

## **Manual on Surveys of Informal Employment and Informal Sector**

### **Draft Chapter 1: Introduction**

#### **Importance of the informal sector and informal employment**

For many years governments and economists assumed that with the right mix of economic policies and resources, poor traditional economies would be transformed into dynamic modern economies. In this process the traditional or informal sector was expected to disappear as the modern or formal sector grew and absorbed more labor. However contrary to expectation, the informal sector and informal employment have not disappeared but have grown everywhere. Many countries have not been able to develop a modern economy capable of providing adequate employment opportunities for their rapidly growing populations. The informal sector consisting of own account or small enterprises with little or no organization or capital and casual employment remains a major if not the major source of employment. Moreover in countries in transition from a centrally planned to a market economy, the informal sector has grown and become an important part of the economy. Furthermore, in both developing and developed countries the modern or formal sector is being transformed by global integration and shifts in economic policies. Production is moving out of large, registered factories and is being reorganized into more decentralized, flexible and specialized units. Regular full-time work is being replaced by non-standard arrangements or by informal jobs. Examples of the emerging forms of employment include: part-time or part-year employment, fixed-term employment contracts, jobs arranged by temporary help agencies or contract firms, casual employment, contract labour, and outwork or homework. Employment in the informal sector as well as in informal jobs outside the informal sector not only continues to be significant but is growing and becoming more complex.

Informal employment represents a substantial portion of economic activity today. In most developing countries informal employment -- including both informal jobs in the informal sector and informal jobs outside of informal enterprises--is a larger component of the workforce than formal employment. Estimates show that it comprises roughly one half to three quarters of non-agricultural employment in developing countries: specifically 48 percent of non-agricultural employment in North Africa, 51 per cent in Latin America, 65 per cent in Asia, and 72 per cent in Sub-Saharan Africa<sup>1</sup>. Further if informal employment in agriculture is included, the proportion of the labour force in informal employment increases greatly in many countries: for example from 83 to 93 per cent in India (2000) and from 45 to 64 per cent in Mexico (1998).<sup>2</sup> In developed countries, employment in informal arrangements such as part time and temporary work and

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<sup>1</sup> ILO, *Women and Men in the Informal Economy: A Statistical Picture*, (Geneva 2002), Table 2.1.

<sup>2</sup> *Ibid.*, p.7.

own account self-employment is estimated at from 20 to 30 percent of total employment.<sup>3</sup>

Activities such as unpaid work in a family enterprise, casual wage labour, home-based work, vending on the street – are the only opportunities the poor have to obtain their basic needs for survival. In countries without unemployment insurance or other types of social benefits, the only option is informal employment. Other types of informal employment - employers or paid workers in informal manufacturing establishments or other small businesses - often provide better pay. For example, employers in informal enterprises may earn more than persons working in formal jobs.<sup>4</sup> But even for these better off workers, informal employment rather than formal sector employment is often the only option.

Informal employment encompasses workers in all employment status categories: employers, employees, own account workers, contributing (unpaid) family workers, members of producers' cooperatives. Although there is great heterogeneity among informal workers, they share a basic vulnerability. This vulnerability is a focus of the ILO report which brought these workers to the attention of the 78th International Labour Conference in 1991. As noted in the report, the vulnerability of “informal” workers is due to their need to be self-supporting and to rely on “informal” arrangements.<sup>5</sup> For example they lack access to modern capital markets, to formal training and to official social security systems. In addition they receive little or no legal protection. All of these characteristics highlight the nature of informal employment, as low quality and precarious and outside the legal and institutional structures of the modern economy.

The informal sector and informal employment are closely linked to the formal sector. As noted above, the modern globalized economy increasingly depends on “informalized” employment in subcontracting, home-based work, agency work and other types of flexible or temporary employment. More broadly, the formal sector with its limited capacity for employment generation and its higher costs is dependent on the informal sector and informal employment as important sources of production, income and employment. As Chen and her colleagues describe it, the informal economy does not exist separately from the formal economy; rather it “produces for, trades with, distributes for and provides services to the formal economy.”<sup>6</sup>

The informal economy is important not only as a source of employment but also in the production of goods and services. For many countries the contribution of

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<sup>3</sup> Ibid., p.26.

<sup>4</sup> Marta Chen, Joann Vanek, Francie Lund, James Heintz with Renana Jhabvala and Christine Bonner, *Progress of the World's Women 2005: Women, Work and Poverty* (New York, UNIFEM, 2005) pp. 47-49.

<sup>5</sup> ILO, *The Dilemma of the Informal Sector*: Report of the Director-General (Part 1) (Geneva 1991\_ p. 5-6.

<sup>6</sup> Martha Alter Chen, Joann Vanek and Marilyn Carr, *Mainstreaming Informal Employment and Gender in Poverty Reduction* (London: Commonwealth Secretariat 2002) p.20.

informal enterprises to Gross Domestic Product (GDP) is substantial. Estimates of the average (unweighted) share of the informal sector in non-agricultural GDP vary from a low of 14 per cent in Transition Economies to a high of 38 per cent in sub-Saharan Africa (see Chapter 9 for more detailed statistics). That a large number of countries in sub-Saharan Africa prepare such estimates reflects the importance of the informal sector in their total GDP. The goods and services produced in the informal economy are particularly important in what is consumed by the poor.

As the main and often only source of income for the poor, the informal economy has a key role in poverty reduction. However many working in the informal economy are not able to work their way out of poverty; in fact the conditions under which they work serve to perpetuate their disadvantage position and poverty.

### **Issues for policy-making and data analysis**

The *Resolution concerning statistics of employment in the informal sector* highlights the contributions which would be made by the development of a comprehensive system of statistics on employment in the informal sector:<sup>7</sup>

- The improvement of labour statistics and national accounts as an information base for macroeconomic analysis, planning, policy formulation and evaluation and the integration of the informal sector into the development process and its institutionalization;
- Quantitative information on the contribution of the informal sector and informal employment to various aspects of economic and social development, including employment creation, production, income generation, human capital formation and the mobilization of financial resources;
- Data for the design and monitoring of specific support policies and assistance programmes for the informal sector as a whole or parts thereof with a view to increasing the productive potential and employment- and income-generating capacity of informal sector units, improving working conditions and social protection, developing an appropriate regulatory framework, promoting the organization of these workers and analyzing the economic and social situation of particular categories of workers for example, women, children, rural-urban migrants or immigrants.

The objectives cited in the 1993 resolution are perhaps even more relevant today as globalization has continued to transform national economies and the nature of employment. The assessment of the impact of economic policies, which are part of the growing globalization of the world economy, calls for new data on

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<sup>7</sup> ILO, *Current International Recommendations on Labour Statistics*, (Geneva 2002), p.32.

employment. Data on informal employment and on the informal sector are an essential basis on which to formulate and assess macro-economic and socio-economic policies as well as to design and monitor specific support and assistance programmes. Key issues that need to be informed by these statistics are highlighted below:

*Macro-economic and related development policies*

A main objective of collecting data on the informal sector is to provide information for monitoring and analysis of macro-economic and related development policies such as employment generation. Data on the informal sector provide for more exhaustive and accurate estimates of the size of the informal sector within GDP. These data also provide for analyses of the sources of GDP growth and the relative susceptibility of the informal sector to various economic policies. This objective was highlighted in The *1993 System of National Accounts* (SNA) which states that for purposes of economic analysis and policy making "... it is particularly important for many developing countries to distinguish between the formal and informal sectors of the economy"<sup>8</sup>. For example, in the reform of a tax system, a key question involves on whom--wage earners, property owners, etc.--or on what--sale of specific products or over specific amounts--the burden of a new or revamped tax would fall. Another key question involves how much revenue it would yield. Information about the size and characteristics of the informal sector would help answer these questions, especially in countries where the informal sector is large.

The *2008 System of National Accounts* further stresses the importance of collecting data on the informal sector and informal employment by devoting a chapter to the topic, specifically chapter 25 on "Informal aspects of the economy."<sup>9</sup> This chapter recommends and lays the conceptual groundwork for preparing two tables supplementary to the national accounts presenting data on informal sector and informal employment, one on the production and income generated and the other on employment.

More accurate and comprehensive monitoring of trends and changes that result from macro-economic policies requires basic information on the size and structure of the labor force in all forms of employment – not only in formal employment but also employment in the informal sector and informal employment outside the informal sector. For developing countries, data on changes in informal employment and the informal sector are especially relevant in understanding the structure of the labour market and the quality of employment in a way that the

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<sup>8</sup> Inter-Secretariat Working Group on National Accounts (1993) *System of National Accounts 1993*: Brussels/Luxembourg, New York, Paris, Washington, D.D. 1993, para.4.159.

<sup>9</sup> European Commission, International Monetary fund, Organisation for Economic Co-operation and Development, United Nations and the World Bank, (forthcoming) *2008 System of National Accounts*, New York.

unemployment rate, probably never was. In developed countries the unemployment rate is becoming increasingly inadequate for understanding labour imbalances and conditions that have taken place in the last decades.

Statistics on both informal sector employment and employment outside the informal sector are also important in the design and evaluation of government policies and programmes aimed at promoting and creating employment. These include training programmes, schemes to help people start or return to work, wage subsidies, tax exemptions and other positive incentives for generating employment. In addition the role of informal employment and particular types of informal employment as a source of employment for women, youth and migrants should be considered in the development and evaluation of employment creation policies as well as policies on gender equality, youth employment and rural development. Such policies need to be informed by a comprehensive set of employment and demographic data on the total or on the working age population. The relevant data include a cross classification of: formal and informal employment, the type of production units (formal sector enterprises, informal sector enterprises or households) industry and employment status and the basic demographic variables: sex, age, rural/ urban residence.

The distinction between formal and informal employment is of particular importance for policy-oriented monitoring on gender issues. For example, the role of informal employment as a source of employment for women was underscored in recommendations relating to the Millennium Development (MDG) Goal 3 -- Gender Equality and Women's Empowerment made both by the Millennium Project Task Force on Education and Gender Equality and by the Sub-Group on Gender Indicators of the Inter-Agency and Expert Group (IAEG) on MDG Indicators.<sup>10</sup> Given the multi-segmented nature of the labour market, the IAEG also cautioned that no single indicator could give a reliable picture of the progress being made toward the goal of women's equality in employment. They recommended that a set of background indicators, gender differences in the structure of employment, be used to monitor progress toward Goal 3 at the national level and that this full set of data be supplied in international reporting. This indicator consists of a cross-classification of status in employment, employment in agriculture and non-agricultural sectors and formal and informal employment.

Informal employment is also one of the main statistical indicators identified for the measurement of decent work and for monitoring progress towards its attainment at the national level. The ILO Declaration on Social Justice for a Fair Globalization summarizes the Decent Work Agenda as having four equally important strategic objectives: promoting employment; social protection; social dialogue and tripartism; and fundamental principles and rights at work; with

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<sup>10</sup> Caren Grown, Geeta Rao and Aslihan Kes, *Achieving Gender Equality and Empowering Women: Report of UN Millennium Project Task Force on Education and Gender Equality* (Sterling, VA: Earthscan, 2005) and ----.

gender equality and non-discrimination as cross-cutting issues.<sup>11</sup> Informal employment is one of four core indicators recommended for the measurement of employment opportunities.<sup>12</sup>

#### *Small enterprise development*

Small and micro-enterprises are a focus of attention for policy makers because they are seen as having great potential for job creation and income generation. Statistics on the characteristics of the economic units that comprise the informal sector are needed for the design of programmes aimed at increasing the potential of these enterprises. Informal sector surveys may provide information on production or output as well as on size and number of workers, age of unit, characteristics of the entrepreneur, capital and equipment, the constraints under which they operate and the organization and relationships with the formal sector and public authorities.. These data provide essential information for designing efforts to create incentives and simplify registration procedures for entrepreneurs as well as to provide needed support services, such as micro-finance, business development and infrastructure investments. The data may also be useful in efforts aimed at improving the conditions of workers by persuading employers to provide more benefits and protections. Moreover the data may be used to identify the special problems encountered by women entrepreneurs and to design interventions that may improve their assets and competitiveness.

#### *Poverty reduction*

Programmes which seek to improve the economic well being of the poor need to be informed by data on informal employment. Not only are most of the working poor employed in informal employment but also informal employment will be the main means for them to rise out of poverty. More broadly, since the main source of income for most people is employment, earnings data for the detailed categories of informal as well as formal employment are essential to the design and evaluation of government policies on income-generation, the alleviation of poverty and the redistribution of income. In addition the joint measurement and analysis of employment and household income is relevant to understanding the relationship of being poor and working in informal employment. These data are especially important in exploring the links among gender, work and poverty.<sup>13</sup>

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<sup>11</sup> See ILO Declaration on Social Justice for a Fair Globalization, ILC, 97th Session, Geneva, June 2008.

<sup>12</sup> See entire proposal for measurement of decent work on [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/meetingdocument/wcms\\_115402.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/meetingdocument/wcms_115402.pdf)

<sup>13</sup> See for example, Chen and others, 2005, pp. 50-54.

### *Labour regulations*

Data on the number and characteristics of workers in informal employment may be useful in both advocating for and in developing labour standards. Data may be used to focus public attention on issues of social concern such as child labour and racial or gender-based discrimination. It may also be used to shed light on the situation of workers in particular types of informal employment – for example home workers, street vendors and day labourers. Statistics on earnings, hours of work, the stability and security of work and social protection for particular categories of workers – for example, types of informal employment or socio-demographic categories such as children, women and racial and ethnic groups- are useful in designing interventions to improve working conditions and in developing an appropriate regulatory framework.

### **Need for more and better statistics on the informal economy**

There is a parallel in the field of statistics to the now discredited view in the development field that the informal economy would disappear. It was commonly believed that activities which take place in the informal economy were too small and hidden to be measured. Without direct data collection, data on employment and value added in the informal sector were generally obtained through some type of estimation. However as many countries successfully conducted surveys to collect data on employment in the informal sector and even on informal jobs outside the informal sector, the feasibility of data collection on these topics became clear. Moreover given the nature and importance of the policy issues involved, it was recognized that data obtained from indirect methods of estimation were inadequate. Not only were the data based on hypothetical assumptions but also they were highly aggregated and did not provide information either on the composition of the informal economy or on the way it functioned. It is now recognized that comprehensive, reliable and detailed information on activities in the informal economy could be obtained only by mean of direct measurement through surveys.

Statistics on informal sector and on informal employment need to be given high priority in national statistical policy. The collection of data on these topics should be integrated into the regular national statistical system. The design of a data collection programme on informal sector and informal employment should provide both for i) monitoring of changes in employment in the informal sector and in informal employment outside the informal sector and ii) in depth analysis of the numbers, characteristics and functioning of informal sector units as well as analysis of employment and enterprise data jointly with other characteristics of households and workers. Data for monitoring should be collected at regular intervals, if possible yearly while the data for in depth analysis, which often involve more specialized and costly surveys, can be collected at less frequent intervals. Informal sector and informal employment data should be compatible

and linked, to the extent possible, with related economic and social statistics and with national accounts. Joint analysis is facilitated if the different sets of data correspond in terms of reference periods, coverage, definitions and classifications.<sup>14</sup>

In any specific country the appropriate methods for statistical measurement of the informal sector and informal employment depend on the data requirements, measurement objectives, the organization of the national statistical system and the resources available. The possible approaches for measurement include household and employment surveys, establishment surveys and mixed household and enterprise surveys. These methods will be considered in chapter 3.

### **Identifying the data requirements of major users**

Once the decision is made to undertake surveys to collect data on informal employment and/or the informal sector, statisticians need to work with users to begin detailed planning. The starting point of the planning process is to identify the data required by major users. Users and the uses they have for data define the requirements which need to be addressed by the data collection programme. Users can be grouped according to the following broad headings:<sup>15</sup>:

- the national statistical office – including labour statistics and national accounts
- national government - the national bank and ministries dealing with economic affairs, finance treasury, industry, trade, employment, women and youth
- regional and local government
- business community - individual large businesses and business associations
- trade unions and non-governmental organizations
- academic and research institutions
- media and the general public
- international organizations –including national monitoring in connection with the Millennium Development Goals, the ILO Decent Work Agenda and preparation of national Poverty Reduction Strategy Programmes (PRSPs).

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<sup>14</sup> See *Resolution concerning statistics of employment in the informal sector, adopted by the Fifteenth International Conference of Labour Statisticians* in ILO, *Current International Recommendations on Labour Statistics*, (Geneva 2002), p.32.

<sup>15</sup> This list is basically identical to that presented in a similar discussion in chapter 6 of *Organization for Economic Co-operation and Development (OECD), International Monetary Fund (IMF), International Labour Organization (ILO), Interstate Statistical Commission of the Commonwealth of Independent States (CIS STAT), Measuring the Non-Observed Economy: A Handbook*, ( Paris, 2002) .

Consultations with such a wide range of potential users will contribute to building support for the data collection activity and provide the basis for establishing priorities on what is to be collected.

### **International statistical recommendations**

Following a large amount of research, data-gathering and promotional activities, the *Fifteenth International Conference of Labour Statisticians* in 1993 adopted an international statistical definition of the informal sector. Subsequently, it was included in the revised international *System of National Accounts* 1993. This definition was based on characteristics of the **production units** in which the activities take place (enterprise approach) rather than on the characteristics of the **persons** involved or their **jobs** (labour approach.). With this approach, the definition of the informal sector was acceptable to both labour statisticians and national accountants.

From the beginning it was clear that the informal sector definition adopted by the 15<sup>th</sup> ICLS did not capture the full extent of employment in the informal economy, in particular the non-standard, atypical, alternative, irregular, precarious types of employment relationships. Statisticians, researchers and activists, including members of the network, Women in Informal Employment: Globalizing and Organizing (WIEGO) worked with ILO to broaden the concept. In 2001 the Expert Group on Informal Sector Statistics (Delhi Group) recommended that “the definition and measurement of employment in the informal sector need(ed) to be complemented with a definition and measurement of informal employment.”<sup>16</sup>

The ILO developed a conceptual framework for the broader measure of informal employment to complement measures of employment in the informal sector. The 17<sup>th</sup> ICLS reviewed this framework and adopted guidelines endorsing it as an international statistical standard. The guidelines and this manual are a response to the request made by the ILC in 2002 that the ILO should assist countries in the collection, analysis and dissemination of statistics on the informal economy.

### **Purpose of the manual**

The manual has been prepared with two primary objectives. The first objective is to assist countries planning a programme to produce data on the informal sector and informal employment, in undertaking a review and analysis of their options. The second objective is to provide practical guidance on the technical issues involved with the development and administration of such surveys as well as on the compilation, tabulation and dissemination of the data collected.

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<sup>16</sup> Central Statistical Office of India, Report of Fifth Meeting of the Expert Group on Informal Sector Statistics (Delhi Group) September 2001.

The first objective is concerned with the early stage of survey planning, when overall objectives, costs and constraints are considered. For this purpose, the manual presents several options for the type of survey or surveys that can be used to collect these data and the strengths and limitations of each.

Secondly, the manual is designed to provide practical guidance on each step of the survey process. This comprises a range of activities including planning, questionnaire design, tabulation, reporting and dissemination. The manual, focuses in particular on the technical issues specific to the production of data on informal employment and the informal sector and is not a comprehensive guide to labour force, other household or enterprise surveys. For general methodological information on labour force surveys and other household surveys reference is made in particular to: *Surveys of economically active population, employment, unemployment and underemployment: An ILO manual on concepts and methods* as well as the United Nations publications *Designing Household Survey Samples: Practical Guidelines*, *Household Sample Surveys in Developing and Transition Countries*, *Handbook of Household Surveys* and the series published as part of the National Household Survey Capability Programme.<sup>17</sup> For methodological information on enterprise or establishment surveys see the United Nations publications *International Recommendations for Industrial Statistics* and *International Recommendations for Distributive Trade Statistics 2008*.<sup>18</sup>

The Manual is primarily aimed at national statisticians responsible for designing and administering survey programmes relating to labour and economic statistics. It is also intended for use as basic material for training courses on these topics. Finally, this Manual is also designed to serve as a basis for developing communication and dialogue between producers and potential users of these statistics. The Manual can give users a better understanding of the concepts underlying the data as well as the constraints statisticians face in supplying data to meet their needs.

## Contents

The present manual is a technical and operational guide for national statisticians interested in developing information on employment and production in the informal sector and on informal employment outside the informal sector. This chapter, the introduction, is the first of nine chapters. The second chapter

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<sup>17</sup> International Labour Office, *Surveys of Economically Active Population, Employment, Unemployment and Underemployment: An ILO Manual on Concepts and Methods* (Geneva 1990); United Nations, *Designing Household Survey Samples: Practical Guidelines*, Series F. No 98 (New York, 2008), *Household Sample Surveys in Developing and Transition Countries*, Series F. No. 96 (New York, 2008), *Handbook of Household Surveys* (revised edition) Series F No.31 (New York 1984).

<sup>18</sup> United Nations, *International Recommendations for Industrial Statistics*, Series M No. 48 Rev. 1 (New York 1983) and United Nations, *International Recommendations for Distributive Trade Statistics 2008*, Series M No. 28 (New York 2009).

describes in greater detail the concepts, definitions and sub-classifications that were introduced in this chapter. Chapter 3 considers the measurement objectives and data collection strategies that are involved with developing a data collection programme on informal employment and production and employment in the informal sector and provides an overview of the main alternative sources of data, namely household surveys, particularly labour force surveys, enterprise surveys and mixed household and enterprise surveys. Chapter 4 takes up the collection and processing of data on informal employment and the informal sector through household surveys. Chapters 5, 6 and 7 focus on each of the various methods that can be used to collect data on enterprises in the informal sector; specifically chapter 5 on establishment censuses and informal sector establishment surveys, chapter 6 on informal sector modules attached to household surveys and chapter 7 on independent informal sector surveys using the mixed household and enterprise survey approach. The last two chapters focus on using the data. Chapter 8 takes up tabulation, report and data dissemination. Chapter 9 concerns the use of data for national accounts purposes.