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**Informal Sector:
Statistical definition and Measurement issues**

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What is the informal sector?

- Elusive concept, being often confused with underground / illegal activities, on one side, and with informal employment, on the other.
- Defined in terms of characteristics of the production units and not in terms of:
 - the type of economic activities of the production units: informal sector units may carry out any kind of economic activities (legal activities not underground; legal activities underground; illegal activities).
 - the characteristics of the jobs of the persons engaged in the production units: formal employees may be working in informal sector enterprises.
- (Flexible) Definition adopted by the 15th ICLS (1993) and included in the 1993 SNA

What is the informal sector?

- According to the 15th ICLS (1993): "... a group of production units which, ..., form part of the household sector as ... unincorporated enterprises owned by households"
- Production units that (3 essential criteria):
 - are engaged (at least partially) in market production
 - LEGAL ORGANIZATION: are not constituted as separate legal entities independently of their owners
 - TYPE OF ACCOUNTS: do not keep a complete set of accounts (No separation of the production activities of the enterprise from the other activities of its owners)
- Additional operational criteria (not essential)
 - non-registration of the enterprise and/or
 - non-registration of the employees and/or
 - size of employment below a certain specified level

What is the informal sector?

- Coverage
 - The scope of the informal sector is very wide, as informal sector productive units are present in nearly all industries (and heavily concentrated in sections D, F, G, H, I and O of the ISIC)
 - Exclusion of household enterprises engaged in non-market production (household production for own use)
 - Exclusion of agricultural production activities (for practical reasons)
 - Inclusion of units engaged in professional and technical services carried out by self-employed persons (doctors, architects, engineers, etc.)
 - Exclusion/inclusion of households employing domestic workers, depending upon national circumstances and use of statistics

Lack of international comparability

- differences in the concepts on which the statistics are based
 - some countries do not yet use the criterion of legal organisation of the enterprise;
 - some countries do not use the criterion of lack of a complete set of written accounts.
 - Some use alternative concepts (even if closely related) such as small and micro-enterprises, including small corporations and quasi-corporations. This leads to an overestimation of the size of the informal sector

Lack of international comparability

- differences in the coverage
 - inclusion or exclusion of small-scale or unregistered agricultural activities
 - inclusion or exclusion of persons engaged in professional or technical activities
 - inclusion or exclusion of persons with a secondary job in the informal sector
 - inclusion or exclusion of household employing paid domestic employees
 - differences in geographic coverage (urban or even major metropolitan areas only).

Lack of international comparability

- differences in the criteria used to define the informal sector
 - Only employment size
 - Only non-registration of the enterprise
 - A combination of the 2 criteria
 - Only non-registration of the employees of the enterprise
- different cut-offs used for the employment size
 - preferences are: "<5", "≤5", "<10", "≤10".
 - same or different size limits for different branches.
 - size criterion applied to each establishment or to the enterprise as a whole
 - total No. of persons engaged or No. of paid employees

Lack of international comparability

- differences in data sources
 - labour force surveys
 - other household surveys (multi-purpose surveys, income and expenditure surveys, surveys of household economic activities)
 - mixed household and enterprise survey
 - establishment censuses and surveys of small or micro-enterprise.
 - indirect official estimates

Harmonized definition based on the recommendations of the Delhi Group

- Narrower definition based on the largest common denominator of currently used national definitions.
- 3 essential criteria (see above) + the following 3 additional criteria to be applied simultaneously:
 - Productive units with less than five paid employees, and
 - Productive units not registered, and
 - Exclusion of households employing paid domestic employees.
- So far, limited implementation of these recommendations

No. of surveys on the informal sector across countries and regions by methods of data collection

Regions Types of surveys	Africa	Asia & Pacific	Latin America	Economies in transition	Total
Mixed surveys	15	2	4	1	22
Labour force surveys	8	6	14	5	33
Household surveys	11	-	5	2	18
Establishment censuses and surveys	11	4	-	-	15
Total	45	12	23	8	88

Surveys on the informal sector in Asia and the Pacific (ILO database)

- In Asia & Pacific limited number of surveys compared to Africa and Latin America
- Labour Force Survey as main data source (incomplete)
 - Complying with international standards: India (1999-00); Nepal (1998-99); Pakistan (biennial from 1996-97); Turkey (2000)
 - Not complying with international standards: Thailand (1998-02); Japan (1996-03),
 - ESCAP members Economies in transition: Kazakhstan (2001); Kyrgyzstan (1999), Russian Fed. (2001-03).
- Information mostly collected on ad-hoc rather than regular basis

Employment in the informal sector in Asia and the Pacific as a share (%) of non-agricultural employment

Harmonized definition (Delhi Group)

Country	% of tot. employment	% of men	% of women
Georgia	3.0		
Russian Fed.	5.5	5.3	5.7
Turkey	11.2	11.3	10.5
India	45.8		

Employment in the informal sector in Asia and the Pacific as a share (%) of non-agricultural employment

National definition or (a) Related concepts

Country	% of tot. empl.	% of men	% of women
Turkmenistan	6.8		
Georgia	6.9	10.0	3.8
Turkey	9.9	10.6	6.2
Kazakhstan	11.7		
Russian Fed.	12.6	12.9	12.3
Azerbaijan (a)	13.5		
Kyrgyzstan	24.9	28.5	20.8
Fiji (a)	43.0		
India	55.7	55.4	57.0
Indonesia (a)	62.7	59.3	68.2
Pakistan	66.5	66.5	65.8
Thailand (a)	71.0	71.0	71.1
Nepal	73.3	67.4	86.5

Employment in the informal sector in Asia and the Pacific

- Size of informal sector around 10% in Economies in Transition (except Kyrgyzstan) and more than 50% in South Asia
- Only in Nepal and Indonesia is the share of employment in the informal sector significantly higher for women
 - Women are often engaged in agricultural activities or in paid domestic employment (excluded from the scope)
 - Activities physically very demanding
 - Activities not socially acceptable for women in some cultures
 - Under-reporting of women working activities in statistical surveys
- Usually the share of informal sector is higher in urban than in rural areas (agriculture is excluded from the scope of informal sector for practical reasons)

Contribution of the informal sector to the GDP in Asia and the Pacific (J. Charmes, 2000)

Country	Year	% of non-agricultural GDP	% of total GDP
Rep. of Korea	1995	16.9	15.9
Indonesia	1998	31.4	25.2
Philippines	1995	32.5	25.4
India	1990-91	48.1	32.4

- Non official figures
- Contribution of informal sector is substantial in S. Asia (a bit less than 40%)
- Contribution to GDP is lower than the share of employment: large differentials in labour productivity between small scale and medium-large productive units

The informal sector in Pakistan (P. Gennari, 2004)

- % of non-agricultural employment = 66.5%
- % of total employment = 38.5%
- Contribution to non-agricultural GDP = 28.7%
- Contribution to total GDP = 21.2%
- Sex composition of workers of the informal sector the same as in the formal sector
- The youngest workers and the less educated are over-represented in the informal sector
- Large differences in working time, compensation and job turnover exist between formal and informal employment
- Wage differentials by sex are higher in the informal sector

Missing statistical information

- Large gap between supply and demand of statistical information on the informal sector
- Areas of greatest interest for policy making
 - Links between employment in the informal sector and poverty
 - Demographic characteristics of people employed in the informal sector (Gender differentials, Child labour)
 - Economic relevance of the informal sector (Share of the GDP, Contribution to economic growth, Productivity levels and trends, Financing and capitalization, Generation of employment, Income generation, Input-output relationship with the Formal sector enterprises)

An integrated programme of statistics of the informal sector

- Develop a joint proposal with ILO / UNDP / UNIFEM / RCs for a inter-regional programme of technical cooperation in statistics of the informal sector. Main components:
 - Improve the coverage of the LFS
 - Introduction of a module on the informal sector in the questionnaire of the LFS
 - Promote the execution of regular LFS, where n.a.
 - Promote the execution of periodic Mixed survey
 - Inclusion of the Informal Sector activities in the compilation of NA and measurement of its contribution to GDP

A LFS module on the informal sector (cont.d)

For employers, own-account workers and contributing family workers:

Q4: Has the enterprise already been registered?

1. Yes Continue
2. Is in the process of being registered)
3. No) Go to Q10
4. Do not know)
5. Do not want to answer)

Q5: Under which form is the enterprise registered? (Response categories to be determined according to national circumstances)

Or instead of Q4 and Q5:

Q6: Which is the type of tax payment by the enterprise? (Response categories to be determined according to national circumstances, e.g.: corporate tax, lump sum tax, no tax payment). Go to Q10

For employees

• Q7: Are you employed by the government, a public or state-owned enterprise, or a non-profit institution, NGO, association, etc.?

1. Yes Go to Q10
2. No Continue

• Q8: Which is the legal organisation/status of the enterprise where you are employed?

1. Joint stock company, corporation)
2. Limited liability company/partnership)
3. Registered cooperative) Go to Q10
4. Ordinary partnership)
5. Individual ownership)
6. Private household employing domestic staff)
7. Other, specify ...)
8. Do not know Continue

• Q9: By which type of enterprise are you employed?

1. Factory or plantation
2. Bank or insurance company
3. Commercial/restaurant/service chain
4. Construction company
5. Private hospital or school
6. Engineering firm, architects'/lawyer's/doctor's office, etc.
7. Farm, small workshop/garage/shop/restaurant/service undertaking
8. Other, specify ...

A LFS module on the informal sector

For all respondents:

Q10: Where do you mainly undertake your work?

1. At your home (no special work space)
2. Work space inside or attached to your home
3. Factory, office, workshop, shop, kiosk, etc. independent from home
4. Farm or agricultural plot
5. Home or workplace of client
6. Employer's home
7. Construction site
8. Market or bazaar stall
9. Street stall
10. No fixed location (mobile)
11. Other, specify ...

A LFS module on the informal sector

- Exact wording to be determined by each country on the basis of its national circumstances (testing necessary)
- 2 different sets of questions for paid employees and self-employed
- 2 different ways of estimating total employment in the informal sector
- For self-employed: questions on the form of registration of the enterprise meant to cover not only the criterion of non-registration, but also the criteria of kind of ownership, legal organisation and type of accounts
- 'Place of work' useful to help identify certain sub-groups of informal workers, even if not used as a criterion to define the informal sector
- Additional questions are necessary to identify informal employment

Mixed surveys: data collection on output and value added of the informal sector

- Combine a household approach (to capture the informal businesses) with an establishment approach (to collect data on output and value added)
- 3 stage sampling procedures:
 - first stage = determination of the PSU: selection of enumeration areas through area sampling;
 - second stage = construction of the sampling frame: listing of all households in the selected areas in order to identify all businesses belonging to the informal sector;
 - third stage = enterprise survey: interview of enterprise owners
- 2 ways of administrating the business questionnaire:
 - during the first interview at home
 - at a later stage on the worksite (short delay)

Mixed surveys: data collection on output and value added of the informal sector

- 2 different designs:
 - Independent survey:
 - specifically designed sample and higher sampling efficiency;
 - Module attached to a household survey: LFS (comprehensiveness + consistency with total employment); HIES (comprehensiveness + data on income and consumption)
 - Less complex and less expensive
 - Consistency of employment data
- Simplified questionnaire: minimum data set
 - Output sold by type (in quantity and value)
 - Purchases and sales of equipment by type (in quantity and value)
 - Loans and their repayment
 - No. of employees in the productive unit
 - Frequency and duration of production

Valuation of output of the informal sector

- Benchmark years: Mixed survey
- Inter-Benchmark years: "Labour input method"
 - 1st step: obtain estimates of labour input in the informal sector by economic activity from household surveys (generally the LFS);
 - 2nd step: derive estimates of output and value added per unit of labour input (with the same economic activity breakdown) extrapolating base year coefficients (taken from the Mixed survey) with an index of productivity growth;
 - 3rd step: multiply the labour input estimates by the per unit ratios to get output and value added of the informal sector by industry.
 - Advantage: obtain an estimate of the value added of the informal sector as a component of total VA of the "unorganized sector"

Thank you for your attention!

