

INFORMAL SECTOR PRODUCTION

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10. INFORMAL SECTOR PRODUCTION

10.1. Introduction

10.1. Measurements of the informal sector are of intrinsic interest in their own right as well as providing a contribution towards exhaustive measures of GDP. The informal sector represents an important part of the economy, and particularly of the labour market, in many countries, especially developing countries, and plays a major role in employment creation, production and income generation. In countries with high rates of population growth or urbanisation, the informal sector tends to absorb most of the growing labour force in the urban areas. Informal sector employment is a necessary survival strategy in countries that lack social safety nets such as unemployment insurance, or where wages and pensions are too low to cover the cost of living. In other countries, the process of industrial restructuring in the formal sector is seen as leading to a greater decentralisation of production through subcontracting to small enterprises, many of which are in the informal sector. As previously noted, the 1993 SNA makes provision for the informal sector, and a sectorial account can be compiled using the same principles and procedures as for the household sector account elaborated in United Nations (2000).

10.2. The vast majority of informal sector activities provide goods and services whose production and distribution are perfectly legal. This is in contrast to illegal production. There is also a clear distinction between the informal sector and underground production. Informal sector activities are not necessarily performed with the deliberate intention of evading the payment of taxes or social security contributions, or infringing labour legislation or other regulations. Certainly, some informal sector enterprises prefer to remain unregistered or unlicensed in order to avoid compliance with some or all regulations and thereby reduce production costs. One should, however, make a distinction between those whose business revenue is high enough to bear the costs of regulations and those who cannot afford to comply with existing regulations because their income is too low and irregular, because certain laws and regulations are quite irrelevant to their needs and conditions, or because the State is virtually non-existent in their lives and lacks the means to enforce the regulations which it has enacted.

10.3. In some countries at least, a sizeable proportion of informal sector enterprises are actually registered in some way, or pay taxes, even though they may not be in a position to comply with the full range of legal and administrative requirements. It should also be noted that substantial segments of underground production originate from enterprises belonging to the formal sector. Examples include the production of goods and services “off-the-books”, undeclared financial transactions or property income, overstatement of tax-deductible expenses, employment of clandestine workers, and unreported wages and overtime work of declared employees. In summary, although informal sector and underground activities may overlap, the concept of the informal sector needs to be clearly separated from the concept of underground production.

10.4. In January 1993, the Fifteenth International Conference of Labour Statisticians (15th ICLS) adopted a *Resolution concerning statistics of employment in the informal sector* (International Labour Organization, 1993b) to assist national statistical offices in developing definitions, classifications and methods of data collection for the informal sector. The Resolution covers issues relating to the definition of the informal sector and the design, content and conduct of informal sector surveys. The informal sector definition adopted by the 15th ICLS forms part of the 1993 SNA although Chapter IV of the 1993 SNA reproduces

only the main parts of the definition. The 1993 SNA suggests that in countries where informal sector activities are significant the informal sector should be shown separately as a sub-sector of households (1993 SNA: 4.159). Such a distinction makes it possible for the national accounts to quantify the contribution of the informal sector to the national economy, which is an urgent statistical need for many countries. The aim of this chapter is to explain the thinking behind the 15th ICLS Resolution and the definition of informal sector and to elaborate on methods of measurement.

10.2. Definition of Informal Sector

10.2.1. Background

10.5. Since its first appearance in the early 1970s, the term *informal sector* has become so popular that nowadays it is used with different meanings for different purposes. Originally, it referred to a concept for data analysis and policy-making. Now it is sometimes used in a much broader sense to refer to a concept for the collection of data on activities not covered by the existing, conventional sources of statistics. In line with the original notion behind the concept, the starting point of the 15th ICLS in defining the informal sector was an understanding of the informal sector as an *analytical/political* concept rather than a *statistical* one. Paragraph 5 (1) of the Resolution states:

“The informal sector may be broadly characterised as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organisation, with little or no division between labour and capital as factors of production and on a small scale. Labour relations – where they exist – are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.”

10.6. Care was taken by the 15th ICLS to make the activities included in the informal sector definition as homogeneous as possible with respect to their economic objectives and behaviour, and the requirements for data analysis. From the practical viewpoint of survey operations, a related consideration regarding the inclusion of enterprises was the need for, and usefulness of, their coverage in informal sector surveys.

10.7. The 15th ICLS also tried to accommodate as far as possible the notion of the informal sector as a statistical concept in extending its scope to as large a universe of non-observed activities as seemed practically feasible and conceptually justifiable, but rejected its interpretation as “catch-all” concept. Thus, as noted in Chapter 3, the definition adopted does not lead to a segmentation of the economy or the employed population according to a formal/informal sector dichotomy. The 15th ICLS recognised that activities excluded from the scope of the informal sector were not necessarily formal. Examples are the household non-market production of goods, small-scale agriculture, paid domestic services, and activities presently falling outside the 1993 SNA production boundary, such as domestic or personal services provided by unpaid household members and volunteer services rendered to the community. It was recommended that such activities should be identified as belonging to a separate category outside the formal/informal sector distinction.

10.8. The definition had to be acceptable to a wide range of countries from different parts of the world. Thus, the definition had to be broad enough to encompass the variety of ways in which the informal sector manifests itself in different countries. It had to provide flexibility for the adoption of more specific definitions at the country level, reflecting national circumstances, even though such flexibility may adversely affect the international comparability of the statistics. Finally, the 15th ICLS was requested to develop a definition of the informal sector in such a way that it could also be used for national accounting purposes. This requirement had certain implications for the nature of the definition, as explained below.

10.9. Firstly, the informal sector had to be defined in terms of characteristics of the enterprises in which the activities take place, rather than in terms of the characteristics of the persons involved or their jobs. Accordingly, persons employed in the informal sector were defined as comprising 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. The definition of the population employed in the informal sector stresses the distinction between *employed persons* and *jobs*. It indicates that persons are classified into the informal sector through their relationship to a job in an enterprise with specific characteristics.

10.10. Persons exclusively employed in enterprises outside the informal sector are excluded from the international definition of the informal sector, no matter how precarious their employment situation may be. Thus, the concept of employment in the informal sector is not identical with the concept of *informal employment, i.e.*, persons employed in informal jobs. The 15th ICLS was aware of the need for statistics not only on employment in the informal sector, but also on employment in informal jobs. It was believed, however, that the best way of identifying informal jobs would be through appropriate sub-categories of status-in-employment classifications.

10.11. Secondly, the informal sector was considered by the 15th ICLS to be a sub-sector of the 1993 SNA household sector. In other words, informal sector enterprises are defined as a subset of household unincorporated enterprises. As noted in Chapter 2, in contrast to corporations and quasi-corporations, a household unincorporated enterprise is a producing unit that is not constituted as a separate legal entity independently of the household members who own it. It has no complete set of accounts that would provide a means of identifying flows of income and capital between the enterprise and the owners. *Household unincorporated enterprises* include unincorporated enterprises owned and operated by individual household members or by several members of the same household, as well as unincorporated partnerships and co-operatives formed by members of different households, all provided they lack complete sets of accounts.

10.12. As previously noted, the term *enterprise* is being used in a broad sense. It covers not only producing units that employ hired labour, but also those that are owned and operated by single individuals working on own-account as self-employed persons, either alone or with the help of unpaid family members. The production activities may be undertaken inside or outside the business owner's home; they may be carried out in identifiable premises or without fixed location. Accordingly, independent street vendors, taxi drivers, home-based workers, etc., are all considered to be enterprises.

10.13. The 15th ICLS recognised that the characteristic features of household unincorporated enterprises described in the 1993 SNA corresponded well to the concept of the informal sector as commonly understood. The fixed and other capital used does not belong to the enterprises as such but to their owners. The enterprises as such cannot engage in transactions or enter into contracts with other units, nor incur liabilities on their own behalf. The owners have to raise the necessary finance at their own risk and are personally liable, without limit, for any debts or obligations incurred in the production process. Expenditure for production is often indistinguishable from household expenditure, and capital equipment such as buildings or vehicles may be used indistinguishably for business and household purposes.

10.2.2. Core Definition

10.14. The first three criteria of the informal sector definition adopted by the 15th ICLS refer to the legal organisation of the enterprises, their ownership and the type of accounts kept for them. These three criteria are all embodied in the concept of household unincorporated enterprises as described above. However, while all informal sector enterprises can be regarded as household unincorporated enterprises, not all household unincorporated enterprises belong to the informal sector. In defining the additional criteria to distinguish informal sector enterprises from other household unincorporated enterprises, the 15th ICLS adopted a modular approach, illustrated in Figure 10.1.

10.15. Within household unincorporated enterprises a distinction was made between *enterprises of employers* and *own-account enterprises*. In accordance with the definitions of employers and own-account workers of the 1993 International Classification of Status in Employment (ICSE-93), the distinction was based on whether or not an enterprise employs at least one employee on a continuous basis (in contrast to employment on an occasional basis or employment of contributing family workers). The distinction was deemed important for definitional purposes. Compared with own-account enterprises,

Figure 10.1. Fifteenth ICLS: Framework for informal sector definition

Informal own-account enterprises	Other own-account enterprises	Own-account enterprises
Enterprises of informal employers	Other enterprises of employers	Enterprises of employers
Informal sector enterprises	Other household unincorporated enterprises	

enterprises of employers necessarily have a higher degree of formality in their operations, and therefore require additional criteria for being classified in the informal sector. Moreover, the distinction between these two groups of enterprises was considered useful for the purposes of data analysis and policy making and for the stratification of informal sector survey samples. Accordingly, the informal sector was defined as comprising *informal own-account enterprises* and *enterprises of informal employers* for which separate criteria were specified, as described in sections 10.2.3 and 10.2.4 below.

10.16. There are basically two different but interrelated ways of viewing and defining the informal sector. One approach views enterprises in relation to the legal and administrative framework in force and defines the informal sector as made up of enterprises that do not conform to this framework in some way. It assumes an intrinsic relation between non-registration and the notion of informality. The second approach views the informal sector as a particular form of production, and defines it in terms of the way the enterprises are organised and carry out their activities. Supporters of the second approach maintain that the informal sector is not identical with the unregistered sector. They stress the need for a clear conceptual basis in defining the sector, and point out the problems that a criterion based on registration may pose for the comparability of informal sector statistics between countries, between different areas within a country, and over time. They also mention the practical difficulties of obtaining information on the registration of enterprises as their owners may be reluctant to provide this information, and other respondents (*e.g.* employees) may be unable to do so. They view non-registration as a characteristic of the informal sector rather than as a criterion for defining it.

10.17. There was no agreement at the 15th ICLS as to which of the two approaches was better. Thus, the definition finally adopted by the 15th ICLS incorporated both approaches in the sense that it allows non-registration and/or employment size to be used as criteria to distinguish informal sector enterprises from other household unincorporated enterprises.

10.2.3. Informal Own-Account Enterprises

10.18. The 15th ICLS specified that, depending on national circumstances, either all own-account enterprises should be considered informal, or only those that are not registered under specific forms of national legislation. The legislation referenced includes factories' and commercial acts, tax and social security laws, professional groups' regulatory acts, and similar acts, laws or regulations established by *national* legislative bodies. Regulations enacted by local authorities for the purpose of obtaining a trade license or a permit to operate a business are excluded from the criterion. They are not considered to be appropriate because they are governed by administrative regulations and their enforcement that may vary considerably from one country to another and, within the same country, over time or between different regions. Moreover, they are not considered to have much of an effect on the way the enterprises are organised and operate nor on their economic objectives and behaviour, and homogeneity of economic objectives and behaviour is the 1993 SNA guiding principle for distinguishing between the various institutional sectors and sub-sectors. It should be noted that in many countries the criterion of non-registration, if properly chosen, covers the criteria of lack of legal identity and lack of a complete set of accounts.

10.19. The 15th ICLS did not include any size criterion in the definition of informal own-account enterprises. Such a criterion was considered superfluous, as by their very nature virtually all own-account enterprises are small.

10.2.4. Enterprises of Informal Employers

10.20. The 15th ICLS specified that enterprises of informal employers should be defined in terms of one or more of the following three criteria:

- small size of the enterprise in terms of employment;
- non-registration of the enterprise (defined as for informal own-account enterprises); or
- non-registration of its employees.

10.21. According to the 15th ICLS, the criterion of employment size can be formulated in terms of the *number of employees employed by the enterprise on a continuous basis*, or the *total number of employees* (including employees employed on an occasional basis), or the *total number of persons engaged* during a specific reference period (including the entrepreneur, business partners and contributing family workers in addition to the employees). The first of these is considered to be the ideal measure from the conceptual point of view, as it matches best the definition of informal own-account enterprises, which does not take account of the number of enterprise owners, business partners, contributing family workers and casual employees working in the enterprise. In practice, however, information on the number of all employees or on the total number of persons engaged is more easily obtained from survey respondents than information on the number of employees employed on a continuous basis, and may correspond more closely to the criterion used in practice to define the lower size cut-off point for surveys of formal sector enterprises or establishments.

10.22. In the case of enterprises composed of more than one establishment, the 15th ICLS recommended use of the *establishment* rather than the *enterprise* as the unit to which the size criterion refers. It specified that an enterprise composed of more than one establishment should be considered informal if none of its establishments exceeded the size limit. For many countries, the use of the establishment rather than the enterprise as the unit for the size criterion ensures compatibility with the criterion determining coverage of formal sector establishment surveys. Thus informal and formal sector statistics can complement each other. It also becomes possible to capture the development of informal sector enterprises that for various reasons tend to grow through the creation of additional small establishments rather than through an expansion of employment in the original establishment.

10.23. An important advantage of the size criterion in defining the informal sector is that size can be measured relatively easily by all relevant types of surveys. In addition, there is usually correlation between small size and other aspects of informality, in particular:

- small enterprises can remain unidentified by the authorities more easily than larger enterprises;
- governments with limited administrative resources tend to focus on large enterprises when trying to collect taxes or enforce labour legislation;
- unions tend to concentrate on large enterprises, which can be reached more easily, so that their efforts will achieve maximum results; and
- small enterprises tend to use more traditional technologies.

10.24. On the other hand, proponents of non-registration as the informal sector criterion note that small size, unless used in combination with other criteria, is not sufficient to define the informal sector and that the choice of the size limit is more or less arbitrary.

10.25. The size limit for enterprises of informal employers was not specified by the 15th ICLS so that it can be varied according to needs between countries and even between branches of economic activity within a country. In order to avoid an overlap with formal sector surveys, it was recommended that the choice of the size limit should take account of the coverage of enterprise/establishment surveys of the larger units in the corresponding branches of economic activity, where such surveys exist. However, some national statistical offices actually prefer to have a certain overlap in coverage, providing it can be identified, because response rates and data quality in enterprise/establishment surveys tend to be relatively poor for the smaller units.

10.26. During the 15th ICLS consideration was given to defining the informal sector residually as comprising all units that are not covered in existing enterprise/establishment surveys. It was however

decided that such a definition would not be appropriate for data analysis and policy making as it would tend to be unstable over time – the informal sector would expand or contract if the coverage of the existing surveys were changed. It would also introduce substantial differences between countries depending upon the coverage of their surveys. Furthermore, it was recommended that, where the existing cut-off point used for formal sector surveys seemed too high to be the size limit for the informal sector, efforts should be made to extend formal sector survey coverage by lowering the cut-off point. Where this is not possible, it may be preferable to recognise the existence of an intermediate segment, and to cover it through a separate survey rather than to include it in the scope of informal sector surveys. This is because the survey methods used for the collection of data on informal sector enterprises may not be equally well suited to medium-sized enterprises.

10.27. The criterion of non-registration of the employees of the enterprise refers to the conditions of employment in the informal sector regarding the employees' social and legal protection. It is defined in terms of the absence of employment or apprenticeship contracts which commit the employer to pay relevant taxes and social security contributions on behalf of the employees or which make the employment relationships subject to standard labour legislation. According to this criterion, an enterprise is informal if none of its employees are registered. This criterion is especially useful in countries where the registration of workers also leads to the registration of the enterprises employing them, *e.g.* with the social security institutions. In other countries, registration of workers is likely to be more useful as an indicator of the quality of employment than as a criterion to define the informal sector.

10.2.5. Additional Provisions

10.28. In order to complement its definition of the informal sector, the 15th ICLS adopted a number of recommendations regarding the scope of informal sector surveys and the statistical treatment of particular situations at the borderline between the informal and other sectors.

Non-economic activities

10.29. The scope of the informal sector is restricted to economic activities, *i.e.*, activities included in the 1993 SNA production boundary. This restriction is considered necessary to ensure that employment, production and income generation in the informal sector can be measured as a share of total employment, gross domestic product and national income. Excluded are domestic and personal services provided by unpaid household members, as well as volunteer services rendered to the community. It should be noted in this connection that the 1993 SNA production boundary also includes illegal and underground production activities. In principle, such activities fall within the scope of the informal sector if they are undertaken by units meeting the criteria of the informal sector definition. In practice, however, many such activities are likely to go unreported in statistical surveys of the informal sector.

Non-market production

10.30. According to the 15th ICLS, household unincorporated enterprises that are **exclusively** engaged in the production of goods or services for own final consumption or own fixed capital formation (*e.g.* construction of own houses) are excluded from the informal sector, with the possible exception of households employing paid domestic workers (as noted below). This recommendation was based on two considerations. Firstly, units exclusively engaged in non-market production differ in their economic objectives and behaviour from informal sector enterprises, which are typically operated for the purpose of earning a living or obtaining an additional income through the production of goods and services for sale to others. Thus, they should not be merged with informal sector enterprises. Secondly, it was noted that it is difficult to determine the value of goods produced for own final use unless the same units also produce some of their goods for sale to others.

10.31. As previously noted, the boundary between enterprises exclusively engaged in production for own final use and others does not match precisely the 1993 SNA definition of a market producer as the latter includes only those enterprises (or establishments) most or all of whose output is marketed (1993 SNA: 6.52).

Agricultural activities

10.32. The 15th ICLS recognised that, from a conceptual point of view, there was nothing against the inclusion, within the scope of the informal sector, of household unincorporated enterprises engaged in agricultural and related activities, if they meet the criteria of the definition. For practical data collection reasons, however, the 15th ICLS recommended excluding agricultural and related activities from the scope of informal sector surveys and measuring them separately. The reasoning was that many developing countries have a large agricultural sector, mainly composed of small, unregistered household unincorporated enterprises and that the inclusion of such enterprises in informal sector surveys would lead to considerable expansion of survey operations and increase in costs. Moreover, most national statistical systems already have an established system of agricultural surveys whose coverage includes (or can relatively easily be extended to include) household unincorporated enterprises engaged in agricultural and related activities. In terms of concepts, definitions, classifications, survey content, questionnaire design, reference periods, sampling frames and procedures, organisation of field work, etc., agricultural surveys appear better suited than informal sector surveys to meeting the particular requirements for measuring agricultural and related activities.

10.33. However, the 15th ICLS recommended that non-agricultural activities of household unincorporated enterprises mainly engaged in the agricultural sector should be included in the informal sector if they meet the other criteria for inclusion. Experience has shown that such non-agricultural activities are frequently undertaken as secondary activities of farm households or during the agricultural slack season.

Rural areas

10.34. Recognising the large number of informal sector activities in the rural areas of many countries and their similarity with urban informal sector activities, the 15th ICLS recommended that, in principle, the informal sector should include enterprises located in rural areas as well as enterprises located in urban areas. However, countries starting to conduct informal sector surveys were given the option to confine data collection initially to urban areas until resources and appropriate sampling frames become available to cover the whole national territory.

Professional and technical services

10.35. In the past, it had been sometimes suggested that enterprises engaged in the production of professional or technical services rendered by self-employed doctors, lawyers, accountants, architects, engineers, etc., should be excluded from the informal sector because of the high level of skills involved and other particular characteristics. However, the 15th ICLS recommended that there should be no special treatment for such enterprises, *i.e.*, that they should be included or excluded on the same basis as other enterprises.

Outworkers (Homeworkers)

10.36. In accordance with the 1993 SNA, outworkers (homeworkers) were defined by the 15th ICLS as persons who agree to work for a particular enterprise, or to supply a certain quantity of goods or services to a particular enterprise, by prior arrangement or contract with that enterprise, but whose place of work is not within any of the establishments which make up that enterprise (1993 SNA: 7.26). It was recommended that outworkers should be included among informal sector enterprises if they constitute enterprises on their own as self-employed persons, and if these enterprises meet the criteria of the informal sector definition.

10.37. Criteria for distinguishing self-employed outworkers from employee outworkers include:

- the basis of remuneration (income received as a function of the value of outputs produced *versus* payment related to the amount of labour inputs provided);
- employment of paid workers by the outworker;
- non-existence of an employment contract with the enterprise receiving the goods or services produced by the outworker;
- decision-making on markets, scale of operations and finance; and
- ownership of machinery or equipment.

10.38. In respect of situations, where the number of outworkers was significant or where outworkers represented a group of particular concern for data users, it was recommended that self-employed outworkers be identified as a separate sub-category of informal sector enterprises.

Paid domestic workers

10.39. There was no agreement at the 15th ICLS regarding the treatment of paid domestic workers employed by households (*e.g.* maids, laundresses, watchmen, drivers, and gardeners) with respect to the informal sector. It was pointed out that, in many situations, it is virtually impossible to distinguish paid domestic workers who are self-employed (*i.e.*, who are owners of household unincorporated enterprises producing services for sale on the market) from those who are employees of the households employing them (*i.e.*, who are employees of household unincorporated enterprises producing services for their own final consumption). Moreover, data on paid domestic workers and their remuneration are often available from other sources, such as labour force or household income-expenditure surveys, so there may be no need to cover such workers in an informal sector survey.

10.40. For these reasons, the issue of whether or not paid domestic workers should be included in the informal sector was left by the 15th ICLS as open for determination by the countries themselves, depending upon their national circumstances and the intended uses of the statistics. However, it was recommended that, if included in the informal sector, paid domestic workers should be identified as a separate subcategory in order to enhance the international comparability of the statistics.

10.2.6. Recommendations of the Delhi Group

10.41. The 15th ICLS provided considerable flexibility to countries in defining and measuring the informal sector. Some elements of flexibility were desired, because the 15th ICLS resolution was the first international recommendation ever adopted on the topic, and its main purpose was to provide technical guidelines for the development of informal sector statistics rather than strive after the international comparability of data. Other elements of flexibility arose from lack of agreement. However, flexibility reduces international comparability. To address this problem, the UN Expert Group on Informal Sector Statistics (Delhi Group), which was constituted in 1997, has endeavoured to harmonise national definitions of the informal sector on the basis of the framework set by the international definition. The Delhi Group recognised that there were limits to harmonisation; nevertheless, on the basis of the largest common denominator, the Group was able to identify a subset of the informal sector that could be defined uniformly and for which countries could make internationally comparable data available. Accordingly, the Delhi Group adopted the following text.

“Since the informal sector manifests itself in different ways in different countries, national definitions of the informal sector cannot be fully harmonised at present. International agencies should disseminate informal sector data according to the national definitions used. In order to enhance the international comparability of informal sector statistics, they should also disseminate data for the subset of the informal sector, which can be defined uniformly” (Central Statistical Organisation, India 1999).

10.42. To arrive at this subset, the Delhi Group adopted the following recommendations:

1. All countries should use the criteria of legal organisation (unincorporated enterprises), of type of accounts (no complete set of accounts) and of product destination (at least some market output).
2. Specification of the employment size limit of the enterprise in the national definition of the informal sector is left to the country's discretion. For international reporting, however, countries should provide figures separately for enterprises with less than five employees. In the case of multiple-establishment enterprises, the size limit should apply to the largest establishment.
3. Countries using the employment size criterion should provide disaggregated figures for enterprises, which are not registered, as well as for enterprises, which are registered.
4. Countries using the criterion of non-registration should provide disaggregated figures for enterprises with less than five employees as well as for enterprises with five and more employees.
5. Countries, which include agricultural activities, should provide figures separately for agricultural and non-agricultural activities.
6. Countries should include persons engaged in professional or technical activities if they meet the criteria of the informal sector definition.
7. Countries should include paid domestic services unless these are provided by employees.
8. Countries should follow paragraph 18 of the Resolution adopted by the 15th ICLS regarding the treatment of outworkers/homeworkers. Countries should provide figures separately for outworkers/homeworkers included in the informal sector.
9. Countries covering urban as well as rural areas should provide figures separately for both urban and rural areas.
10. Countries using household surveys or mixed surveys should make an effort to cover not only persons whose main job is in the informal sector, but also those whose main job is in another sector and who have a secondary activity in the informal sector.

10.43. Since the subset presently covers only a relatively small part of the informal sector in any country, the Delhi Group recognised that further efforts were needed to enlarge it in future.

10.3. Measuring the Informal Sector

10.3.1. Measurement Objectives

10.44. The appropriate methods for measuring the informal sector depend upon the measurement objectives. If the aim is simply to monitor the evolution of informal sector employment in terms of the number and characteristics of the persons involved and the conditions of their employment and work, then the data can be obtained by adding questions to an existing labour force survey. Similarly, if the aim is to obtain information of the demand by households for goods and services produced by the informal sector, then supplementary questions can be included in a household income and expenditure survey.

10.45. On the other hand, the measurement objectives may be much more complex. For example the aim may be to collect detailed structural information on the informal sector including the number and characteristics of the enterprises involved, their production activities, employment, income generation, capital equipment, the conditions and constraints under which they operate, and their organisation and relationships with the formal sector and the public authorities. In this case, measurement requires a dedicated informal sector survey in which the informal sector enterprises themselves and their owners are the observation and reporting units. In this case, as outlined in Chapter 6, there are two basic survey design options, namely an enterprise survey or a mixed household-enterprise survey. The choice depends upon data requirements, the organisation of statistical systems, and the resources available.

The design must take into account the large number of enterprises likely to be in scope and their typical characteristics – small size, high mobility and turnover, seasonal variations in business activity, clustering in specific areas, lack of recognisable features for identification/location, lack of usable records, and eventual reluctance to participate. This may require modification of traditional survey methods or development of new ones. The following paragraphs describe the various measurement options in more detail.

10.3.2. Labour Force Surveys

10.46. Monitoring the number and characteristics of the persons in the informal sector and the conditions of their employment and work can be achieved by periodically including a few additional questions pertaining to the informal sector definition in an existing labour force or similar household survey. The costs of doing this are relatively low. The additional questions should be asked of all persons employed during the reference period of the survey, irrespective of their status in employment. In this way, it is possible to collect comprehensive data on the volume and characteristics of informal sector employment and to obtain information on employment and working conditions from all categories of informal sector workers, including employees and contributing family workers. These data can be related to the corresponding data on employment in the other sectors and unemployment.

10.47. Labour force or similar household surveys are often conducted at a higher frequency than specialised, in-depth informal sector surveys. Thus, the data obtained from the former concerning the evolution of labour inputs in the informal sector can be used to extrapolate data from the latter concerning other characteristics, *e.g.* value added, of the informal sector.

10.48. Employees, contributing family workers and proxy respondents may find it difficult to provide information on some of the criteria used to define the informal sector, especially the legal organisation and bookkeeping practices of the enterprise. It is, however, possible to obtain an estimate of the total number of persons employed in the informal sector using the data provided by respondents identified as employers or own-account workers regarding the characteristics of their enterprises, including legal organisation, bookkeeping practices and number of persons engaged. Another possibility is to base the estimate on all respondents irrespective of their status in employment and to obtain from respondents, who are employees or contributing family workers, approximate information on the legal organisation and type of accounts of the enterprise for which they work. For this purpose, a question on the type of enterprise (government agency, public enterprise, etc.) is required.

10.49. In many countries a large number of informal sector activities are undertaken as secondary jobs. Thus, it is essential that the questions for identification of the informal sector be asked not only in respect of the respondents' main jobs but also in respect of their secondary jobs. Furthermore, persons can be classified in the informal sector only if they have been identified as employed in the first place. To ensure that all informal sector activities are covered, it is often necessary to make special probes on activities that might otherwise go unreported as employment. For example, special probes may be required for unpaid work in small family enterprises, activities undertaken by women on their own account at or from home, undeclared activities, and informal sector businesses conducted as secondary jobs by farmers, government officials or employees of the private formal sector. In order to capture adequately the work of children in the informal sector, it may also be necessary to lower the minimum age limit that the surveys use for measurement of the economically active population. In designing the survey sample, care should be taken to include an adequate number of areas where informal sector workers live.

10.50. There are certain limitations to the use of labour force or similar household surveys for the measurement of informal sector employment.

- Informal sector employment is obtained as part of total employment, which is usually measured in relation to a short reference period such as one week. Because many informal sector activities are characterised by seasonal and other variations over time, the data on informal sector employment obtained for a short reference period are unlikely to be representative of the whole year. Improved representativeness in the time dimension may be achieved by repeating the measurement several times during the year in the case of quarterly,

monthly or continuous surveys, or in using a longer reference period such as one year in the case of annual or less frequent surveys.

- Estimation of the number of informal sector enterprises is difficult, if not impossible. It is not identical to the number of informal sector entrepreneurs because of the existence of business partnerships.
- The possibilities for disaggregating the data by branch of economic activity and other characteristics depend upon the sample size and design.

10.3.3. Household Income and Expenditure Surveys

10.51. Household income and expenditure surveys are a potential source of information on the demand by households for goods and services produced in the informal sector. For each expenditure group, data may be collected on the distribution of expenditures by point of purchase, distinguishing, for example, supermarkets, formal shops and workshops, public sector and other formal points of purchase, ambulant vendors and street stalls, homes of vendors, small/informal shops and workshops, markets, and other informal points of purchase. However, household income and expenditure surveys cannot provide information on the total demand for informal sector products. They can only provide data on household final consumption expenditure for informal sector products, which is only a part (albeit the most important one) of the total demand.

10.3.4. Informal Sector Enterprise Surveys¹

10.52. An enterprise survey presupposes the availability of a sampling frame of informal sector enterprises or establishments. List frames are usually not available. Countries with a large informal sector often do not have a business register. Even where a business register exists, it does not usually cover informal sector enterprises. In fact, it is common practice to use the presence or absence of an enterprise (establishment) in the business register to define the practical boundary between formal and informal. Thus, in most cases, enterprise surveys can be conducted only following a census of informal sector units or, better still, a general economic/establishment census covering the relevant branches of economic activity and containing the items required for the identification of informal sector units.

10.53. If an informal sector survey is conducted immediately after an economic/ establishment census, the census lists can provide the frame for selection of the informal sector sample. If the survey is conducted later, data from the most recent census can be used to construct an area sampling frame for the selection of sample areas (primary sampling units). The sampling rates should take account of the density of informal sector units of various types in the census enumeration areas. The high mobility and turnover of informal sector units usually requires a systematic updating of the lists of the enterprises/ establishments in the sample areas prior to selection of the ultimate sampling units.

10.54. Economic or establishment censuses are large-scale, costly operations that, due to resource constraints, many countries cannot undertake or can undertake only in their (major) urban areas. Furthermore, complete coverage of the informal sector without omissions or duplications is difficult.

10.55. Many informal sector enterprises are hard to identify and locate during a door to door enumeration because they lack recognisable business premises. Examples are activities conducted inside the owner's home (*e.g.* tailoring, food processing) or without fixed location (*e.g.* construction, transport, and ambulant trade). Unless substantial efforts are made, such units are likely to be omitted. An approach that has proven to be efficient and cost-effective in a number of countries is to conduct an economic census concurrently with the house-listing operation for a population census. This and similar efforts to improve the coverage of home-based and mobile activities are based on a mixed household-enterprise survey approach as discussed in section 10.3.5 below.

1. Throughout this section *enterprise* should be interpreted to mean *enterprise* or *establishment* according to the unit used by the statistical office as the subject of the survey.

10.56. As information is collected separately for each enterprise/establishment, it may be difficult to detect the linkages between informal sector activities undertaken by the same individuals or households and to consolidate these data at the household or enterprise level. There may be double-counting of activities in cases where, for example, some members of a household produce goods in a small workshop or at home, and other members of the same household sell these goods in a market or street stall.

10.57. Notwithstanding these limitations, enterprise censuses and surveys remain a useful and efficient method of data collection on the “upper” segment of the informal sector (*i.e.*, identifiable establishments), which are often the main target of small enterprise development programmes.

10.3.5 Informal Sector Mixed Household-Enterprise Surveys

10.58. There is a marked trend in recent years to survey the informal sector through *mixed-household enterprise surveys*. Such surveys are the most suitable approach when the aim is to collect comprehensive data about the informal sector as a whole and about the various segments of which it is composed. These surveys can cover all informal sector entrepreneurs (except homeless persons) and their activities, irrespective of the size of the enterprises, the kind of activity and the type of workplace used, and irrespective of whether the activities are undertaken as main or secondary jobs. In particular, they can also cover activities undertaken inside the owner's home or without fixed location.

10.59. As noted in Chapter 6, mixed household-enterprise surveys are based on area sampling and are usually conducted in two phases. In the first phase (the household survey component), a sampling frame for informal sector enterprises or, more generally, small enterprises is obtained through a household listing or survey in the selected sample areas (primary sampling units). All enterprises falling within the scope of the survey and their owners are identified. Data often have to be obtained from household members other than the enterprise owners themselves, *i.e.*, proxy respondents. Thus, it is not normally possible to obtain good quality data relating to the informal sector criteria. Instead, the focus is on ensuring good coverage of the informal sector by attempting to identify the owners of all enterprises that *may* belong to the informal sector.

10.60. In the second phase (the enterprise survey component), a sample (or all) of the enterprise owners are interviewed to obtain detailed information about them, their enterprises, and their employees (if any). The informal sector enterprises can be more precisely identified during this stage – a process known as post-sampling identification.

10.61. Mixed household-enterprise surveys make it possible to analyse jointly, at the enterprise or household level, the various kinds of informal sector activities undertaken by the same individuals or households. Moreover, data on the characteristics of the informal sector activities and enterprise owners can be related to the characteristics of the owners' households obtainable from the same survey. This is important for assessing the contribution of other household members to the household income and for analysis of the impact of the household situation on the activities of women and children working as informal sector entrepreneurs.

Independent surveys

10.62. Informal sector mixed household-enterprise surveys can be conceived either as stand-alone surveys or as modules attached to existing labour force or other household surveys. Often an independent survey is the technically better arrangement because its sample can be specifically designed to meet the informal sector measurement requirements, for example, to produce estimates of specified reliability in selected strata. Data may be required for each economic branch, or to support analysis of the differences between various informal sector segments regarding their income-generating potential, constraints and other characteristics.

10.63. Independent informal sector surveys using the mixed household-enterprise survey approach are based on a multi-stage design involving the following steps:

1. selection of areas as primary sampling units;
2. listing or interviewing of all households in the sample areas;

3. selection of sample households with owners of (potential) informal sector enterprises as ultimate sampling units; and
4. main interviewing of sample households and enterprise owners.

10.64. The sample design must take into consideration that some types of activities (*e.g.* transport, repair and other services) are likely to be less well represented than others (*e.g.* trade, sale of cooked food), and that some activities (*e.g.* certain types of manufacturing) tend to be concentrated in specific areas. To ensure adequate representation of all such activities in the sample and to reduce clustering effects, it is important to include a sufficient number of units in the first stage sample.

10.65. For first stage allocation and selection, an area sampling frame is used, consisting of enumeration areas of appropriate size, stratified according to the overall density of informal sector activity in these areas, or the densities of informal sector activities of different types. Information useful for construction of such a frame includes:

- data obtained from the latest population census on the density of employers and own-account workers in the enumeration areas classified by broad activity groups and, if available, by type of workplace and number of employees;
- data on the concentration of small establishments by broad activity groups as obtained from the latest establishment or economic census,
- data for stratification of enumeration areas by income level or other socio-economic criteria, data obtained during listing or data collection in previous informal sector or other surveys, or information based on local expert knowledge about the spatial distribution of informal sector activities in the regions or towns to be covered by the survey.

10.66. These data normally provide a reasonably good approximation of the density of informal sector entrepreneurs living in the enumeration areas at the time of the survey. Enumeration areas with a high density of informal sector entrepreneurs in the relevant activity groups are selected at a higher rate in order to obtain more coverage by the sample, increased sampling efficiency and reduced survey costs.

10.67. The cost aspect is particularly important for the first survey phase, which is an expensive operation unless it can be combined with a household listing for another survey. The task is to list all the households in the sample areas, to identify all the potential informal sector entrepreneurs and their enterprises, and to obtain any additional data to be used for their subsequent stratification and selection. The quality of listing is a key factor for the overall quality of the estimates obtained from the survey.

10.68. The household listing may not provide a complete coverage of informal sector activities conducted in identifiable establishments outside the homes of the enterprise owners. Thus, it is useful to undertake a dual, mutually exclusive listing of *i*) households and household-based (including mobile) entrepreneurs and *ii*) establishments in the sample areas. Some countries even use different area sampling frames for *i*) and *ii*) because they tend to be clustered in different areas. With a view to ensuring a complete coverage and accurate identification of household-based entrepreneurs, it may be useful to extend the first phase from a household listing to a household survey operation, during which detailed information is collected on the economic activities undertaken by each household member.

10.69. The listed households and establishments are then grouped in strata by industry, sex of the entrepreneur, type of workplace, etc., for second stage allocation and selection. The aim is to make the allocation of the final sample to the various strata as homogeneous as possible and to ensure that an adequate number of ultimate sampling units from each stratum is selected.

10.70. The design of an independent informal sector survey entails fairly complex survey operations and sample design and estimation procedures. It requires a team of qualified survey staff, sound training of interviewers, constant supervision and control of all survey operations, and care in keeping records of the listing operation, sample selection and sample outcome for each sample area.

Modules attached to household surveys

10.71. Attachment of an informal sector module to an existing household survey (such as a labour force survey or a household income and expenditure survey) means that the informal sector survey sample is obtained as a sub-sample of the base survey. The informal sector survey may be conducted simultaneously with the base survey or subsequently. The latter arrangement is preferred in most cases as it:

- facilitates the management and co-ordination of the two surveys;
- ensures that the survey operations for the base survey can proceed smoothly;
- is unlikely to have a negative impact on the quality of the base survey data; and
- provides a better control over the identification and selection of the sub-sample for the informal sector survey.

10.72. The modular approach is less complex and less expensive than the conduct of an independent informal sector survey because information collected during the base survey provides the basis for the identification and selection of the sub-sample of households or persons for the informal sector survey, and no special household listing or interviewing is required. From the methodological point of view, the strengths of the modular approach lie in its possibilities:

- to monitor changes of the informal sector over time, if the base survey is conducted regularly and an informal sector module is attached to it at sufficiently frequent intervals;
- to achieve a complete coverage and accurate identification of (potential) informal sector entrepreneurs in the sample households during the base survey interviews, particularly if a well-designed labour force survey is used for this purpose;
- to use the sampling weights of the base survey for the households with informal sector enterprises and thereby facilitate the estimation of the survey results; and
- to relate data on the informal sector activities to data obtained from the base survey.

10.73. However, the modular approach can only be used in situations where a suitable base survey exists, and where it is feasible in terms of survey operations and response burden to add data collection for the informal sector to data collection for the base topic. The representativeness of the data over time may be limited by the frequency and reference period of the base survey. The base survey sample is not likely to have been efficiently designed from the perspective of informal sector measurement, neither at the level of sample areas nor at the level of sample households. There is no control over the size of the informal sector sample or over its distribution by type of activity. The resulting number of informal sector entrepreneurs included in the sample may, therefore, be quite small, and insufficient to yield reliable separate estimates for each type of informal sector activity for which such estimates would be desirable (*e.g.* estimates by branch of economic activity).

10.74. There are ways to increase the size of the informal sector sample. If the information required for identification of the units eligible for the informal sector survey is obtained during the listing operation for the base survey, the informal sector survey sample can be selected on the basis of all households in the sample areas, rather than only those selected for the base survey sample. (This comes close to the design of an independent informal sector survey.) Alternatively, if resources permit, the base survey sample can be increased by adding households to it, either from the same or from additional sample areas.

Integrated surveys

10.75. *Integrated surveys* can be seen as special types of modular surveys. Integrated surveys are designed to meet several objectives at the same time, *i.e.*, the collection of data about the informal sector and other topics, *e.g.* labour force, household income and expenditure. Such surveys are especially useful for countries that do not have a household survey to which an informal sector module can be attached, and that need to collect data on a range of topics without having the resources that are necessary for separate surveys.

10.76. Integrated surveys aim at incorporating the sample design requirements for informal sector measurement into a combined survey design as an additional objective, to the extent that all the requirements can be reconciled. For this purpose, efforts are made in the sample allocation and selection to increase the number of households with informal sector enterprises included in the sample and to enhance the representation of the various types of informal sector activities in the sample. It should be noted, however, that integrated surveys are operationally complex undertakings, especially if the aim is to cover the whole country including rural areas. Moreover, the response burden for sample households tends to be high. Examples of integrated surveys are the 1-2-3 *surveys* that have been conducted in the capital cities of some French-speaking African countries. In these surveys, the first phase is a labour force survey, the second phase an informal sector survey based on a sub-sample of the labour force survey, and the third phase a household income and expenditure survey conducted on the original labour force survey sample.

10.3.6. Design and Quality Considerations

10.77. In addition to following the good survey design practices articulated in Chapter 6, the particular characteristics of the informal sector demand special attention. While sampling errors can be handled relatively easily by appropriate sample design and size, non-sampling errors are more difficult to control. The following measures may prove useful in reducing non-sampling errors and improving the quality of informal sector data.

10.78. A characteristic feature of many informal sector enterprises is their high mobility and turnover. In order to reduce non-contact rates and distortions of survey data resulting from sample units that have moved location or changed or stopped their activity, the time interval between the two survey phases of a mixed household-enterprise survey should be kept as short as possible.

10.79. Every possible effort should be made to trace sample units to their new location. Replacement by other units should be avoided, as it is likely to bias the survey results. In order to compensate for non-contacts, it is better to select a larger sample at the outset. Another means of increasing contact rates, as well as the quality of the data obtained, is to try to interview informal sector entrepreneurs, who conduct their business at fixed locations outside their home, at their actual place of work rather than at their residence.

10.80. Many informal sector entrepreneurs have a relatively low level of education and do not keep usable written records of their activities. They are not used to participating in surveys and are often unwilling or unable to devote much time to doing so. Some entrepreneurs are difficult to contact because they operate without fixed location, *e.g.* ambulant vendors, taxi drivers, and construction workers. There may also be respondents who are reluctant to answer the survey questions for fear of subsequent taxation or harassment by the authorities. Thus, provisions that help to improve response rates and data quality are essential, including:

- advance information for respondents regarding the survey and its purposes;
- formal assurance of confidentiality of the data provided;
- choice of the date, time and place of the interviews in consultation with the respondents themselves;
- sound motivation, training and supervision of interviewers and establishing good human relations between interviewers and respondents;
- design of survey questionnaires which are manageable in terms of content and length, and which are easy to follow and complete by interviewers;
- formulation of questions in a way that is understandable by respondents, and that refers to their specific situation and the nature of their activities; and
- use of short reference periods that enable respondents to provide the required information with sufficient accuracy.

10.81. In most circumstances, the maximum recommended length of the reference period is one month; in some cases a shorter reference period, such as one week or one day, may be essential. If respondents are allowed to choose the reference period for which they can best provide the requested data, auxiliary information has to be collected that enables data conversion to a standard reference period.

10.82. The best possible way of capturing seasonal variations and of estimating annual values in spite of using short reference periods is to spread data collection over a survey period of a whole year. The survey sample is then to be divided into independent sub-samples for different parts of the year, as repeated interviews with the same respondents are usually impossible. An alternative is to collect data for short reference periods during a short survey period, supplemented by questions on the intensity of business activity during each month of the year and on the average level of receipts/profits in the months of high/low business activity as a percentage of the average level of receipts/profits in the months of normal business activity.