Measurement of Employment in the Informal Economy

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Contents

• Historical background to the measurement of informality
• Recommendations on measuring the informal sector and employment in the informal sector
• Recommendations on measuring informal employment
• Preliminary results from the 2011 ILO global inquiry on employment in the informal sector and informal employment
From the early 1970s, intense debate generated regarding how to conceptualize a widespread labour market phenomenon involving employment survival strategies in developing countries.


Theoretical framework was originally based on the study of the informal sector based on the structural heterogeneity (duality) of economic systems and segmentation of the labour market (ILO-PREALC approach).
Two key approaches emerged:

1. Informal sector is the result of economic restructuring in a context of excess labour supply which the formal sector cannot absorb, forcing workers into subsistence low-income activities, low capital, technology, and productivity.

2. Informal sector activities are conducted outside the legal framework, and reflect the increasing difficulty of complying with complex regulatory procedures.

In 1982, 13th ICLS recognized the importance of this topic and encouraged countries to develop methods & collect data on urban informal sector and rural non-agricultural activities.
• Informal Sector: concerned with characteristics of production units (enterprise-based concept)
  – Employment in the informal sector

• Informal employment: focus is on characteristics of jobs (job-based concept)

• Employment in the informal economy: sum of employment in the informal sector and informal employment which is outside the informal sector
Employment in the informal sector and informal employment

• Refer to different aspects of the informalization of employment, and to different target groups for policy development

• They are complementary concepts: both are useful for analytical and policymaking purposes

• Important to measure in a coherent and consistent manner in order to distinguish between them

• Important to keep separate for analysis and policy purposes
Informal Sector – 15th ICLS and 2008 SNA

- Definition is included in the 1993 and 2008 UN System of National Accounts (SNA)
- Where the informal sector (IS) plays a significant role in employment, income generation and economic and social development, countries should aim, where feasible, at developing a comprehensive system of statistics on employment in the informal sector to provide an adequate base for the various data users
Informal Sector (IS) Concept – 15th ICLS

- **Objective:** to generate employment and income to persons concerned

- **Market oriented:** Comprises production units engaged in the production of goods or services (at least some of which are destined for sale or barter)

- **IS production unit characteristics:**
  - Operate on a small scale
  - Low level of organisation
  - Little or no division between labour and capital as factors of production
  - Labour relations (where they exist) based on casual employment, kinship or personal relations, not contracts with formal guarantees
  - Assets used do not belong to the production units but to their owners; capital goods used for both business and household purposes
  - Units (as such) cannot engage in transactions or enter into contracts with other units, nor incur liabilities, on their own behalf
  - Owners must raise necessary finance at their own risk and are personally liable, without limit, for any debts or obligations
  - Expenditure for production often indistinguishable from household expenditure
For statistical purposes, the informal sector is defined as a group of production units which, according to the definitions and classifications provided in the United Nations System of National Accounts (latest revision), form part of the household sector as household enterprises or, equivalently, unincorporated enterprises owned by households.
Informal Sector Operational Definition, 15^{th} ICLS (2)

* Defined as a sub-sector of the SNA institutional sector “Households”

* As reference: SNA accounts are compiled for resident institutional units grouped into institutional sectors and subsectors.

--The 2008 SNA indicates that all resident institutional units are allocated to only one of the following five institutional sectors:

- The non-financial corporations sector
- The financial corporations sector
- The general government sector
- The non-profit institutions serving households sector
- The households sector

--SNA 2008: *An institutional unit* is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.

--There are two main types of units in the real world that may qualify as institutional units: (1) persons or groups of persons in the form of *households*, and (2) *legal or social entities*

--In the SNA, a *household* is a group of persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food.
Some unincorporated enterprises function in all (or almost all) respects as if they were incorporated.

These are termed quasi-corporations in the SNA and are included with corporations in the non-financial and financial corporations sectors.

**A quasi-corporation is:**

- either an unincorporated enterprise owned by a resident institutional unit that has sufficient information to compile a complete set of accounts and is operated as if it were a separate corporation and whose *de facto* relationship to its owner is that of a corporation to its shareholders, or

- an unincorporated enterprise owned by a non-resident institutional unit that is deemed to be a resident institutional unit because it engages in a significant amount of production in the economic territory over a long or indefinite period of time.
Informal Sector Operational Definition, 15th ICLS (3)

• Household enterprises are market-oriented, goods or services producing unincorporated enterprises owned by households:
  – They are distinguished from corporations and quasi-corporations by the legal organisation of the units and the type of accounts kept
  – Not constituted as separate legal entities independently of the households or household members that own them
  – Do not maintain a complete sets of accounts which would permit a clear distinction of the production activities and income/capital flows of the enterprises from other owner (household) activities
  – May be owned/operated by one or more household members or as unincorporated partnerships formed by members of different households

• The informal sector comprises two types of enterprises:
  – Informal own-account enterprises
  – Enterprises of informal employers
Informal own-account enterprises
– 15th ICLS

• **Definition:** Household enterprises owned and operated by own-account workers (either alone or in partnership with members of the same or other households) characterized by the concept of IS
  – Recall: own-account workers may employ contributing family workers, and even employees on an occasional basis but not on a continuous basis

• **Operational definition: may comprise:**
  – All own-account enterprises or
  – Only those which are not registered under specific forms of national legislation
    • Registered means registration under factories or commercial acts, tax or social security laws, professional groups’ regulatory acts, or similar acts, laws, or regulations established by national legislative bodies

Department of Statistics
Enterprises of informal employers
– 15th ICLS

• **Definition:** Enterprises of informal employers are household enterprises owned and operated by employers (either alone or in partnership with members of the same or other households) characterized by the concept of the IS
  • Recall: employers by definition employ one or more employees on a continuous basis

• **Operational definition:** may comprise:
  – size of the unit below a specified level of employment (Delhi Group: preferably less than 5 employees)
  and/or
  – non-registration of the enterprise or its employees
    • Criteria for registration of the enterprise are the same as for informal own-account enterprises.
    • Employees are considered registered if their employment contract commits the employer to pay relevant taxes and social security contributions on behalf of the employee or which makes the employment relationship subject to standard labour legislation
Definition: Employment in the informal sector – 15th ICLS

During a specific time reference period, employment in the informal sector includes:

- All jobs in informal sector enterprises
- Or all employed persons working in at least one informal sector enterprise

For employed persons in the informal sector:
- Covers all status in employment categories
- May refer to employed persons’ main jobs or to secondary jobs
Treatment of specific groups

- 15th ICLS

- It is recommended to collect data on employment in the informal sector:
  - By status in employment
  - By type of economic activity

- In addition:
  - Can include child labour and children in employment statistics if relevant to national circumstances
  - Domestic workers: can be included or excluded depending on national circumstances
  - Agricultural workers: there is no conceptual reason to exclude agricultural sector workers from informal sector employment; however, may be excluded for practical reasons

- Persons employed in the informal sector: when possible, should differentiate between:
  - Those exclusively employed in the IS
  - Those both employed in the IS and outside the IS
• Different types of informal employment were observed (including nonstandard, atypical, alternative, irregular, precarious, etc.), even outside of the informal sector.

• In 2001, the Expert Group on Informal Sector Statistics (Delhi Group) recommended establishing recommendations on the definition and measurement of informal employment to complement the measurement of employment in the informal sector.

• In 2003, the Seventeenth ICLS endorsed guidelines (intended to complement the resolution concerning statistics of employment in the informal sector of the 15th ICLS) and encouraged countries to test the conceptual framework on which they are based: *Guidelines concerning a statistical definition of informal employment*

• Web link:
  
Definition of informal employment

17th ICLS (2003)

**Informal employment** refers to the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households (paid domestic workers, production for own-consumption), during a given reference period.

**Key elements**

- Job-based concept (focus on characteristics of the job)
- Includes all jobs (main & secondary jobs)
- Includes jobs in all types of production units
- Includes workers in all status in employment
- Includes all branches of economic activity (agriculture & nonagriculture)
Relationship between informal sector employment and informal employment (1)

<table>
<thead>
<tr>
<th>Production units</th>
<th>Informal jobs</th>
<th>Formal jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal sector enterprises</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Other units of production (formal sector enterprises &amp; households)</td>
<td>C</td>
<td>D</td>
</tr>
</tbody>
</table>

Informal employment: $A + C$

Informal sector employment: $A + B$

Informal employment outside of the informal sector: $C$

Employment in the informal economy: $A + B + C$
Relationship between informal sector employment & informal employment (2)

- Informal sector employment
- Formal jobs in IS enterprises
- Informal jobs outside of IS enterprises

TOTAL EMPLOYMENT
Objective: to relate the enterprise-based concept of employment in the informal sector with the job-based concept of informal employment, in a coherent and consistent manner.

Basis:
- Employed persons work in jobs which have unique characteristics (that is, they can be classified by type of job).
- These jobs are carried out in production units (enterprises and households), that have unique characteristics (that is, they can be classified by type of production unit).

Unit of observation for employment: jobs instead of employed persons (reason: an employed person can have multiple jobs).

Result: Total number of jobs classified by (i) type of production unit and (ii) type of job.
There are three types of production units:

- **Formal sector enterprises:** corporations (including quasi-corporations), non-profit organizations, government-owned unincorporated enterprises, and those unincorporated household enterprises that produce goods and services for sale or barter that do not form part of the informal sector.

- **Informal sector enterprises:** as defined by the 15th ICLS, but for measurement of informal employment they exclude households that employ paid domestic workers.

- **Households:** households that produce goods exclusively for their own final use and households employing paid domestic workers.
Jobs are identified by:

- **Status in employment** (according to the International Classification of Status in Employment, ICSE-93):
  - Employees
  - Employers
  - Own-account workers
  - Members of producers’ cooperatives
  - Contributing family workers

- Status in employment: is considered useful for analytical purposes and policy formulation

- **The nature of employment**: informal vs. formal (defined on the basis of the classification by type of production unit and/or status in employment)
Conceptual framework:
Informal employment - 17th ICLS

<table>
<thead>
<tr>
<th>Production units by type</th>
<th>Own-account workers</th>
<th>Employers</th>
<th>Contributing family workers</th>
<th>Employees</th>
<th>Members of producers’ cooperatives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Informal</td>
<td>Formal</td>
<td>Informal</td>
<td>Formal</td>
<td>Informal</td>
</tr>
<tr>
<td>Formal sector enterprises</td>
<td>Informal</td>
<td>Formal</td>
<td>Informal</td>
<td>Formal</td>
<td>1</td>
</tr>
<tr>
<td>Informal sector enterprises (a)</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Households (b)</td>
<td>9</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(a) As defined by the Fifteenth International Conference of Labour Statisticians (excluding households employing paid domestic workers).
(b) Households producing goods exclusively for their own final use and households employing paid domestic workers.

Note: Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit in question. Cells shaded in light grey refer to formal jobs. Un-shaded cells represent the various types of informal jobs.

Informal employment: Cells 1 to 6 and 8 to 10.
Employment in the informal sector: Cells 3 to 8.
Informal employment outside the informal sector: Cells 1, 2, 9 and 10.
Who has an informal job? 17th ICLS (1)

• Criteria to determine the formal / informal nature of jobs depends on status in employment

Employees

– 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 (advance notice of dismissal, severance pay, paid annual or sick leave, etc.)

Note: Definition covers (i) de jure informal jobs and (ii) de facto informal jobs.
Measurement of informal jobs of employees in LFS – 17th ICLS

Operational criteria to identify employees in informal jobs:

- Lack of contributions to social security system by employer
- Lack of entitlement to paid annual leave
- Lack of entitlement to paid sick leave

Note, it is not sufficient to use:

- Lack of written employment contract
- Casual/temporary nature of work
Who has an informal job?
- 17th ICLS (2)

Self-employed

• Employers, own-account workers & members of producers’ cooperatives
  – Formal/informal nature of job depends on characteristics of the enterprise
  – Have informal jobs if their enterprises are part of the informal sector

• Contributing family members
  – Employment usually not subject to labour legislation, no contractual relationship
  – All have informal jobs regardless of whether the enterprise is formal or informal

• Engaged in production of goods for own final use by household
  – Employment not subject to labour legislation
  – All have informal jobs
Measurement of informal jobs of self-employed in LFS – 17th ICLS

Informal employment of self employed

• Employers’, own account workers, members of producers cooperatives
  – Requires identification of the enterprise or cooperative as belonging to the informal sector

• Contributing family members
  – Question on status in employment

• Engaged in production of goods for own final use by their household
  – Question on branch of economic activity (industry)
  – ISIC, Revisions 3, 3.1, 4 permit identification (ISIC Rev. 4, Section T, Class 9810, Undifferentiated goods-producing activities of private households for own use)
Figure 1
31 Countries: Employed persons in the informal economy by component, last year available (2004 to 2010)
(Percent of non-agricultural employment)

<table>
<thead>
<tr>
<th>Country</th>
<th>Persons employed in the informal sector</th>
<th>Persons in informal employment outside the informal sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serbia</td>
<td>2.3</td>
<td>7.0</td>
</tr>
<tr>
<td>Macedonia, FYR</td>
<td>2.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Moldova, Rep.</td>
<td>7.3</td>
<td>8.6</td>
</tr>
<tr>
<td>Armenia</td>
<td>4.2</td>
<td>14.9</td>
</tr>
<tr>
<td>South Africa</td>
<td>3.3</td>
<td>14.0</td>
</tr>
<tr>
<td>Brazil</td>
<td>24.3</td>
<td>27.9</td>
</tr>
<tr>
<td>Uruguay</td>
<td>8.3</td>
<td>32.5</td>
</tr>
<tr>
<td>Panama</td>
<td>17.0</td>
<td>37.7</td>
</tr>
<tr>
<td>Venezuela, BR</td>
<td>36.3</td>
<td>11.8</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>29.4</td>
<td>11.2</td>
</tr>
<tr>
<td>Dominican Rep.</td>
<td>49.5</td>
<td>19.4</td>
</tr>
<tr>
<td>Argentina</td>
<td>32.1</td>
<td>20.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>31.1</td>
<td>17.9</td>
</tr>
<tr>
<td>Liberia</td>
<td>49.5</td>
<td>10.8</td>
</tr>
<tr>
<td>West Bank &amp; Gaza</td>
<td>37.2</td>
<td>24.0</td>
</tr>
<tr>
<td>Ecuador</td>
<td>37.3</td>
<td>9.3</td>
</tr>
<tr>
<td>Colombia</td>
<td>50.5</td>
<td>11.6</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>33.4</td>
<td>14.6</td>
</tr>
<tr>
<td>El Salvador</td>
<td>43.5</td>
<td>25.0</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>49.1</td>
<td>15.0</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>37.9</td>
<td>16.3</td>
</tr>
<tr>
<td>Lesotho</td>
<td>50.2</td>
<td>21.5</td>
</tr>
<tr>
<td>Paraguay</td>
<td>13.5</td>
<td>21.1</td>
</tr>
<tr>
<td>Peru</td>
<td>49.2</td>
<td>23.5</td>
</tr>
<tr>
<td>Uganda</td>
<td>51.8</td>
<td>17.0</td>
</tr>
<tr>
<td>Madagascar</td>
<td>52.1</td>
<td>31.9</td>
</tr>
<tr>
<td>Honduras</td>
<td>51.8</td>
<td>17.0</td>
</tr>
<tr>
<td>Bolivia</td>
<td>64.6</td>
<td>17.0</td>
</tr>
<tr>
<td>Zambia</td>
<td>52.1</td>
<td>11.7</td>
</tr>
<tr>
<td>Mali</td>
<td>58.3</td>
<td>11.3</td>
</tr>
<tr>
<td>India</td>
<td>49.2</td>
<td>16.4</td>
</tr>
</tbody>
</table>

Note: Countries are ordered according to the sum of both components.
Figure 2

37 Countries: Persons in informal employment by sex, latest year available (2004 to 2010)

(percent of non-agricultural employment by sex)

<table>
<thead>
<tr>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serbia</td>
<td>65.9</td>
</tr>
<tr>
<td>Macedonia, FYR</td>
<td>62.7</td>
</tr>
<tr>
<td>Moldova, Rep.</td>
<td>63.7</td>
</tr>
<tr>
<td>Armenia</td>
<td>80.1</td>
</tr>
<tr>
<td>Venezuela</td>
<td>81.0</td>
</tr>
<tr>
<td>Argentina</td>
<td>76.3</td>
</tr>
<tr>
<td>Egypt</td>
<td>76.3</td>
</tr>
<tr>
<td>West Bank &amp; Gaza</td>
<td>85.9</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>85.9</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>85.9</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>41.7</td>
</tr>
<tr>
<td>Turkey</td>
<td>32.6</td>
</tr>
<tr>
<td>South Africa</td>
<td>46.8</td>
</tr>
<tr>
<td>Lesotho</td>
<td>49.5</td>
</tr>
<tr>
<td>Uruguay</td>
<td>42.9</td>
</tr>
<tr>
<td>Brazil</td>
<td>45.5</td>
</tr>
<tr>
<td>Thailand</td>
<td>44.0</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>48.5</td>
</tr>
<tr>
<td>Panama</td>
<td>47.0</td>
</tr>
<tr>
<td>Namibia</td>
<td>51.7</td>
</tr>
<tr>
<td>Dominican Rep.</td>
<td>51.7</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>51.7</td>
</tr>
<tr>
<td>Mexico</td>
<td>51.7</td>
</tr>
<tr>
<td>Colombia</td>
<td>51.7</td>
</tr>
<tr>
<td>Liberia</td>
<td>51.7</td>
</tr>
<tr>
<td>Ecuador</td>
<td>51.7</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>51.7</td>
</tr>
<tr>
<td>El Salvador</td>
<td>51.7</td>
</tr>
<tr>
<td>Uganda</td>
<td>51.7</td>
</tr>
<tr>
<td>Zambia</td>
<td>51.7</td>
</tr>
<tr>
<td>Peru</td>
<td>51.7</td>
</tr>
<tr>
<td>Paraguay</td>
<td>51.7</td>
</tr>
<tr>
<td>Madagascar</td>
<td>51.7</td>
</tr>
<tr>
<td>Honduras</td>
<td>51.7</td>
</tr>
<tr>
<td>Bolivia</td>
<td>51.7</td>
</tr>
<tr>
<td>Mali</td>
<td>51.7</td>
</tr>
<tr>
<td>India</td>
<td>51.7</td>
</tr>
<tr>
<td>Note: The lower pyramid represents countries where informal employment of women exceeds that of men and vice-versa. Countries in each pyramid are ordered by total informal employment.</td>
<td></td>
</tr>
</tbody>
</table>
Conclusions

- Employment in the informal economy includes both employment in the informal sector (enterprise-based approach) and informal employment (job-based approach).

- The latter two concepts refer to two different aspects of the informalization of employment, and to different target groups for policymaking.

- They should be defined and measured in a logical and coherent manner in order to be clearly identified and distinguished.

- The application of the international recommendations (15th and 17th ICLS) in the measurement of these concepts helps improve the international comparability of the statistics.


• Guidelines concerning a statistical definition of informal employment, endorsed by the Seventeenth International Conference of Labour Statisticians (November 2003); Web link: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/normativeinstrument/wcms_087622.pdf
Questions

• Is the employment in the informal economy framework relevant for Trinidad and Tobago? How?

• What data sources exist to capture the concepts:
  – Employment in the informal sector
  – Informal employment

• Would additional questions need to be added to survey questionnaire(s) to measure the concepts?

• What particular disaggregations or subgroups would be of interest for analysis and policymaking purposes?