



**REGIONAL COURSE ON INFORMALITY:  
INFORMAL ECONOMY, WORK AND  
DEVELOPMENT**

**SESSION 1.1 WHAT IS THE INFORMAL ECONOMY  
AN OVERVIEW**

**Outline of Presentation**

- What is the informal economy
- Significance of the informal economy
- Progress in development of statistics on the informal economy
- Measurement objectives/uses of data

## The Informal Economy

### What is it?

- Different Schools of Thought:
  - **entrepreneurial** activities/enterprises: capable of independent dynamic growth
  - **survivalist** activities/enterprises: not capable of dynamic growth without support
  - **subordinated** activities/enterprises/workers: dependent on or exploited by large formal sector firms
  - **criminal-underground** activities/units: dealing with illegal goods or services
- ICLS/ILO/WIEGO/SIAP/ILC Approach:
  - informal economy includes **all of the above + informal wage workers employed by informal enterprises, formal enterprises, households, and no fixed employer**
  - **most** informal workers are **engaged in survivalist self-employment or informal wage employment; many are sub-contracted by large formal sector firms**

## Concepts

There are **three related official statistical terms and definitions** which are often used imprecisely and interchangeably by analysts and observers:

- **informal sector** refers to the production and employment that takes place in unincorporated small or unregistered enterprises (1993 ICLS)
- **informal employment** refers to employment without social protection (i.e. without employer contributions) – both inside and outside the informal sector (2003 ICLS)
- **informal economy** refers to all units, activities, and workers so defined and the output from them

In sum, the **informal economy** is the diversified set of economic activities, enterprises and workers that are not regulated or protected by the state; and the output from them.

## Concepts-continued

Does the informal sector capture all employment that is not formal?

## Informal Employment Framework and Status in Employment Categories

- **Persons employed in the informal sector**
  - *own account operators in their own informal enterprises*
  - *employers in informal enterprises*
  - *employees of informal enterprises*
  - *contributing family workers in informal enterprises*
  - *members of informal producer cooperatives*
- **Persons in informal employment outside the informal sector:**
  - *employees of formal firms not covered by social protection, national labour legislation, or entitlement to certain employment benefits such as paid annual or sick leave*
  - *domestic workers hired by individuals/households not covered by social protection, national labour legislation or entitlement to employment benefits*
  - *Contributing family workers in formal enterprises*

## Significance

- The informal economy is **large** by whatever measure is used:
  - **share of non-agricultural employment:** 45-82 % of non-agricultural employment in developing regions (WIEGO 2014)
    - 82 % is South Asia—highest of all developing sub-regions
    - 65% East and Southeast Asia (excluding China)
    - 33% in urban China (2010)
    - If agricultural employment included, the proportion is even higher e.g. 90 % of employment in India
  - **share of enterprises:** own account enterprises alone (i.e., those without hired workers) account for 85% of total enterprises in India (National Sample Survey Organisation 2012)
  - **share of GDP:** informal enterprises (i.e., the informal sector) contribute 25-50% per cent of non-agricultural Gross Value Added in developing countries (ILO-WIEGO 2013)
    - 46.8 % contribution of informal (unorganized) sector –India 2008

## Highlights of Progress in development of statistics on the informal economy

- 1993 - ICLS Recommendation on employment in the informal sector
- 2003 - ICLS Guidelines concerning a statistical definition of informal employment
- Increase in countries with statistics on informal employment
  - 2011 46 in ILO-WIEGO database and more....
  - 2015 62 countries: India, Indonesia, Malaysia, Mongolia, Pakistan, Philippines, Sri Lanka and Thailand.+ urban China
- 2002 and 2013 - first and second issues of ILO/WIEGO *Women and Men in the Informal Economy*—compilations of the available data from countries
- 2002 and 2014 -2 sets of regional estimates of informal employment in developing countries, the most recent in *Statistics on the Informal Economy: Definitions, Regional Estimates and Challenges WIEGO Working Paper No. 2*

## Highlights - continued

### **Application of the concept of informal employment to developed countries**

- Why is this important?
  - As production and employment are being organized into more decentralized, flexible and specialized units, it is increasingly recognized that such arrangements would be labeled informal employment in developing countries
  - Raises the importance of the concept to have it apply world-wide
- What has been done?
  - WIEGO and ILO launched efforts with an expert group in 2008
  - Now included as an experimental indicator in Measurement of Quality of Employment –an expert group comprised of developed countries, ECE, ILO and EUROSTAT.

## Highlights-continued

- Recognition of informal sector by national accountants, first in 1993 Guidelines and then in more detail in 2008 System of National Accounts
- Mexico's new use of informal employment and its contribution to GDP as key economic indicators

## INFORMAL ECONOMY- KEY MACRO-ECONOMIC INDICATORS: MEXICO

Informal Economy as a Share of GDP, by Component. Series 2003-2013

Year	Informal Economy	Informal Sector	Other Forms of Informality
2003	27.2	11.8	15.4
2004	26.5	11.3	15.2
2005	26.3	11.3	15.0
2006	25.6	10.7	14.9
2007	25.5	10.4	15.1
2008	25.3	9.5	15.8
2009	26.8	12.3	14.5
2010	26.2	11.7	14.5
2011	25.4	11.4	14.0
2012 <sup>R</sup>	25.0	10.8	14.2
2013	24.8	11.3	13.5

<sup>R</sup> Figures revised as from date indicated.

## ADDITIONAL MEASUREMENT OBJECTIVES/USES OF DATA

**Labour regulations**--Statistics on informal employment are needed:

- to advocate for and to develop labour standards
- for understanding the special situation of socio-demographic categories of workers e.g. women, racial and ethnic groups in order to design interventions
- to shed light on the debate on labor market reform now occurring in many of the region's countries which aims at increasing labour market flexibility

## MEASUREMENT OBJECTIVES/USES OF DATA - continued

### Small enterprise development

- data show that in most of the region's countries the great majority of enterprises are small and therefore should be the target for programmes aimed at job creation and income generation
- data are needed for designing and implementing programmes to increase this potential
- Statistics also identify special problems faced by women entrepreneurs

## MEASUREMENT OBJECTIVES/USES OF DATA - continued

### Poverty reduction

- Links between poverty and informal employment
  - many of the working poor are in informal employment
  - informal employment can be the most effective means for persons to rise out of poverty

e.g. Study in India: poor households— income below the poverty line and very poor households - income less than 75 % of poverty line

Findings: Households depending on informal, regular wage employment have lower poverty rates; highest poverty rates are among households that sustain on casual wage employment
- Thus programmes to improve the economic well being of the poor need to be backed up by statistics on informal employment.

## Segmentation of Informal Employment by Poverty Risk, Earnings and Sex



## MEASUREMENT OBJECTIVES -continued

### □ Monitoring the transition from the informal to the formal economy (ILC)

#### Section VIII Data Collection and Monitoring

36. Members should, in consultation with employers' and workers' organizations, on a regular basis:
- where possible and as appropriate, collect, analyse and disseminate statistics disaggregated by sex, age, workplace, and other specific socio-economic characteristics on the size and composition of the informal economy, including the number of informal economic units, the number of workers employed and their sectors: and
  - Monitor and evaluate the progress toward formalization



## DEVELOPMENT OF STATISTICS ON INFORMAL ECONOMY AS A DEMAND DRIVEN PROCESS

- Advocates need statistics to establish the importance/legitimacy of requests for change in policies and programmes
  - India: SEWA and insurance for bidi workers
  - ILO Convention on homeworkers (1996)
  
- Importance of a dialogue between producers (statisticians) and users of statistics (labour ministry officials, activists, advocates, researchers)
  - NSSO and CSO India/SEWA
  - ILO Statistics - WIEGO