

## **Statistics on the informal economy**

### **Lessons learned from the international compilation exercise**

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Statistics on the informal economy are mainly comprised of 6 items:

- self employment,
- informal employment,
- informal sector employment,
- contribution of informal sector to GDP,
- wages in the informal sector,
- income from informal sector enterprises (mixed income).

All these items must – and usually can – be disaggregated by gender, and by agricultural (primary)/non-agricultural sector. If everybody is now convinced of the necessity of gender disaggregation, it is not the case for the disaggregation by agricultural/non-agricultural sector and the use of national data – as they are currently published – shows that it remains a major difficulty to cope with.

I recognise that it was a mistake to build a data base for non agricultural categories only and I am currently trying to fill this gap, but I am still persuaded that categories which mix agricultural and non-agricultural activities are not useful if they are not providing the disaggregation in the same table: it is so because the employment structures and the trends are quite different in the two sectors and the weight of agriculture is generally too high so that the aggregate figure is mainly reflecting the situation of the agricultural sector. Moreover, labour force statistics are generally unable to differentiate subsistence agriculture (farmers working for self-consumption only) from other agricultural activities and when we come to national accounts, agricultural estimates are completely disconnected from employment statistics in this sector. The issue is even more sensitive in reference to regional and global estimates.

Differentiating the two sectors is also useful because the underestimation of the number contributing family workers (especially women) is particularly problematic in this sector in some major countries (India for example) as well as in other countries, smaller or not, which raises other issues for global estimates. A separate treatment of agriculture and non-agriculture can allow to cope with some problems of comparability and quality, without entirely solving the problem of course.

Having said that, I think it is important to dedicate time and resources in the Delhi Group, in collaboration with WIEGO, to the implementation and the updating of a data base on informal sector statistics.

Although self-employment is a useful proxy for the major component of the informal sector and presents the interesting characteristic of being available for industrialised countries and transition economies as well, the Delhi Group is probably less interested in its inclusion in the database. It does not raise any difficulty anyway and just requires the

availability of the table cross-classifying industries by status and sex. Comparability issues are only due to the fact that some countries (like France) have institutionalised a legal status of incorporated firm for single persons so that this type of self-employment is hidden and merged in paid employment. In the past decade and in recent years, data on self-employment has more and more become available on an annual basis. But the ILO should continue to collect the table from the countries in order that they are kept aware of the usefulness of the information.

**Informal sector employment** is the basic indicator for the Delhi Group. The compilation exercise showed that:

- it is available only for a few countries at national level,
- the database can include the same category, countries where data collection has been undertaken only in urban areas, as far as these countries have a dominant urban labour force (Mexico for example),
- it could also include countries which have undertaken comprehensive censuses or surveys of establishments at national level,
- otherwise it is misleading to mix the data with various geographical coverages, because structures and trends of the informal sector are quite different in capital cities (where trade activities are concentrated), in other urban areas and in rural areas (where manufacturing activities and multiple activities are dominant). In many African countries, rural non-farm informal activities can be more numerous than urban informal activities.
- Agricultural activities have to be measured from different sources, and urban agriculture is a special concern.

Apart from geographical and sectoral coverage, another concern for this category of employment is the definition used. As far as we are dealing with mixed surveys or establishment surveys and not with usual labour force surveys, the definitions can vary but not too much and generally in compliance with the international definition, at least for the surveys carried out in the last decade, especially after 1993. It is different for the estimates of the informal sector based on labour force surveys: the reason (illustrated by Latin American estimates prepared for PREALC for instance, or by Thailand) is that paid employment cannot be classified according to the legal status of the enterprise. Estimates of the informal sector can otherwise be generated from labour force surveys, based on the number of own account workers and employers and the number of workers (including the owners) working in these enterprises below a certain size or not registered, depending on the definition adopted. Although these later estimates are strictly equivalent to the estimates generated by a mixed survey undertaken in a second stage, they are not very numerous. But it is clear that the PREALC estimates could be redone in this perspective, at least for a recent year (and the comparison with the previous estimates could be enlightening).

Coming now to **informal employment**, there are two different methods of estimation:

- on the one hand, a labour force survey will allow us to classify as informal workers, all persons occupied who will have responded not to be recorded at social security funds, or preferably who will have responded not to be entitled in

- any social benefit (more complex definitions can be applied, but the search for comparability would require having a simple basic definition).
- on the other hand, the comparison of sources on employment on the supply side (households) and on the demand side (enterprise and/or administrative records) has been able to provide other estimates on informal employment defined as employment outside the formal registered and recorded formal sector. The size of informal employment is then heavily dependent on the quality of the registration for the formal sector, but it is perfectly acceptable to consider that the economic units and the jobs which escape (with or without the willingness to escape) to the registration procedures are informal. It should be noted that these kinds of estimates are necessarily conducted at national level.

Using one of these two methods, the number of estimates is much larger for the informal sector. Now an issue raised by the compilation exercise was: can we include the PREALC estimates in these estimates of informal employment (mainly based on a definition by the size: less than 5 or 10 workers)? Can we consider that it can be taken as a kind of residual method which would have defined the formal sector as comprising all employers employing 5 or 10 and more workers (and all professionals)? It is clear that the comparability with the other estimates is not ensured. But I would think that this kind of proxy for could be accepted if it appeared that in Mexico and in Colombia where the 3 methods (labour force, residual, and PREALC) can be applied for a base year, the results are of the same level.

I would say that with respect to informal employment and having in mind regional and global estimates, the important thing is to use a similar method at continental level, for instance, the PREALC method in Latin America, the 'residual method' in Africa and the labour force surveys in Asia.

Apparently the refined questions in labour force surveys could be taken as the most desirable. However, social protection is not such an objective concept that would be easy to capture. It has already been said that a distinction must be made between registration, entitlement and actual benefits. But there are other cases where social contributions may be considered as taxes rather than insurance. In Tunisia for instance, according to official figures, more than 50 percent of own account workers are registered in social security funds, but their contribution is at the minimum so that the social benefits they can gain (in case of sick leave for instance) are also at the minimum. My opinion is that, in such cases, these small entrepreneurs who obviously belong to the informal sector, should also be classified in informal employment: to put it in a few words, informal sector employment should be a part of informal employment regardless of the possible registration of some of its operators or workers.

The database has not to deal with the second residual (which I have called the "undeclared", "unregistered", "invisible" workers) resulting from the comparison between informal employment on the one hand and informal sector employment on

the other hand, because this kind of analysis is in the hands of the users of the database.

**Contribution of informal sector to GDP** is also an interesting indicator to include in the database. The compilation exercise showed that national data have to be cleaned of

- agricultural (primary) activities, for which the disaggregation between non-market and market is based on total production, not on economic units and does not consequently comply with the international definition,
- other production for own final use such as imputed rents and paid domestic services,

Furthermore, the production (and value added) of the household sector in the SNA can be larger than the informal sector depending on the definition which has been adopted because it includes all the private unincorporated units, irrespective of their size or registration (usual situation in Africa). But in other countries, it seems that unincorporated units above a certain size have been assimilated to quasi-incorporated firms and included in the non-financial incorporates sector.

To conclude, I would say that statistics on informal employment and informal sector employment and production are improving in terms of comparability and reliability, but we want to wait for more perfection; the risk is that we will have to wait for a long time. Using proxies and accepting some discrepancies with the concepts and definitions can **engender** progress and push the countries to move ahead.