

Information on informal employment from Nepal Labor Force Surveys

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1. Informal activities and sources of data

Nepalese economy virtually functions with informal activities and over half of GDP is originated from the informal sector. Most agricultural activities such as crop cultivation and livestock farming lie in the informal sector and most agricultural products are consumed by the producer households themselves. Small manufacturing activities, most retail trading and personal services are operated by household unincorporated enterprises. Nevertheless, many informal sector activities in recent days are shifted to formal sector and most new activities are operated on formal and corporate basis. For example, poultry farming, fishery, horticulture and manufacturing activities have been growing and steadily taking a shape of corporate establishments and accordingly, the share of formal sector in the GDP is growing as well.

Measuring informal sector activities have been cumbersome in the context of Nepal and various sources have been used for statistical purpose. Main sources of information of informal sector and informal employment are household surveys and administrative records. Central Bureau of Statistics (CBS) has been conducting periodic labor force surveys (First Nepal Labor Force Survey, NLFS-I in 1998/99 and second NLFS-II in 2008). Questions on informal activities were incorporated in the NLFS-II.

2. Information provided by NLFS-II

Concepts and definition used in NLFS-II

The concepts and definitions used in NLFSs are generally in line with the current ILO standards which in turn are based on the UNSNA 1993. The 1993 SNA has widened the production boundary of work. The SNA now includes within its production boundary all production of goods for own use such as tailoring or making mats for the household, or collecting water or firewood (defined now as extended economic activities). *Nevertheless, simplification of the measurement of usual activity status by using months worked or available to work.*

Questions have been added to measure informal employment in accordance with the recommendations of the International Conference of Labor Statisticians in 2003

Informal sector

When presenting statistics on employment, it is helpful to provide a breakdown of employment as between the formal and informal sector. In many developing countries informal sector activities account for a significant proportion of total employment and income generation, and Nepal is no exception. The NLFS II closely follows the ILO international standard definition of the informal sector.¹⁴ Because of the difficulty of defining informal sector activities in the

agricultural sector, the informal sector has been defined only in respect of non-agriculture. For operational purposes we have defined the informal sector as follows. In terms of current economic status, those currently active have been classified into one of three codes: ‘agriculture’, ‘non-agriculture informal’, ‘and non-agriculture other sectors’, based on the responses to each of three questions: employment status (Q.44), institutional sector of employment (Q.49) and number of employees (Q.50). A person whose main job is not in agriculture has been counted as working in the informal sector if his or her present job satisfies each of the conditions shown in a single row below.

Basis for classifying non-agricultural sector jobs as ‘informal’

Employment status	Institutional sector	Number of employees
Paid employee	Private unregistered company or Other	Less than 10
Operating own business with no employees	-	-
Operating own business with regular paid employees Or Contributing family member without pay or Other	-	Less than 10

Where a person is not currently employed, the informal sector status is calculated on the basis of the main job in the last year or (if he or she did not work during the last year) the most recent job.

Informal employment

In 2003, the International Conference of Labour Statisticians added a new concept to the set of international standards. This was the concept of informal employment. Whereas the determination of informal sector depends on the characteristics of the enterprise in which a person works, the determination of whether a person is in informal employment or not depends on the characteristics of the person’s job. The NLFS-II survey includes the measurement of this new concept.

As summarized in the above table, the informal employment includes the following:

- a) All own account workers without employees
- b) All employers in the informal sector
- c) All contributing family workers

d) All employees in informal jobs (where an informal job is defined as not having paid annual leave or where the employer does not pay social security contributions for the worker).

Members of producer cooperatives are not separately identified in the NLFS-II and therefore are not included in the NLFS-II determination of informal employment.

Basis for classifying jobs as informal employment or not

Production units by type	Jobs by status in employment									
	Own account workers		Employees		Contributing family members	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		8		
Households (b)	9					10				

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

Survey Methodology

In the Nepal Labour Force Survey 2008, the country was divided into 6 stratum for the survey propose and the nationally representative sample size of 16,000 households was equally divided

between urban and rural areas. During the selection, a two-stage stratified sampling procedure based on probability proportional to size (PPS) was applied. In the first stage, wards (PSUs) were selected with PPS, where the number of households in the ward at the time of the Population Census 2001 provided the measure of size. In the second stage, from all the households listed in the selected PSUs, 20 households were selected from each on a systematic sampling basis. The 2001 population census provided the frame for the survey.

Sample design for NLFS 2008

Stratum	PSUs	'Take'	Households	Season I	Season II	Season III
Mountain	34	20	680	200	240	240
KTM valley urban	131	20	2620	880	880	860
Other hill urban	99	20	1980	680	640	660
Rural hill	179	20	3580	1220	1200	1160
Urban terai	170	20	3400	1120	1140	1140
Rural Terai	187	20	3740	1240	1240	1260
Total	800		16000	5340	5340	5320

Summary Results of the survey

The NLFS 2008 has estimated around 2142 thousand people aged 15 and over to be currently employed in the non-agricultural informal sector (70 percent of total non-agricultural employment) as compared to 1657 thousand in 1998/99 (73 percent of total non-agricultural employment). During the previous nine years the currently employed population in the non-agricultural informal sector grew by

29.3 percent. Distribution by sex show that males employed in the non-agricultural informal sector increased by 31.1 percent and for females by 26.1 percent. There were 759 thousand people aged 15 years and over who were currently employed in their own business with no employees in 1998/99 and this increased to 969 thousand in 2008.

The survey has also measured a new additional topic on informal employment. It is estimated that there were 11332 thousand people (96.2 percent of the currently employed aged 15 years and above) who were informally employed in all industries. After excluding the agriculture and fishing industries, the number of non-agricultural informally employed persons was 2655 thousand (or 86.4 percent of total non-agricultural employment).

Of them, mostly (1054 thousand or 39.7 percent of non-agricultural informal employment) were "paid employees with informal job conditions" (that is, they had no paid leave or no social security contributions by the employer). There were 969 thousand (36.5 percent of all current non-agricultural employed aged 15 years and above) who were "self-employed without regular paid employees" and there were 525 thousand (19.8 percent of all current non-agricultural employed aged 15 years and above) who were contributing family members. The balance of

non-agricultural informal employment were employers and others (4 percent).

Among male non-agricultural employed, 83.8 percent were informally employed and among female non-agricultural employed, 91.8 percent were informally employed. Among the employed working in the Agriculture industries, 99.7 percent were informally employed.

Summary statistics

(in thousand)

Description	Nepal Labour Force Survey	
	1998/99	2008
Currently employed (aged 15 & over) in non-agricultural informal sector	1657	2142
Male	1052	1379
Female	605	763
Percentage of currently employed (aged 15 & over) in non-agricultural informal sector	17.5	18.2
Male	22.2	25.0
Female	12.8	12.2
Non-agri. Informal sector workers: Own business with no employees	759	969
Informal employment (thousands), all industries	n.a.	11332
Male	n.a.	5163
Female	n.a.	6169
Informal employment (thousands), in agriculture/fishing industry	n.a.	8677
Male	n.a.	3412
Female	n.a.	5265
Informal employment (thousands), non-agriculture industries	n.a.	2655
Male	n.a.	1751
Female	n.a.	904
Percentage of non-agricultural current employment in informal employment	n.a.	86.4
Male	n.a.	83.8
Female	n.a.	91.8
Paid employees in non-agricultural informal employment (thousands)	n.a.	1054
Male	n.a.	841
Female	n.a.	213
Percentage of agriculture industry currently employed who were informally employed	n.a.	99.7