

KILM 8. Employment in the informal economy

Introduction

The KILM 8 indicator is a measure of employment in the informal economy as a percentage of total non-agricultural employment. There are wide variations in definitions and methodology of data collection related to the informal economy. Some countries now provide data according to the 2003 guidelines concerning a statistical definition of informal employment.¹ The KILM 9th edition contains national estimates on informal employment. Where available, KILM 8 reports on informal employment, employment in the informal sector and informal employment outside of the formal sector. Information on employment in the informal sector, measured according to the Resolution of the 15th International Conference of Labour Statisticians (ICLS), is also included. Users are advised to review the specific definitions of each record carefully and to use caution when making country-to-country comparisons.

Table 8 contains national estimates for 62 countries in total. A gender-specific breakdown for the indicator is given where the data are available. In most cases, information on persons in informal employment is given as absolute numbers and as a percentage of total non-agricultural employment.

¹ Guidelines concerning a statistical definition of informal employment, adopted by the 17th International Conference of Labour Statisticians, Geneva, 2003; http://www.ilo.org/global/What_we_do/Statistics/standards/guidelines/lang--en/docName--WCMS_087622/index.htm.

Use of the indicator

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 (KILM 9) and time-related underemployment (KILM 12) are not sufficient to describe the labour market completely.

Globalization is also likely to have contributed to the raising the share of informal employment in many countries. Global competition erodes employment relations by encouraging formal firms to hire workers at low wages with few benefits or to subcontract (outsource) the production of goods and services.² In addition, the process of industrial restructuring in the formal economy is seen as leading to greater decentralization of production through subcontracting to small enterprises, many of which are in the informal sector.

The informal economy represents a challenge to policy-makers that pursue the

² See evidence presented in Bacchetta, M. et al.: *Globalization and Informal Jobs in Developing Countries* (Geneva, ILO and WTO, 2009); http://www.wto.org/english/res_e/booksp_e/jobs_devel_countries_e.pdf.

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”.³

Definitions and sources⁴

In 1993, the statistical conception of informal sector activities was adopted at the

³ United Nations: *Handbook for Producing National Statistical Reports on Women and Men*, Social Statistics and Indicators, Series K, No. 14 (New York, 1997), p. 232.

⁴ Large parts of text in this section, including boxes, are reproduced from ILO: *The Informal Economy and Decent Work: A Policy Resource Guide supporting transitions to formality*, chapter 2 (Geneva, ILO, 2013), available at: http://www.ilo.org/emppolicy/pubs/WCMS_212688/lang--en/index.htm.

15th ICLS.⁵ More than 20 years later, the concept of informality has evolved, broadening its scope from employment in a specific type of production unit (or enterprises) to an economy-wide phenomenon, with the current focus now on the development and harmonization of informal economy indicators.⁶ The conceptual change from the informal sector to the informal economy (described further below), while certainly technically sound and commendable as a reflection of the evolving realities of the world of work, has resulted in challenges for the measurement of a concept that was already fraught with difficulties. The current statistical concept of informal employment is also described below. However, because it takes time for a “new” statistical concept to take hold some countries will continue to report on the concept of employment in the informal sector for a few years to come. The national statistics are reproduced in table 8 and where data according to the broader measure do not exist, the statistical definition of the latter is also included.

Employment in the informal sector and informal sector enterprises

The definition of employment in the informal sector that was formally adopted by the 15th ICLS is based on the concept of the informal sector enterprise, with all jobs deemed to fall under such an enterprise included in the count. In other words, employment in the informal sector basically comprises all jobs in unregistered and/or small-scale private unincorporated enterprises that produce goods or services meant for sale or barter.

⁵ Resolution concerning statistics of employment in the informal sector, adopted by the 15th International Conference of Labour Statisticians, Geneva, 1993; http://www.ilo.org/global/What_we_do/Statistics/standards/resolutions/lang--en/docName--WCMS_087484/index.htm.

⁶ For more details on a comprehensive measurement of informality, refer to the ILO manual *Measuring informality: A statistical manual on the informal sector and informal employment* (ILO, 2013); http://www.ilo.ch/global/publications/ilo-bookstore/order-online/books/WCMS_222979/lang--en/index.htm

There are considerable nuances and complexities to the definition. The term “enterprise” is used in a broad sense, as it covers both units which employ hired labour and those run by individuals working on own account or as self-employed persons, either alone or with the help of unpaid family members. Workers of all employment statuses are included if deemed to be engaged in an informal enterprise. Thus, self-employed street vendors, taxi drivers and home-based workers are all considered enterprises. The logic behind establishing the criterion based on employment size was that enterprises below a certain size are often exempted, under labour and social security laws, from employee registration and are unlikely to be covered in tax collection or labour law enforcement due to lack of government resources to deal with the large number of small enterprises (many of which have a high turnover or lack easily recognizable features).

Certain activities, which are sometimes identified with informal activities, are not included in the definition of informal enterprises for practical as well as methodological reasons. Excluded activities include: agricultural and related activities, households producing goods exclusively for their own use, e.g. subsistence farming, domestic housework, care work, and employment of paid domestic workers; and volunteer services rendered to the community.

The definition of informal sector enterprises was subsequently included in the System of National Accounts (SNA 1993 and 2008), adopted by the United Nations Economic and Social Council on the recommendation of the United Nations Statistical Commission.⁷ Inclusion in the SNA was considered essential, as it was a prerequisite for identification of the informal sector as a separate entity in the national accounts and hence for quantification of the contribution of the informal sector to gross domestic product.

Informal employment

The definition of the 15th ICLS relates to the informal sector and the employment therein. But it has been recognized, also within the statistical community, that there are also aspects of informality that can exist outside of informal sector enterprises as currently defined. Casual, short term and seasonal workers, for example, could be informally employed – lacking social protection, health benefits, legal status, rights and freedom of association, but when they are employed in the formal sector are not considered within the measure of employment in the informal sector.

In the early 2000s, there was a growing momentum behind the call for more and better statistics on the informal economy, statistics that capture informal employment both within and outside of the formal sector. There was a gradual move among users of the statistics, spearheaded by the Expert Group on Informal Sector Statistics (the Delhi Group) – an international forum of statisticians and statistics users concerned with measurement of the informal sector and improving the quality and comparability of informal sector statistics – towards promotion of this broader concept of informality. The idea was to complement the enterprise-based concept of employment in the informal sector with a broader, job-based concept of informal employment. At its 5th Meeting in 2001, the Delhi Group called for the development of a statistical definition and measurement framework of informal employment to complement the existing standard of employment in the informal sector.

⁷ Information on the System of National Accounts (SNA 2008) is available from the Statistics Division, United Nations, New York; <http://unstats.un.org/unsd/nationalaccount/>.

Box 8a. Avoiding confusion in terminologies relating to the informal economy

Within the statistical community, application of accurate terminology is important. To the layperson, the terms “informal sector”, “informal economy”, “employment in the informal sector” and “informal employment” might all seem to be interchangeable. *They are not*. The nuances associated with each term are extremely important from a technical point of view. The following can serve as an easy reference for the terminology associated with informality and their technical definitions:

(a) Informal economy	all economic activities by workers or economic units that are – in law or practice – not covered or sufficiently covered by formal arrangements (based on ILC 2002)
(b) Informal sector	a group of production units (unincorporated enterprises owned by households) including “informal own-account enterprises” and “enterprises of informal employers” (based on 15 th ICLS)
(c) Informal sector enterprise	unregistered and/or small-scale private unincorporated enterprises engaged in non-agricultural activities with at least some of the goods or services produced for sale or barter (based on 15 th ICLS)
(d) Employment in the informal sector	all jobs in informal sector enterprises (c), or all persons who 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 (based on 15 th ICLS)
(e) Informal wage employment	all employee jobs characterized by an employment relationship that is not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (based on 17 th ICLS)
(f) Informal employment	total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households; including employees holding informal jobs (e); employers and own-account workers employed in their own informal sector enterprises; members of informal producers’ cooperatives; contributing family workers in formal or informal sector enterprises; and own-account workers engaged in the production of goods for own end use by their household (based on 17 th ICLS)
(g) Employment in the informal economy	sum of employment in the informal sector(d) and informal employment (f) outside the informal sector; the term was not endorsed by the 17 th ICLS

Source: Reproduced from ILO: “The Informal Economy and Decent Work: A Policy Resource Guide supporting transitions to formality”, chapter 2 (Geneva, ILO, 2013).

The ILO Department of Statistics and the 17th ICLS took up the challenge of developing new frameworks which could better capture the phenomenon of informality. The ILO conceptualized a framework for defining the informal economy that was presented and adopted at the 2002 International Labour Conference. The informal economy was defined as “all economic activities by workers or economic units that are – in law or practice – not covered or sufficiently covered by

formal arrangements”. In 2003, the 17th ICLS adopted guidelines endorsing the framework as an international statistical standard.⁸

⁸ Guidelines concerning a statistical definition of informal employment, op. cit.

Box 8b. Timeline of informality as a statistical concept

1993: Definition of informal sector adopted by the 15th ICLS.

1999: Third meeting of the Expert Group on Informal Sector Statistics (Delhi Group), where it was concluded that the group should formulate recommendations regarding the identification of precarious forms of employment (including outwork/home-work) inside and outside the informal sector.

2001: Fifth meeting of the Expert Group on Informal Sector Statistics (Delhi Group), where it was concluded that the definition and measurement of employment in the informal sector needed to be complemented with a definition and measurement of informal employment and that Group members should test the conceptual framework developed by the ILO.

2002: 90th Session of International Labour Conference, where the need for more and better statistics on the informal economy was emphasized and the ILO was tasked to assist countries with the collection, analysis and dissemination of statistics. The ILC also proposed a definition for the informal economy.

2002: Sixth meeting of the Expert Group on Informal Sector Statistics (Delhi Group), recognized the need for consolidating the country experiences and recommended further research for developing a statistical definition of informal employment and methods of compiling informal employment statistics through labour force surveys.

2003: The 17th ICLS adopts guidelines on a definition of informal employment as an international statistical standard.

2013: The ILO published a manual on measuring informality on methodological issues for undertaking surveys of the informal economy at the country level^a

^a ILO: “Measuring informality: a Statistical Manual on the informal sector and informal employment” (ILO, Geneva, 2013), available at: http://www.ilo.ch/global/publications/ilo-bookstore/order-online/books/WCMS_222979/lang-en/index.htm.

In tracing the evolution of the informal concept (see box 8b), it is important to bear in mind that the purpose of the expansion to an informal economy concept was not to replace one term with another (see box 8a), but rather to broaden the concept to take into consideration different aspects of the “informalization of employment”. It is also worth bearing in mind that for statistical purposes the 17th ICLS did not endorse using the term “employment in the informal economy” to represent the totality of informal activities. The reasons are (i) that the different types of observation unit involved (enterprise vs. job) should not be confused, (ii) that some policy interventions would have to be targeted to the enterprise and others to the job, and (iii) that the informal sector concept from the 15th ICLS needed to be retained as distinct from informal employment since it had become a part of the SNA and a large number of countries were already collecting statistics based on this definition.

The 17th ICLS defined informal employment as the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period. Included are:

- i. Own-account workers (self-employed with no employees) in their own informal sector enterprises;
- ii. Employers (self-employed with employees) in their own informal sector enterprises;
- iii. Contributing family workers, irrespective of type of enterprise;
- iv. Members of informal producers’ cooperatives (not established as legal entities);
- v. Employees holding informal jobs as defined according to the employment relationship (in law or in practice, jobs not subject to national labour legislation, income taxation, social protection or entitlement to certain

- employment benefits (paid annual or sick leave, etc.);
- vi. Own-account workers engaged in production of goods exclusively for own final use by their household.

Only items i, ii and iv would have been captured in full under the statistical framework for employment in the informal sector. The remaining statuses might or might not be included, depending on the nature of the production unit under which the activity took place (i.e. if deemed an informal enterprise). The major new element of the framework was item v, employees holding informal jobs. This category captures the bulk of the “informal employment outside the informal sector” in many countries and includes workers whose “[...] 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.)”. These include:

- Unregistered employees who do not have explicit, written contracts or are not subject to labour legislation;
- Workers who do not benefit from paid annual or sick leave or social security and pension schemes;
- Most paid domestic workers employed by households;
- Most casual, short term and seasonal workers.

The ILO Department of Statistics has played a leading role in developing methods for the collection of data on the informal sector, in compiling and publishing official statistics in this area, and in providing technical assistance to national statistical offices to improve their data collection. In 1998, the Department established a database on the informal sector, which was subsequently used as the basis for some of the more dated statistics in table 8. The data set was updated in 2001, along with a Compendium of available official national statistics and related methodological information, and again in 2012. As of 2014,

the Department has been including the topic of informality in its regular annual data compilation effort in order to provide regular updates for the ILO’s online database ILOSTAT. This dataset supplemented with some additional data from the ILO Regional Office for Latin America and the Caribbean, served as the repositories used for the production of table 8.

Limitations to comparability

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.

In summary, 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. At one extreme are countries that cover all kinds of economic activity, including agriculture, while at the other are countries that cover only manufacturing;
- 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;

- 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. The 17th ICLS Guidelines specifically say that “the operational criteria for defining informal jobs of employees are to be determined in accordance with national circumstances and data availability.” Some countries (especially developing countries) may choose to develop a measure that includes informal jobs of own-account workers, employers and members of producers’ cooperatives, while other countries (especially developed countries) may wish to limit the measurement of informal employment to

employment”.⁹ This manual pursues two objectives: (1) to assist countries planning a programme to produce statistics on the informal sector and informal employment, in undertaking a review and analysis of their options; and (2) to provide practical guidance on the technical issues involved with the development and administration of the surveys used to collect relevant information, as well as on the compilation, tabulation and dissemination of the resulting statistics.

employee jobs only. The built-in flexibility of the statistical concept, while certainly a commendable and necessary feature for a new concept, does create limitations when it comes to the comparability of statistics across countries. More comparability will only be achieved in the long run when good practices will have driven out less good ones.

In order to reduce comparability issues and to improve the availability and quality of data, the ILO, in collaboration with members of the Delhi Group, has published the manual “Measuring informality: a Statistical Manual on the informal sector and informal

⁹ ILO: *Measuring informality: a Statistical Manual on the informal sector and informal employment* (Geneva, 2013), available at: http://www.ilo.ch/global/publications/ilo-bookstore/order-online/books/WCMS_222979/lang-en/index.htm.