

Informal economy

Introduction

The informal sector represents an important part of the economy, and certainly of the labour market, in many countries and plays a major role in employment creation, production and income generation. In countries with high rates of population growth or urbanization, the informal sector tends to absorb most of the expanding labour force in the urban areas. Informal employment offers a necessary survival strategy in countries that lack social safety nets, such as unemployment insurance, or where wages and pensions are low, especially in the public sector. In these situations, indicators such as the unemployment rate and time-related underemployment are not sufficient to describe the labour market completely. Statistics on the informal economy are key to assess the quality of employment in an economy, and are relevant to developing and developed countries alike.

ILOSTAT presents information from national sources on various indicators pertaining to the informal economy. It features prominently statistics on the share of informal employment in total employment, the share of employed persons in the informal sector and the share of informal employment outside the informal sector in total employment, disaggregated by sex and urban/rural areas, and presented separately for the total economy and non-agricultural activities. For users interested in more detailed statistics, ILOSTAT also includes the absolute values used to calculate these shares.

Concepts and definitions

Workers in the informal economy comprise all workers of the informal sector and informal workers outside the informal sector.

Employment in the informal sector comprises 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. An informal sector enterprise satisfies the following criteria:

- It is an unincorporated enterprise, which means that:
 - It is not constituted as a legal entity separate from its owners, and
 - It is owned and controlled by one or more members of one or more households, and
 - It is not a quasi-corporation (it does not have a complete set of accounts, including balance sheets);
- It is a market enterprise: this means that it sells at least some of the goods or services it produces. It therefore excludes households employing paid domestic workers;
- And at least one of the following criteria:
 - The number of persons engaged / employees / employees employed on a continuous basis, is below a threshold determined by the country
 - The enterprise is not registered
 - The employees of the enterprise are not registered.

Informal employment outside of the informal sector comprises persons who in their main or secondary jobs were:

- Own-account workers engaged in the production of goods exclusively for own final use by their household (e.g. subsistence farming or do-it-yourself construction of own dwellings), if covered by the source of statistics used.
- Contributing family workers, irrespective of whether they work in formal or informal sector enterprises. The informal nature of their jobs is due to the fact that contributing family workers usually do not have explicit, written contracts of employment, and that usually their employment is not subject to labour legislation, social security regulations, collective agreements, etc.
- Employees holding informal jobs, whether employed by formal sector enterprises, informal sector enterprises, or as paid domestic workers by households. Employees are considered to 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 (paid annual or sick leave, etc.) for reasons such as: non-declaration 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 contributions); employment by unincorporated enterprises or by persons in households; jobs where the employee's place of work is outside the premises of the employer's enterprise (e.g. outworkers without employment contract); or jobs, for which labour regulations are not applied, not enforced, or not complied with for any other reason. Operational criteria used by countries to define informal jobs of employees include the lack of coverage by social security system and the lack of entitlement to paid annual or sick leave.

Statistics presented in ILOSTAT refer, to the extent possible, to the main job of employed persons.¹

¹ For more detailed information, please refer to the Resolution concerning statistics of employment in the informal sector, adopted by the 15th International Conference of Labour Statisticians (January 1993); http://ilo.org/global/statistics-and-databases/standards-and-guidelines/resolutions-adopted-by-international-conferences-of-labour-statisticians/WCMS_087484/lang--en/index.htm the Guidelines concerning a statistical definition of informal employment, adopted by the 17th International Conference of Labour Statisticians (November-December 2003); http://ilo.org/global/statistics-and-databases/standards-and-guidelines/guidelines-adopted-by-international-conferences-of-labour-statisticians/WCMS_087622/lang--en/index.htm and the ILO manual Measuring informality: A statistical manual on the informal sector and informal employment; http://www.ilo.ch/global/publications/ilo-bookstore/order-online/books/WCMS_222979/lang--en/index.htm

Method of computation

The three indicators on the informal economy presented in ILOSTAT are calculated as follows:

$$\text{Share of informal employment in total employment (\%)} = \frac{\text{Informal employment}}{\text{Total employment}} \times 100$$

$$\text{Share of employed persons in the informal sector (\%)} = \frac{\text{Persons employed in the informal sector}}{\text{Total employment}} \times 100$$

$$\text{Share of informal employment outside the informal sector in total employment (\%)} = \frac{\text{Persons in informal employment outside the informal sector}}{\text{Total employment}} \times 100$$

Recommended sources

Labour force surveys are typically the preferred source of information on the informal economy, but to serve this purpose, these surveys should include questions specifically designed to capture information on informal employment. Such surveys can be designed to cover virtually the entire non-institutional population of a given country, all branches of economic activity, all sectors of the economy and all categories of workers, including the self-employed, contributing family workers, casual workers and multiple jobholders. In addition, such surveys generally provide an opportunity for the simultaneous measurement of the employed, the unemployed and persons outside the labour force (and thus, the working-age population) in a coherent framework.

Other types of household surveys with an appropriate module on informal employment could also be used as sources of data on the informal economy.

Interpretation and use of the indicator

The informal economy represents a challenge to policy-makers that pursue the following goals: improving the working conditions and legal and social protection of persons in informal sector employment and for employees in informal jobs; increasing the productivity of informal economic activities; developing training and skills; organizing informal sector producers and workers; and implementing appropriate regulatory frameworks, governmental reforms, urban development, and so on. Poverty, too, as a policy issue, overlaps with the informal economy. There is a link – although not a perfect correlation – between informal employment and being poor. This stems from the lack of labour legislation and social protection covering workers in informal employment, and from the fact that persons in informal employment earn, on average, less than workers in formal employment.

Statistics on informal employment are essential to obtaining a clear idea of the contributions of all workers, women in particular, to the economy. Indeed, the informal economy has been considered as “the fallback position for women who are excluded from paid employment. [...] The dominant aspect of the informal economy is self-employment. It is an important source of livelihood for women in the developing world, especially in those areas where cultural norms bar them from work outside the home or where, because of conflict with household responsibilities, they cannot undertake regular employee working hours”.²

² United Nations: Handbook for Producing National Statistical Reports on Women and Men, Social Statistics

Limitations

The concept of informal sector was consciously kept flexible in order to accommodate country situations and specific country needs. In practice, this has led to a collection of national statistics on employment in the informal sector, with countries reporting on their preferred variation of the criteria laid out in the international resolution. Some countries apply the criterion of non-registered enterprises but registration requirements can vary from country to country. Others apply the employment size criterion only (which may vary from country to country) and other countries still apply a combination of the two. As a result of the national differences in definitions and coverage, the international comparability of the employment in the informal sector indicator is limited.

Problems with data comparability for the measure of employment in the informal sector result especially from the following factors: differences in data sources; differences in geographic coverage; differences in the branches of economic activity covered; differences in the criteria used to define the informal sector, for example, size of the enterprise or establishment versus non-registration of the enterprise or the worker; different cut-offs used for enterprise size; inclusion or exclusion of paid domestic workers; and inclusion or exclusion of persons who have a secondary job in the informal sector but whose main job is outside the informal sector, e.g. in agriculture or in public service.

As with the concept of the informal sector, the concept of informal employment was designed in such a way as to allow countries to accommodate their own situations and needs, which hinders comparability across countries.