

**The Informal Sector and Informal Employment**  
*Statistical Measurement, Economic Implications and Public Policies*  
Hanoi, Viet Nam – May 6-7, 2010

**Paper for session III - 3**

**Women and men in the informal economy 2010 - a statistical picture:  
plans for an updated report**

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**Women in Informal Employment: Globalizing and Organizing**

The ILO report, *Women and Men in the Informal Economy: A Statistical Picture*, published in 2002 and prepared by Women in Informal Employment: Globalizing and Organizing (WIEGO) and ILO contained the first international compilation of statistics on the informal economy with regional estimates and substantive analyses. The estimates were based on 25 countries (4 in North Africa, 5 in Sub-Saharan Africa, 11 in Latin America and 5 in Asia) and used an indirect residual approach to derive national estimates of informal employment. The indirect methodology was essential due to the absence of direct measurement of informal employment in national surveys at the time. Although the estimates were rough, they have been quoted extensively to show the importance of informal employment.

A new publication is now being prepared by ILO and WIEGO to take advantage of the improved availability of data on informal employment and informal sector. The objective of this publication, as with the first edition, is to compile and analyze the existing data and present it in a format that is easily accessible to a wide variety of users. A report such as this not only provides an updated picture of informal employment and employment in the informal sector but also facilitates the use of these data in planning, advocacy and research. This in turn creates greater demand for the data, thus promoting the development of data on informal sector and informal employment as a basic element of national and international labour statistics.

The new publication will differ from the first in two important ways. First, the basic national tabulations on informal employment and employment in the informal sector, to the extent possible, will use **direct** estimates from the growing number of surveys on

these topics. Second, the regional estimates of informal employment in the first report were based on a simple unweighted average for the countries for which data were available. The regional averages for this report will be prepared using a more complex process which will be described in this paper.

This meeting provides the opportunity to share our plans for the publication and to elicit your comments in particular on: 1) the availability of national data, and their limitations and 2) the procedures we propose for preparing the regional estimates.

### *Publication plan*

As in the first edition, the publication will consist of an executive summary and four brief chapters (see Annex 1):

- chapter 1 describes the progress in developing statistics on informal employment and informal sector,
- chapter 2 is the essence of the publication, as it contains a compilation and analysis of the available statistics for developing countries as well as levels and trends of nonstandard /informal employment in developed countries;
- chapter 3 takes up statistics on and methods for identifying categories of informal workers
- chapter 4 lays out a plan of action for improving these statistics and their dissemination.

Tables in the report will show not only the regional averages but also the national tabulations on which the estimates are based.

### *Defining the Informal Sector and Informal Employment*

The 15th International Conference of Labour Statisticians (ICLS) developed an approach for defining the informal sector. The resolution adopted by the 15th ICLS defined informal enterprises as (a) small, unincorporated household enterprises for which no consistent set of accounts are available that would distinguish the financial activities of the enterprises from those of the household; (b) enterprises for which a portion of the goods or services produced are exchanged in market transactions; and (c) enterprises which are unregistered/unrecognized with regard to national regulatory frameworks and legislation. All employment in informal enterprises would be considered to constitute 'employment in the informal sector'.

In 2003, the 17th ICLS endorsed a framework which complements the enterprise-based concept of 'employment in the informal sector' with a jobs-based concept of 'informal employment.' Informal employment is defined to include self-employment in the informal sector, based on the earlier definition of informal enterprises, plus employees in informal jobs regardless of the enterprises in which those jobs are located. In addition, employment outside of enterprises (e.g. domestic workers) is also included.

Informal jobs are generally defined as jobs that lack a core set of legal or social protections.

Under these recommendations, own-account workers, employers, and members of producer cooperatives are considered to be in informal employment if the enterprise in which they work is informal (i.e. they work in the informal sector). Furthermore, the recommendation is that all contributing family workers are classified as being engaged in informal employment. Own account workers producing goods for their households' own final use are defined as working informally. Paid employees are considered to work in informal jobs if those wage and salary jobs lack basic legal and/or social protections, and/or if the employment relationship is not subject to national labour regulation or taxation. More specifically, according to the ICLS guidelines, employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits.

#### *Estimating Informal Employment: The Residual Method*

At the time when the estimates of informal employment for the 2002 ILO publication, *Women and Men in the Informal Economy*, were assembled, only a handful of countries administered labour force surveys or multi-purpose household surveys which allowed the direct measurement of informal employment. Therefore, an alternative, indirect method was used – the ‘residual method’.

The residual method uses data from two sources: (1) household-level survey or census data (population censuses, labour force surveys, or other household surveys with employment information) and (2) surveys and data sources which measure formal employment (establishment surveys, economic censuses, or administrative sources which may not be survey-based). The application of the residual method in this earlier publication was restricted to non-agricultural employment. In the residual method, informal employment is calculated as the difference (residual) between total employment (based on the household survey or census data) and formal employment.

If the household-based data contains information on status in employment, the residual estimate of non-agricultural informal employment can be further disaggregated into paid employees and the self-employed (employers, own-account workers, and contributing family workers). The residual measurement of informal employment may include employed individuals who would not be considered informal if more direct indicators were available (e.g. highly skilled independent contractors, high-end professionals, and those working in formal enterprises not adequately covered by the data source used to define formal employment).

For countries which have conducted surveys of informal enterprises, this information can be combined with the residual method estimates to estimate employment within and outside of informal enterprises – i.e. the additional survey information allows

further differentiation in terms of the concepts of informal employment and employment in the informal sector.

*Estimating Informal Employment: Direct Estimation Using the ICLS Guidelines*

In recent years, an increasing number of labour force and multi-purpose household surveys have been conducted in a growing range of countries, and many of these surveys allow for direct estimation of informal employment. Questionnaires have been developed that explicitly include questions allowing analysts to apply the ICLS guidelines to the definition of informal employment and thereby avoiding some of the problems associated with the approximations generated through the residual method.

The updated publication will take advantage of the recent availability of such survey data to directly estimate informal employment. Moreover, since the variables used to define informal employment are embedded within an in-depth household survey, the characteristics of informal employment can be explored in much greater detail than was possible in the past. For example, characterizing informal employment by sector of activity, by occupation, by urban v. rural, and by place of work is often now possible. Therefore, the direct estimation represents an important improvement on the earlier residual method.

Although the direct estimation of informal employment using the ICLS guidelines has several advantages over indirect measurements, a number of complications arise when estimates from multiple countries (and regions around the world) are brought together. The application of the ICLS guidelines must be adapted to specific circumstances of individual countries. The detailed definition applied in one country may not be the best definition elsewhere. In this sense, the precise definition of informal employment is relative. This raises concerns about comparability of such measurements across countries and regions.

To give an example: one commonly used approach to defining informal paid employees is to consider the employment to be informal if the jobs lack certain social protections. Since the definition of informal employment is a jobs-based concept, the social protection indicators used to define informal paid employment must be linked to employment. However, not all countries provide social protections in the same way and the degree to which particular social protections are tied to employment varies. In some cases, access to health insurance or health benefits is provided primarily through employment. In other cases, access to health care does not depend on employment (or may be provided through a spouse or relative's employment). Therefore, the appropriateness of using 'health benefits' as an indicator of informality will differ from country to country. Similarly, the appropriateness of a criterion such as 'employer contributions to social security' will depend on how social security is financed in a particular country setting and the nature of the tax system.

For this reason, definitions of informal wage employment often focus on social protections which are automatically linked to employment. For example, access to paid

sick leave is, by its very nature, tied to employment. To a lesser extent, pensions fall into a similar category (although examples exist – e.g. South Africa’s old age pension system – in which certain pensions are delinked from employment). The appropriateness of an indicator of informality may also be influenced by the nature of the ‘social contract’ – i.e. what social protections are expected in a given society. Lack of paid maternity leave may be an indicator of informality for some countries in which this social protection is expected. In cases where maternity leave is uncommon, using this criterion could lead to the vast majority of employment being defined as informal (even if other social protections are reasonably strong).

Questions of enforcement complicate the picture still further. Some analysts have used the existence of a written contract (or an employment contract) as an indicator of access to legal protections. When employment contracts are not enforceable, however, the validity of this indicator is dramatically reduced. *De jure* and *de facto* differences in social protections and regulatory frameworks can mean that a valid indicator of informality in one context becomes invalid in another.

Despite this discussion and these caveats, assembling direct estimates of informal employment remains a useful exercise. In many respects, the measurement and definition of informal employment represents an iterative process through which methods are improved over time. The 15<sup>th</sup> and 17<sup>th</sup> ICLS guidelines are important milestones on this path. We believe that applying this framework to as many countries as possible will further our understanding of informal employment at a global level. Nevertheless, like the earlier 2002 publication, problems will remain and improvements will be possible. Only by going through the process of generating and assembling these estimates will we be able to identify the current limitations and start to develop solutions.

#### *Extrapolations and regional approximations*

Although the availability of data allowing for the direct estimate of informal employment has improved significantly in recent years, for many countries such data still do not exist. This poses a problem if we want to develop regional or global estimates of the amount of informal employment and its size relative to total employment.

Given the growth in the number of countries for which direct estimates are possible, we can build on what we know to produce a ‘best guess’ of the regional prevalence of informal employment. From the estimates which currently exist, we know that countries within the same region and at comparable levels of economic development also have similar structures of employment. However, across different regions and different cultural, institutional, and historic contexts, the structure of employment varies enormously, particularly when we consider the gendered patterns of employment (e.g. the structure of employment in the Arab states differs from that of West Africa which, in turn, differs from Latin America).

One approach to developing regional estimates would be to combine the labour force information which is available for all the countries of a region with estimates of

informality from other, similar countries within the same region in order to generate regional estimates of informal employment.

To give a concrete example:

$$\text{Non-agricultural informal employment} = \frac{lfp}{pop} \times \frac{emp}{lfp} \times \frac{nonag.emp}{emp} \times \frac{i.emp}{nonag.emp}$$

The abbreviations in the example refer to: labour force participation rates (lfp/pop), employment/unemployment rates (emp/pop or 1-unemp/pop), non-agricultural employment share, and the fraction of non-agricultural employment which is informal. For many countries, many of these basic labour force statistics, or their equivalents, are available: labour force participation rates, unemployment rates, and agricultural employment as a share of total employment. What may be unknown is the prevalence of informal employment. However, the prevalence of informal employment is often quite similar among like countries within a given region. Therefore, we could use the measurements of informal employment from the countries for which direct estimates are possible, and combine these measurements with other labour force information to produce regional estimates.

Given the significant differences between men and women, this process would be conducted separately for males and females. In cases where additional information is available (e.g. self-employment, public sector employment, etc), this information would be used to improve the reliability of the approximations. The above example is for illustrative purposes only. The general approach can be adapted to take advantage of the labour force and employment statistics which are available. In the planned publication, we will generate estimates along these lines which will represent our best regional approximations of informal employment, given the direct estimates which are available.

#### *Countries with data on informal employment and employment in the informal sector*

We list below the countries for which we expect to have direct estimates of informal employment and/or employment in the informal sector which will be included in the updated publication. In some cases, the estimates will be limited to broad categories, such as 'non-agricultural informal employment'. For a subset of these countries, more detailed estimates on sector of activity will be presented to illustrate the kind of statistics it is possible to generate using direct estimation methods and household-level survey data.

#### **Latin America and the Caribbean**

Informal employment and informal sector: Argentina (2005), Brazil (2003), Columbia (2005), Ecuador (2005), Mexico (2005), Panama,(2005), Peru (2004), St. Lucia (2009)

Informal sector only: Bolivia (2002), Chile (2003) , Costa Rica, (2003), Dominican Republic(2003), El Salvador (2003) , Honduras (2003), Nicaragua (2003) , Uruguay (2003), Venezuela (2004)

### **Sub-Saharan Africa**

Informal employment and informal sector :Angola (2009), Botswana (2006), Cameroon (2005), Congo (2005), Ghana (2006), Kenya (2005/6), Madagascar (2005), Mali ( 2004), South Africa (2009), Tanzania (2005-6), Zimbabwe (2009- proxy definition of informal employment)

Informal employment only: Namibia (2009)

Informal sector only: Benin (2002) Mauritius (2004)

Additional possible countries: Burundi, Lesotho, Uganda (2003 –informal sector only)

### **Northern Africa**

Informal Employment and Informal Sector: Egypt (2006 LFS and 2003 enterprise survey)

Additional possible country: Morocco

### **Western Asia**

Informal Employment and informal sector: Armenia (2009), Occupied Palestinian Territories (2009)

Additional possible countries- Azerbaijan, Syria

### **Eastern Asia**

Informal employment and informal sector: Mongolia (2007/8)

### **South-Eastern Asia**

Informal Employment and informal sector: Indonesia (2009 two provinces only), Philippines (2009), Timor Leste (2009/10), Viet Nam (2009)

Informal sector only: Thailand (2000-2)

### **Southern Asia**

Informal employment and informal sector –Bangladesh (2005), India (2004-5), Sri Lanka (2008/9)

Informal sector only: Pakistan (2003-4)

### **Central Asia**

Informal employment and informal sector: Kyrgyzstan (2003)

Additional possible country: Kazakhstan

### **Oceania**

Informal sector and informal employment: Fiji (2005)

### **Eastern Europe**

Informal employment and informal sector: Macedonia (2009), Moldova (2003), Russia (2004), Serbia (2008), Ukraine (2003)

### **Other Europe**

Informal employment only: Turkey (2004).



## **Annex 1**

### **Women and Men in the Informal Economy 2010: A Statistical Picture** (Outline for report)

Executive Summary -Main findings

Chapter 1 – Progress in developing statistics on informal employment /informal sector

Chapter 2 – Analysis of available statistics

- Developing countries
  - Informal employment/informal sector: summary tables by region and sex –update of tables 2.1. 2.2, 2.4
  - Self-employment. update of table 2.5 and 2.6
  - More detailed tables by industrial sector and by more detailed employment status categories., 2.7 and more
  - Contribution of informal sector to GDP, not clear if any new data available
  - Trend analysis
  
- Informal employment in developed countries
  - Levels and trends of nonstandard/informal employment

Chapter 3 –Informal workers: statistics on and methods for identifying specific categories

Chapter 4 - Improved Statistics for Policy Making