including balance sheets of assets and liabilities) are available which would permit a clear distinction of the production activities of the enterprises from the other activities of their owners and the identification of any flows of income and capital between the enterprises and the owners. Regarding the production units in question, the term “enterprise” was used in a broad sense. It covers not only units that employ hired labour, but also production units that are owned and operated by single individuals working on own-account as self-employed persons, either alone or with the help of unpaid family members. The activities may be undertaken inside or outside the business owner’s home; they may be carried out in identifiable premises or without fixed location.

In order to distinguish informal sector enterprises from other unincorporated enterprises owned by households, the 15th ICLS recommended to use one or more of the following three criteria: (i) non-registration of the enterprise; (ii) small size in terms of employment; and (iii) non-registration of the employees of the enterprise. The first criterion refers to non-registration 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 non-registration under regulations enacted by local authorities for the purpose of obtaining a trade licence or a permit to operate a business. The second criterion can be formulated in terms of the number of employees employed by the enterprise on a continuous basis, the number of all employees (including those employed on an occasional basis), or the total number of persons engaged during a specific reference period (including the entrepreneur, business partners and contributing family workers in addition to the employees). Recognizing that the size limit for informal sector enterprises might have to vary between countries and between branches of economic activity, the 15th ICLS did not specify any precise cut-off point. In the case of enterprises composed of more than one establishment, it was recommended to consider them as informal if none of their establishments exceeded the size limit. The third criterion refers to the conditions of employment in the informal sector regarding the employees’ legal and social protection; it was defined in terms of the absence of employment or apprenticeship contracts which commit the employer to pay relevant taxes and social security contributions on behalf of the employees or which make the employment relationships subject to standard labour legislation. According to this criterion, an enterprise would be considered informal if none of its employees is registered.

In order to complement its definition of the informal sector, the 15th ICLS adopted a number of recommendations regarding the scope of informal sector surveys and the statistical treatment of particular situations at the borderline between the informal and other sectors. These include: (i) the exclusion from the informal sector of units which are exclusively engaged in the production of goods or services for own final consumption or own fixed capital formation (e.g. construction of own houses) of households; (ii) the exclusion of agricultural activities from the scope of the informal sector, for practical reasons; (iii) the inclusion or exclusion of enterprises engaged in the production of professional or technical services rendered by self-employed persons (doctors, lawyers, accountants, architects, engineers, etc.) on the same basis as other enterprises; and (iv) the option to include/exclude paid domestic workers engaged by households in/from the informal sector, depending upon national circumstances and the intended uses of the statistics.

3. National practices

A review of national statistical definitions of the informal sector shows that presently they do not always fully correspond to the international definition adopted by the 15th ICLS and the SNA 1993.

The international comparability of data on the informal sector is affected by national differences in data sources, in the geographical coverage of surveys, in the branches of economic activity covered, in the choice of criteria used to define the informal sector, in the way that these criteria are specified, and in the treatment of specific groups of enterprises or workers. Some (but not all) of these differences are in line with the international recommendations which concede some flexibility to countries in defining and measuring the informal sector. It should also be recognized that not all countries utilize the concept of informal sector in their statistics. Some countries apply alternative concepts that are closely related, such as micro- and small enterprises, household economic activities, household industry, unorganized sector, hidden activities, or unregistered employment.

Data sources for the number of persons employed and other characteristics of the informal sector vary among countries. The most common sources are labour force surveys and special informal sector surveys based on a mixed household and enterprise survey approach or an economic/establishment census and survey approach. Other sources include multi-purpose household surveys, household income and expenditure surveys, surveys of household economic activities or household industries, micro- and small enterprise surveys, and official estimates.

In many countries, especially in the Latin American and African regions, data on the informal sector are available for urban areas only. In some countries, the geographical coverage of informal sector surveys is limited to the major metropolitan areas or the capital cities. Of equal significance is the fact that some countries, especially in the Asian region, Eastern Europe and the Commonwealth of Independent States, include small-scale or unregistered agricultural activities in their definition of the informal sector, while others restrict the definition to non-agricultural activities.

A major deviation from the international definition is that a number of countries, especially those using labour force or other household surveys for the measurement of employment in the informal sector, do not use the criteria of legal organization of the enterprise (unincorporated enterprise) and lack of a complete set of accounts in their national statistical definitions of the informal sector, i.e. the data often refer to employment in micro- or small enterprises including small corporations and quasi-corporations. This is because the respondents in such surveys include persons (employees, contributing family workers, and proxy respondents) for whom it may be difficult to provide information on the legal organization and account-keeping practices of the enterprise in question. Another deviation from the international definition is that a number of countries, which use an approximate definition (based on the size criterion only) for the measurement of employment in the informal sector through labour force or other household surveys, continue to exclude all persons engaged in professional and technical occupations from the informal sector, irrespective of the characteristics of their enterprises.

Many countries use the criterion of non-registration of the enterprise, either alone or in combination with other criteria such as small size or type of location of the workplace, to define the informal sector or related concepts. In most cases the criterion refers to the non-registration of the enterprise as a corporation, or to its non-registration with the tax authorities or for statistical purposes. An even larger number of countries use small size as a criterion to define the informal sector, either alone or in combination with criteria such as the non-registration of the enterprise or the type of location of the workplace. The cut-off points for the size criterion differ among countries; however, there are very clear preferences for cut-off points such as "less than 5", "5 or less", "less than 10" or "10 or less". While most countries use the same size limit for all branches of economic activity, some use different size limits for different branches of economic activity. Some differences among countries

also exist depending on whether the size criterion is applied to each establishment or to the enterprise as a whole, and whether it refers to the total number of persons engaged or to the number of employees. The criterion of non-registration of the employees of the enterprise is only used by some of the transition countries of Eastern Europe and the Commonwealth of Independent States to define unregistered employment.

National practices concerning the treatment of paid domestic workers vary widely among countries and data sources. Among the countries using labour force or other household surveys for the measurement of employment in the informal sector, the number of countries including paid domestic workers in the informal sector is almost equal to the number of countries that exclude these workers. By contrast, countries conducting surveys of the production units of the informal or similar sectors tend to either exclude all paid domestic workers or include only those who consider themselves as self-employed. Since the majority of paid domestic workers are women, the international comparability of data for women is more affected by differences in the treatment of paid domestic workers than is the international comparability of data for men.

If obtained from labour force or other household surveys, data on persons employed in the informal sector often refer only to persons whose main or only job is in the informal sector, and exclude persons with a secondary job in the informal sector, such as farmers or government employees. This poses data comparability problems as the number of persons with a secondary job in the informal sector can be quite large in some countries.

In order to enhance the international comparability of informal sector statistics, the UN Expert Group on Informal Sector Statistics (Delhi Group) is endeavouring to harmonize national definitions on the basis of the framework set by the international definition.

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RESUME

En 1993, la 15ème Conférence internationale des statisticiens du travail adopta une définition statistique internationale du secteur informel. Par rapport aux critères de cette définition, le papier examine les définitions nationales du secteur informel existantes. Il indique également les problèmes de comparabilité internationale des statistiques résultant de l'usage de définitions différentes.