

National data on employment in the informal sector/informal employment as a basis for global and regional estimates – possibilities and limitations

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1. Introduction

Irrespective of the method used to prepare global and regional estimates of employment in the informal sector/informal employment, the quality of such estimates will depend upon the availability, quality and cross-country comparability of the national data on which the estimates are based. To the extent possible, global and regional estimates of employment in the informal sector/informal employment should be based on national data obtained through direct observations (labour force surveys, informal sector surveys, etc.). Estimates obtained through residual methods should be used only when no usable data from direct observations are available. This is because estimates obtained through residual methods are less transparent and thus more difficult to “sell” to users than data from direct observations. Moreover, estimates obtained through residual methods are based on a combination of data from different sources, each of which varies in definitions, coverage, etc. from country to country. It is thus more difficult to make such estimates comparable across countries.

The purpose of this note is to address a number of issues that will need to be tackled in order to make national data on employment in the informal sector/informal employment ready for use as a basis of global and regional estimates. It builds on the experience made with a database on employment in the informal sector, which the ILO Bureau of Statistics established in 1998 to meet an increasing demand by users for statistics on the informal sector. The database was updated in 2001. It contains official national statistics and related methodological information on employment in the informal sector (or related other concepts) for countries of Africa, Latin America and the Caribbean, Asia and the Pacific, and the transition countries of Central and Eastern Europe and the former Soviet Union, to the extent that data are available. Other countries are included in the database only to the extent that the informal sector is considered to be of significant importance in these countries and official national statistics are collected on it.

2. Employment in the informal sector vs. informal employment

Until now, the ILO Bureau of Statistics has collected statistics from national sources only on *employment in the informal sector*, which was the concept used by the ILO and for which an internationally agreed statistical definition existed. Nevertheless, data on *informal employment* as defined in the ILO report on ‘*Decent Work and the Informal Economy*’ (ILO, 2002a) are also available in many countries, including developed countries, for many of which the concept of the informal sector is of limited relevance. However, such data have not yet been collected by the ILO because the informal economy or informal employment are new concepts presently being developed.

For the time being there are no internationally agreed guidelines for the statistical measurement of important components of informal employment outside informal sector enterprises, i.e. informal jobs of employees employed by formal sector enterprises or as paid

domestic workers by households. The definition proposed in the above-mentioned ILO report needs to be tested, and eventually refined, for statistical purposes. In cooperation with interested national statistical offices, methodological studies on the statistical measurement of informal employment should be undertaken, aimed at specifying operational criteria for application of the definition, and identifying relevant sub-categories of informal jobs as targets for analysis and policy-making.

In order to collect and disseminate a wider range of available national statistics on the informal economy than at present, the database on employment in the informal sector already established by the ILO Bureau of Statistics may be enlarged in adding indicators on informal employment outside informal sector enterprises, and regularly updated. This would however require the allocation of some additional sources.

Methodological studies and work on the enlargement of the database would also provide essential contributions towards the development of an internationally accepted definition of informal employment.

3. Data availability

As shown in the publication entitled '*ILO Compendium of official statistics on employment in the informal sector*' (ILO, 2002b), more than 60 countries dispose of statistics on employment in the informal sector (or small or micro-enterprises or related other concepts) obtained from labour force surveys, informal sector surveys or other surveys. This includes all major developing and transition countries except China and Nigeria. Nigeria conducted an informal sector survey at the end of the 1990s. The results have not yet been shared with the ILO; however, it should be possible to obtain data from the survey, if the Federal Office of Statistics of Nigeria has ever released them. No information is available for China. This is a serious gap that will pose problems for the preparation of regional estimates for Asia and of global estimates.

The experience with the ILO database has shown how important it is to collect methodological information on informal sector statistics along with the data themselves. Such metadata are not only needed to evaluate the quality of the statistics, but also to harmonise, to the extent possible, available national data as a basis for preparing global and regional estimates. Unfortunately, however, it is sometimes rather difficult and time-consuming to obtain consistent metadata because survey methodologies are not well documented.

For the time being, only few countries dispose of statistics on the informal sector, which are available on a regular basis at frequent intervals (e.g., every year). In most countries, data on the informal sector are collected on an ad-hoc basis or with a less than annual periodicity. For this reason, time series data are relatively scarce and it will be difficult to update global and regional estimates as frequently as it may be desirable. Moreover, such updates may be affected by the effects of changes in survey methodologies, definitions, coverage, etc. over time, as in many countries the development of informal sector statistics is still in its infancy and faces serious resource constraints.

4. Data quality

The quality of global and regional estimates of employment in the informal sector/informal employment can never be better than the quality of the national data on which the estimates are based. As far as the author of this note knows, until now no national statistical agency has ever made a systematic evaluation of the quality of the informal sector statistics that it produces. It can however be assumed that the data quality varies among countries depending upon their level of statistical development and the resources available to produce and analyse the statistics. It can also be assumed that the quality of data on employment in the informal sector is higher than the quality of data on the economic characteristics of informal sector enterprises (e.g. their value added). The author suggested on various occasions that in future the Delhi Group should have a closer look at data quality issues, including the various sources of non-sampling errors in informal sector surveys (*Husmanns, 1998; Husmanns, 2000*).

5. Limitations to the cross-country comparability of available national statistics

Given that the 15th ICLS conceded a substantial amount of flexibility to countries in defining the informal sector, and some countries continue to use national statistical definitions of the informal sector, which are not always in line with the international definition, the resulting statistics are often not comparable across countries.

Data comparability problems result from a number of factors as listed below:

- differences in the concepts on which the statistics are based;
- differences in the branches of economic activity covered, particularly in respect of the inclusion or exclusion of agricultural activities;
- differences in the criteria used to define the informal sector, for example, employment size of the enterprise or establishment versus non-registration of the enterprise;
- different cut-offs used for the employment size criterion;
- the inclusion or exclusion of paid domestic employees employed by households, or of producers of goods exclusively for own final use by their household;
- the inclusion or exclusion of persons with a secondary job in the informal sector;
- the inclusion or exclusion of persons engaged in professional or technical activities;
- different age limits for persons employed in the informal sector;
- different reference periods;
- differences in data sources;
- differences in geographic coverage.

A major deviation from the international definition is that many countries do not yet use the criterion of legal organisation of the enterprise (private unincorporated enterprise) in their national statistical definitions of the informal sector. Often, countries also do not use the

criterion of lack of a complete set of accounts in their national definitions. In other words, the data provided often refer to employment in small or micro-enterprises, including small corporations and quasi-corporations. This leads to an overestimation of the size of the informal sector. In fact, not all countries, for which data are available, utilise the concept of 'informal sector' in their statistics. Some use alternative concepts that, albeit closely related, are not identical, such as small and micro- enterprises, household economic activities, mobile activities, unregistered employment, or specific combinations of the variables 'status in employment', 'industry' and 'occupation'.

In order to draw the attention to such differences, countries have been grouped in the statistical tables of the *ILO Compendium of official statistics on employment in the informal sector* according to the concept, on which their statistics are based: informal sector, small or micro-enterprises, or other related concepts.

Of equal importance is the fact that some countries include small-scale or unregistered agricultural activities in their definition of the informal sector, while others do not. Since the vast majority of agricultural activities in most countries are undertaken in rural areas, such differences have a larger effect on the international comparability of data for rural areas than for urban areas.

Many of the countries, for which data are available, use the criterion of non-registration of the enterprise, either alone or in combination with other criteria such as small size or type of workplace location, to define the informal sector. In most cases the criterion refers to the non-registration of the enterprise as a corporation, or to its non-registration with the tax authorities or for statistical purposes. Many other countries use small size as a criterion to define the informal sector, either alone or in combination with criteria such as the non-registration of the enterprise or the type of workplace location. The criterion of non-registration of the employees of the enterprise is used only by some of the transition countries of Central and Eastern Europe to define unregistered employment.

The cut-off points for the size criterion differ among countries. However, there are very clear preferences for cut-off points such as A less than 5@, A5 or less@, A less than 10@ or A10 or less@. While most countries use the same size limit for all branches of economic activity, some use different size limits for different branches. Some differences among countries also exist depending on whether the size criterion is applied to each establishment or to the enterprise as a whole, and whether it refers to the total number of persons engaged or to the number of employees.

National practices concerning the treatment of paid domestic employees employed by households vary widely across countries and data sources, as they do concerning the treatment of producers of goods exclusively for own final use by their household. The international comparability of data for women is more affected by differences in the treatment of these groups of persons than is the international comparability of data for men.

Available national data on persons employed in the informal sector often refer only to those whose main or only job/activity is in the informal sector and exclude those with a secondary job/activity in the informal sector, such as farmers or government employees. As the number of persons with a secondary job/activity in the informal sector can be quite large in some countries, data that exclude persons with a secondary job/activity in the informal sector should be considered as a lower-bound estimate of total employment in the informal sector.

Another deviation from the international definition of the informal sector is that a number of countries exclude all persons engaged in professional and technical occupations from their statistics, irrespective of the characteristics of their enterprises.

Many countries conducting stand-alone surveys for measurement of the informal sector do not use any age limits in their definition of persons employed in the informal sector, while countries obtaining the information from labour force surveys, other household surveys or mixed household and enterprise surveys (modular approach) tend to use the same age limits that apply to the economically active population in general.

Relatively few countries have data on employment in the informal sector in the form of annual averages. In most cases, the data refer to specific points or periods of time during the year, i.e. they are affected by seasonal and other variations in informal sector activities during the year. It is thus possible that the data over- or

underestimate employment in informal sector activities that are not undertaken on a regular basis.

Data sources for employment in the informal sector vary among countries that produce these statistics. The most common sources are labour force surveys and special informal sector surveys, based on a mixed household and enterprise survey approach, or establishment censuses and surveys. Other sources include multi-purpose household surveys, household income and expenditure surveys, surveys of household economic activities or household industries, small or micro-enterprise surveys, and official estimates prepared by the countries themselves or in cooperation with the ILO Bureau of Statistics.

In a number of countries, data on employment in the informal sector are available for urban areas only. In some countries, the scope of surveys providing informal sector employment data does not even cover all urban areas but is restricted to major metropolitan areas or capital cities. Because of national differences in the characteristics that distinguish urban from rural areas, the distinctions between them are not amenable to a single definition that would be applicable to all countries. In the absence of an international standard definition, the data are based on national definitions of urban areas established by countries in accordance with their own needs.

To address the problem of lack of international comparability of informal sector statistics, the international Expert Group on Informal Sector Statistics (Delhi Group) formulated a set of recommendations for the harmonisation of national definitions of the informal sector on the basis of the framework set by the international definition.

The harmonised definition of the informal sector resulting from the recommendations by the Delhi Group is based on the largest common denominator of currently used national definitions. It leads to a rather narrowly defined subset of the informal sector, for which countries should be able to make internationally comparable data available: private unincorporated enterprises (excluding quasi-corporations), which produce at least some of their goods or services for sale or barter, have less than five paid employees, are not registered, and are engaged in non-agricultural activities (including professional or technical activities). Households employing paid domestic employees are excluded (*Central Statistical Organisation/India 1999*).

The ILO Bureau of Statistics requested national statistical offices to provide data on employment in the informal sector according to the harmonised definition of the Delhi Group, in addition to data based on their national definitions of the informal sector. However, so far only seven countries (Barbados, Ethiopia, Georgia, India, Latvia, Russian Federation, Turkey) have actually been able or ready to provide data according to the harmonised definition. In principle, more countries would be able to provide data according to a harmonised definition, if they had the necessary resources and skills to re-tabulate existing survey data.

Another set of comparable data is available for 12 Latin American countries in the ILO Regional Database for Latin America and the Caribbean. It refers to the

number of persons employed in small or micro-enterprises as a percentage share of total employment, according to a harmonised definition of small or micro-enterprises used by the ILO Regional Office for Latin America and the Caribbean to disseminate statistics on employment in the informal sector.

6. Conclusion

It seems to be possible to prepare global and regional estimates on employment in the informal sector, or later on even on informal employment, based on national data obtained through direct observations. However, a solution needs to be found for the lack of data for China. Moreover, additional efforts and resources will be needed to reduce currently existing problems of cross-country comparability of the statistics through a harmonisation of the national data in cooperation with the national statistical agencies concerned.

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