



International developments in measuring the informal sector and informal employment

Technical Notes No. 01: Conceptual Framework

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Introduction

Since it first appeared in 1970, the term “informal sector” has become so popular that its current use has many interpretations, depending on the goals pursued. Initially, this concept was used in analyzing data and developing policies. Indeed, the original aim of this concept, defined by the 15th International Conference of Labour Statisticians (15th ICLS) in 1993¹, was to consider the term “informal sector” within an analytical or policy, rather than statistical, perspective. However, the term is sometimes used in a wider sense for data collection on activities not covered by the existing conventional statistical sources.

The Resolution of the 15th ICLS anticipated possibilities of broadening the definition of this concept and its statistical measurement. Within this context, the scope of the informal sector widened to cover unobserved activities, without being considered as a catch-all sector. Finally, the 15th ICLS developed a definition of the informal sector compatible with 1993 SNA. The 17th ICLS² introduced conceptual additions to informal employment, and brought the scope of informal activities into line with the recommendations of the 15th ICLS. Similarly, 2008 SNA provides more details, by including a whole chapter on informal aspects of the economy (Chapter 25).

The purpose of this methodological note is to outline recent innovations in the definition and measurement of the informal sector and informal jobs. An analysis is made on the basis of the provisional manual on informal sector and informal employment surveys prepared by the Delhi Group (January 2010 version).

This note focuses mainly on the following issues:

- harmonization of the definition of the informal sector;
- the logical link between production units and institutional sectors within the scope of 2008 SNA;
- operationalization of the concept of the informal sector;
- scope of informal sector surveys and treatment of specific cases;
- measuring employment in the informal sector and informal employment;
- mainstreaming seasonality of informal activities.

Other technical notes will be prepared later, and they will focus on survey methods, questionnaires, data processing and analysis, publication of results and inclusion in national accounts.

I. Refocusing of informal sector conceptual frameworks

1.1 Non-use of “informal economy” as a statistical term

It should be noted that the 17th ICLS did not adopt the term “informal economy employment”, which was used by the ILO in its report on decent labour and the informal economy to refer to all informal sector jobs and informal jobs outside the informal sector. The 17th ICLS recommended that, for statistical purposes, a distinction should be made between the “informal sector” and “informal employment”.

1.2 Concept of the “Informal Sector”

The first three criteria used in the Resolution of the 15th ICLS to define the informal sector refer to: (i) legal organization of enterprises, (ii) ownership, and (iii) the type of accounts. All these three criteria are included in the concept of “unincorporated family or individual enterprises”. However, this does not mean that all family businesses of this type fall within the informal sector.

¹ Geneva, 19-28 January 1993, ILO

² Geneva, 23-26 November 2003, ILO

Informal sector enterprises include own-account family enterprises and enterprises employing paid workers. It is specified that all these enterprises should produce market goods and services. The product destination criterion therefore comes to supplement the identification of informal sector enterprises.

Two other criteria are also included in the definition of informal sector enterprises; namely the type of economic activity and the size of the enterprises. However, for purposes of international comparison, only the criteria of non-registration, non-accounts keeping, and market output are the most important. The criteria for defining the informal sector are described in the table below.

Table 1: Criteria for definition of informal sector enterprises (15th ICLS)

Criteria	Objectives
1. Legal organization: enterprise not constituted as separate legal entity independently of its owners	Identification of unincorporated enterprises
2. Ownership: enterprise created and managed by household members	Identification of unincorporated family or individual enterprises
3. Type of accounts: no complete accounting mechanism with accounting reports	Exclusion of quasi-companies of unincorporated family enterprises
4. Production destination: at least some market goods	<ul style="list-style-type: none"> - Identification of unincorporated family or individual enterprises producing market goods and services - Exclusion of unincorporated family or individual enterprises producing goods exclusively for household use
5. Type of economic activity	<ul style="list-style-type: none"> - Exclusion of households that employ paid domestic workers - Possible exclusion of enterprises engaged in agriculture and related activities
6.1 Number of permanent employees less than number n and/or 6.2 Non-registration of the enterprise and/or 6.2 Non-registration of employees of the enterprise	Identification of informal sector enterprises as a sub-set of unincorporated family or individual enterprises producing market goods and services.

1.3 Recommendations of the Delhi Group to improve international comparability of informal sector statistics

The Delhi Group acknowledges that the Resolution of the 15th ICLS allowed too much flexibility, which made harmonization of the definition of the informal sector for all countries difficult. The Group proposed a total of 10 recommendations to ensure minimum comparability of data at the international level.

Recommendation 1: All countries should use the criteria of: (i) legal organization (un-incorporated enterprises, (ii) type of accounts, and (iii) product destination to define informal sector enterprises.

Recommendation 2: Specification of the employment size limit of the enterprise in national definition of the informal sector is left to the country's discretion. However, for international reporting, countries should provide data separately for enterprises with less than five (5) employees. In the case of enterprises with several establishments, the size limit should apply to the largest establishment.

Recommendation 3: Countries using the employment size criteria should provide disaggregated data for registered and non-registered enterprises.

Recommendation 4: Countries using the criterion of non-registration should provide disaggregated data for enterprises with less than five (5) employees and five (5) and more employees.

Recommendation 5: Countries which include agricultural activities should provide data separately for agricultural and non-agricultural activities.

Recommendation 6: Countries should include persons engaged in professional or technical activities if they met criteria of informal sector definition.

Recommendation 7: Countries should include paid domestic services unless these are provided by employees.

Recommendation 8: Countries should follow paragraph 18 of the Resolution adopted by the 15th ICLS regarding the treatment of outworkers/home-workers. Countries should provide figures separately for outworkers/home-workers included in the informal sector.

Recommendation 9: Countries covering urban as well as rural areas should provide figures separately for both urban and rural areas.

Recommendation 10: Countries using household surveys or mixed surveys should make an effort to cover not only persons whose main job is in the informal sector, but also those whose main job is in the another sector and who have a secondary activity in the informal sector.

1.4 Production units and institutional sectors

The classification of production units by type in the 17th ICLS is different, but consistent with the classification of institutional units by sector, as defined in the system of national accounts (2008 SNA). In accordance with the 17th ICLS, all production units included in institutional sectors, such as “non-financial companies”, “financial companies”, “public administration” and “non-profit institutions for households” of the SNA, are classified as formal sector enterprises.

On the other hand, depending on their characteristics, households constituted in non-registered enterprises with at least a few market goods, are classified as formal or informal enterprises. Consequently, informal sector enterprises can be classified in all the five institutional sectors of the SNA, including the household sector. On the other hand, all informal sector enterprises are classified only in the household institutional sector. The definition of household as production units according to the 17th ICLS corresponds to the SNA definition of households producing exclusively for their own final use.

Table 2: Institutional units and production units

2008 SNA Institutional units by sector		17th ICLS Production units by type	
Financial and non-financial companies		Informal sector enterprises	
General administration			
Non-profit institution for households			
Households (as producers)	Family or individual enterprises with at least one market product	Informal sector enterprises	
	Households producing only for their own final use	Households	Producers of goods for their own final use
	Employers of paid domestic workers		

2. Operationalization of concept of the informal sector

In this part, a series of questions are proposed to be asked to observation units (preferably persons employed during an employment survey), after which they can be classified in the informal sector or not.

Question 1: The enterprise in which you are employed or which you manage is a:

1. Public administration
2. Public and parastatal enterprise
3. Private enterprise (limited liability company)
4. Non-profit association (cooperative, trade union, church, etc.)
5. Profit-making association (groups, producers' cooperative, etc.)
6. Family enterprise
7. Household

The questions below will be asked only to observation units whose answers were 5, 6 or 7 above to question 1.

Question 2: Is the enterprise in which you exercise your activity registered (each country will define its notion of legal registration of an enterprise)? 1. Yes 2. No 3. Don't know

Question 3: Does the enterprise in which you work prepare an accounting document at the end of the year showing its income and expenditure? 1. Yes 2. No 3. Don't know

Question 4: Does your enterprise sell part of its goods or services? 1. Yes 2. No 3. Don't know

Answers of "No" or "Don't know" to question 2 or 3 and "Yes" to question 4 will help to classify family enterprises or households in the informal sector.

3. Scope of informal sector surveys and treatment of specific cases

In order to supplement the definition of the informal sector, the 15th ICLS adopted additional recommendations on the scope of informal sector surveys and statistical processing of special cases which may be on the borderline between this sector and others.

3.1 Productive activities not included in the system of national accounts

Productive activities outside the current system of national accounts should not be included in the informal sector. However, there are illegal and underground activities which, in principle, fall within the scope of the informal sector. However, in practice, it is difficult, or even impossible, to observe them.

3.2 Own-account production

Households producing goods and services exclusively for their own use should not be considered as informal production units.

3.3 Agricultural activities

As regards agriculture, the 15th ICLS acknowledged broadening the concept of the informal sector to include agricultural activities. However, in view of the complexity of agricultural statistical data, the conference recommended separate processing for this sector.

It was therefore proposed that efforts be made primarily in measuring the urban informal sector. Then gradually, the process could be extended to non-agricultural activities in rural area.

3.4 Rural Areas

Recognizing the high number of informal sector activities in rural areas and their similarity with those of this same sector in urban areas, the 15th ICLS recommended that, in principle, the informal sector should include all enterprises located in these two areas. However, for countries that have already initiated informal sector surveys, they are given the option to limit themselves to urban areas until resources are available and there is an appropriate sampling base to cover the entire country.

3.5 Professional and technical services

In the past, suggestions were made to exclude from the informal sector, enterprises that produce professional services or self-employed workers who provide technical services, such as doctors, lawyers, architects, and engineers. This was on account of the high level of their competence and other characteristics of the activities. However, the 15th ICLS recommended that special treatment should not be given to these enterprises. Consequently, they are included or excluded from the informal sector on the basis of criteria which define the enterprises of this sector.

3.6 Self-employed workers sub-contracting with enterprises

According to the SNA, these are persons who accept to work for a particular enterprise, or provide goods and services to a particular enterprise. The work is done under contract, and the worker is not a staff member of the enterprise.

The 15th ICLS recommended that these sub-contracting workers should be included in the informal sector, provided they belong to enterprises that employ self-employed persons, and that the enterprises meet the criteria of this sector.

3.7 Paid domestic workers

The 15th ICLS did not give special treatment to paid domestic workers in the informal sector. The main problem consists in distinguishing self-employed domestic workers from those who are employed in households to provide non-market services.

For example, when a gardener provides services in a household, it is necessary to see if he is a self-employed worker who will be paid only for the services rendered, or if he is a household employee who normally provides the service to the household. In the first case, the gardener's enterprise, for example, falls within the informal sector if it fulfills the criteria. In the second case, it is own-account production of the household, and it is not meant for the market. It is therefore not an informal sector activity.

4. Measuring employment in the informal sector and informal employment

Employment in the informal sector and informal employment are two concepts that refer to two different realities of the informal nature of the employment, and to two different orientations of labour policies. None of the concepts can replace the other; on the contrary, the concepts complement each other. However, the two concepts must be defined and measured consistently and coherently.

4.1 Definition of employment in the informal sector

The 15th ICLS recommends that, as much as possible, the employee population in the informal sector be divided into the following two groups:

- persons employed exclusively in the informal sector;
- persons employed in and outside the informal sector. The latter group should also be divided into two sub-groups: persons with principal jobs in the informal sector and those for whom it is their secondary job.

Consequently, the classification of jobs in the informal sector makes a distinction between persons:

- working exclusively in the informal sector
- with their principal jobs in the informal sector and secondary jobs in another sector
- with their secondary jobs in the informal sector and their principal jobs in another sector.

4.2 Definition of informal employment

The concept of informal employment was adopted by the 17th ICLS in 2003. According to guidelines approved by the 17th ICLS, employees are considered to have informal jobs if their employment relationship is, in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.).

Consequently, informal employment is defined mainly in relation to employment conditions in their principal and secondary jobs. At the operational level, in production units (formal, informal) and in households, employees are considered as having informal jobs if at least one the following conditions is not fulfilled:

- payment of social security contribution by the employer;
- paid sick leave;
- paid annual leave or any compensation.

The following persons are classified as having informal jobs: (i) family employees in formal enterprises, (ii) informal employees in formal enterprises, (iii) own-account workers of the informal sector, (iv) employers of informal enterprises, (v) family employees in informal enterprises, members of informal producers' cooperatives, (vi) own-account workers in households, and (vii) domestic workers.

Table 3 below summarizes the types of informal jobs observed in the formal and informal sectors.

Informal jobs comprise the following variable cells: (i) informal jobs in the formal sector (1+2), (ii) informal jobs in the informal sector (3+4+5+6+8) and (iii) informal jobs in households (9+10). Total employment is defined in terms of the type of job (formal, informal) and the type of production unit (informal or not) as proposed in the table below.

Table 3: Informal Sector Conceptual Framework

Institutional Sectors	Own-account Workers		Employers		Contributing Family Workers	Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal
Formal sector enterprises					1	2			
Informal sector enterprises ^a	3		4		5	6	7	8	
Households ^b	9					10			

(a) As defined by the 15th ICLS (excluding households employing paid domestic workers)

(b) Households producing goods exclusively for their own final use and households employing paid domestic workers. These households help to incorporate some informal jobs.

Table 4 below summarizes the calculation of informal and formal jobs.

Table 4: Conceptual Framework of Employment in the Informal Sector and Informal Employment

Production Units	Informal Jobs	Formal Jobs
Informal production units	A	B
Other production units	C	D
Employment in the informal sector	= A + B	
Informal employment	= A + C	
Informal employment outside the informal sector	= C	

5. Seasonality of informal jobs

Given that several informal sector activities are seasonal, the number of persons employed in this sector tends to vary in terms of the period of the year during which the survey is conducted. However, national accounts need to know the seasonality of the job in order to determine a good individual accounts matrix. As regards measuring the seasonality of informal jobs, this problem could be simply solved in quarterly employment surveys as in South Africa.

On the other hand, in countries where the survey periodicity is longer and where data are collected only during single interviews, the questions should note the trend of the number of employees in production units during the year. The questions should be asked differently, depending on whether it is a household survey or a survey on establishments.

a) Cases of surveys on household employment

In employment surveys, these questions should be asked to employed persons.

Question: How has your situation changed over the past 12 months in your production unit?

Changes	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	M11	M12
1. Has the same job												
2. Has changed job												
3. Had no job												
	_	_	_	_	_	_	_	_	_	_	_	_

Note: M12 is the baseline month of the survey

At the time of processing, this information will be compiled by branch of activity or by type of job. Tables will be prepared on the number of persons per employment status according to the branches of activity and months. The seasonal employment coefficients will also be calculated.

b) Cases of surveys on establishments

This question is asked directly to the manager of the establishment or production unit, who gives an estimate of the seasonality of jobs.

Question: What has been the labour force in your production unit over the past 12 months?

Month	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	M11	M12
Number of employees	_ _	_ _	_ _	_ _	_ _	_ _	_ _	_ _	_ _	_ _	_ _	_ _

Note: M12 is the baseline month of the survey.

Tables of the labour force will also be prepared in terms of the months and branches of activity or the category of the informal establishment (own-account or use of employees). The seasonal employment coefficients will also be calculated.