



Session 2.4

Data sources for producing statistics on the informal economy: Household surveys with focus on labour force surveys



Learning objectives

- Selecting a good sample of households -- that will be representative of the informal economy
- How to design good questions
 - Which questions target the definition criteria
- How to combine questions to arrive at the operational definition
 - Of the informal sector
 - Of workers with informal jobs outside of the informal sector
- A project to harmonize measures of the informal sector in Latin America



Survey process

- First phase: selection and listing of PSUs
 - Sample frame: Population Census
 - A (stratified) sample of enumeration areas (EAs) is selected and become the Primary Sampling Units (PSUs)
 - Within each PSU, all households are listed
 - Basic information about the household members is obtained
- Second phase
 - Sample frame: list of households within PSUs
 - A sample of (clusters of) households is selected
 - Information is obtained about the households and their members using a standard questionnaire



Sample design to measure the informal economy

- The sample design cannot be the same as in a general labour force survey
 - Because informal sector workers / informal employees are unevenly distributed in space
 - Because they are less stable
- Sample needs to take into consideration the patterns of concentration of various kinds of informal economy workers
- These patterns should be taken into account when selecting PSUs
 - EAs should be stratified by “density of informal workers”
 - EAs where there is a high % of workers in small units, in household-based or itinerant units, without social security coverage, etc.
 - EAs in high density strata should be selected with higher probability



Questionnaire design

How to decide which questions to ask

- Household surveys obtain their information from household members
 - By using a standard questionnaire – the same questions for each respondent in order to get harmonized responses
 - Each question should be designed to obtain information about each of the definition criteria
 - One or more questions may be needed for each criterion
 - A question should not target more than one criterion at the same time
 - Evaluate how well does each question target the criterion
 - Evaluate whether respondents are willing or able to answer well
- The responses to these questions are combined to arrive at a derived estimate of the concept



A good questionnaire minimizes response errors and burden

- Respondents
 - Misunderstand
 - Cannot answer (accurately)
 - Will not answer (at all or accurately)
 - Influenced by question order/context effects
- Interviewers
 - Do not read questions as worded
 - Bias answers by way they relate to respondents
 - Record answers incorrectly

Respondents should understand questions and instruction in the same way

Interviewers should raise the questions in the same way to all respondents (standard questionnaire)



What do good questions look like?

- They are simple
 - Do not exceed the respondent's potential to answer accurately
- They ask one thing
 - They use a single reference period
 - Complicated questions containing more than one dimension are broken down into multiple simple questions
 - They avoid matrices!!
- They avoid specialized words
- They use as few words as possible
- They use complete sentences – noun, verb, object
- They do not require difficult calculations
- They do not require long recall periods

Remember to take into account proxy-response



What do good questions look like? (cont'd)

- They avoid multiple choice responses
 - These are broken down into separate questions with mutually exclusive response categories
- They probe further to “don't know” replies
 - They do not discard such cases, because they could still be in-scope
 - Cases are classified at the processing stage
- They probe for activities likely to go unreported with more than one question!!
 - Unpaid work in small family enterprises, activities undertaken by women on own-account at or from home, children, undeclared activities



Designing good questions

Essential step: test them beforehand!!

To ensure that respondents really understand the questions and are willing and able to answer them in a valid way

- Informal testing
 - Colleagues
 - In the street
- Formal testing
 - In depth interviews
 - Focus groups
 - Expert review
 - Cognitive interviewing – to understand the response process



Designing good questions is not enough!!

Also pay attention to ...

- Instructions
 - For multiple answer categories
 - Provide definitions, examples
 - Attached to the questions!!
 - Interviewer training
- Navigational path : moving from one question to the next
 - Should not discard cases with “don’t know” or “other” responses but continue asking other questions to them
- Visual design principles – very important!!
 - Use dark print for questions and normal print for answer choices
 - Adequate spacing between questions
 - Number the questions sequentially using simple numbers



Key questions to measure the informal sector

- Legal organization (institutional sector)/ ownership
 - Government, public enterprise, NPISH, privately owned enterprise
 - If private: owned by one or more persons, incorporated enterprise
- Bookkeeping
 - Keeps complete accounts/does not keep complete accounts
- Registration of enterprise
 - Under specific forms of national legislation (question needs to specify the registration type)
 - Identifies unregistered enterprises
- Size of enterprise

These questions are raised to persons identified as workers with previous questions

- Very important that all workers be identified!!



Legal organization and ownership

In which sector were you employed

1. Government
2. State-owned enterprise
3. Privately owned business or farm
4. Non-governmental / non-profit organization
5. Private household
6. Embassies and bilateral institutions
7. United Nations and other international organizations
8. Other (specify): _____

This question is useful to:

- Identify unincorporated enterprises (=3)
- Exclude government, corporations, NPISH (=1, 2, 4, 6, 7)
- Exclude private households (=5)



Destination of production

- Does the enterprise you own or where you work sell or barter its goods / services?
 - Yes
 - No

This question is useful to exclude non-market units
To be used in countries where subsistence work is important



Bookkeeping

- How does your enterprise / business maintain its records or accounts?
 1. No written accounts kept
 2. Informal records for personal use
 3. Simplified accounting format required for tax payment
 4. Detailed formal accounts (balance sheets)
 5. Other (specify) : _____

This question is useful to exclude quasi corporations
BUT:
Employees may not be able to answer this question!!



Proxy question to bookkeeping: Payment of sales tax, income tax

- Is your business (or household business where you work) registered for VAT (value added tax)?
 - Yes
 - No
 - Don't know
- Is the business (or household business where you work) registered for income tax?
 - Yes
 - No
 - Don't know

This question may be more suitable in countries where most units are registered but are not expected to keep books
It may be easier for employees to know this information



Registration of enterprise

- Is the enterprise in which you work registered in any national/local government agency?
 1. Yes
 2. In the process
 3. No
- If 1 or 2: Under which form is the enterprise registered?
 1. Local government
 2. National government
 3. Others, specify: _____



Size of economic unit

- How many persons including yourself work at your place of work (on a regular basis)?
 - 1-4
 - 5-9
 - 10-19
 - 20-49
 - ...
 - Do not know
- If code = 1, 2 : Please specify the exact number of workers:



Other questions Place of work

- Distinguishes between activities carried out at home, in the street, in the home of the employer, without fixed location, farms, construction sites, etc. from those carried out in fixed visible premises, such as offices, shops, factories
 - Can be useful to exclude domestic employees
- But should not be used as a key question
 - For example, to exclude persons who work in fixed visible premises
 - Because informal sector units can have fixed visible premises
 - And formal sector units can be located in the home of the owner, in the street, etc.
- BUT it can be used for cases with “don’t know” responses to key questions
 - And only in order to include in the informal sector obvious cases, e.g., those working in their own homes or in the street
 - Those working in fixed visible premises should only be excluded from the informal sector if they do not satisfy other criteria, e.g., if they are large



Place of work

- Where do you usually work?
 - In your home
 - Structure attached to your home
 - At the client's or employer's home If an employee, we should exclude him/her from the informal sector
 - On a farm or agricultural plot
 - Construction site
 - Fixed stall in the market or on the street
 - Without fixed location / mobile
 - Enterprise, plant, factory, office, shop, workshop, etc. Should not be excluded from the informal sector if e.g., the size is small
 - Other (specify): _____



Kind of activity (industry)

This question can serve to exclude persons

- Employed as domestic employees by households
- Engaged exclusively in the production of goods for own final use by their household
- Working in agriculture and related activities
 - if excluded from the informal sector
- Working in obvious “formal sector” jobs
 - Export-related industries
 - Education, Health, Telecommunications, Electricity

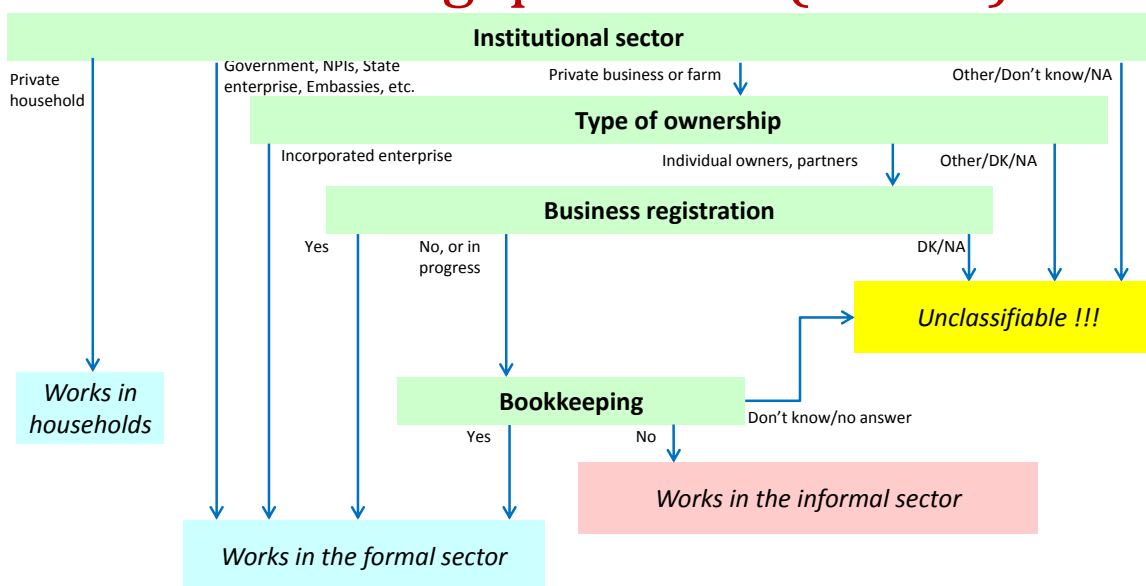


Combining questions to measure the informal sector

- Example of operational definition: The informal sector includes all workers in unincorporated enterprises that are not registered and do not keep full accounts
- The relevant questions are:
 - Institutional sector (to identify private households)
 - Type of ownership (to identify unincorporated private units)
 - Registration (to identify unregistered units)
 - Bookkeeping (to identify units that do not keep full records)



Combining questions (cont'd)

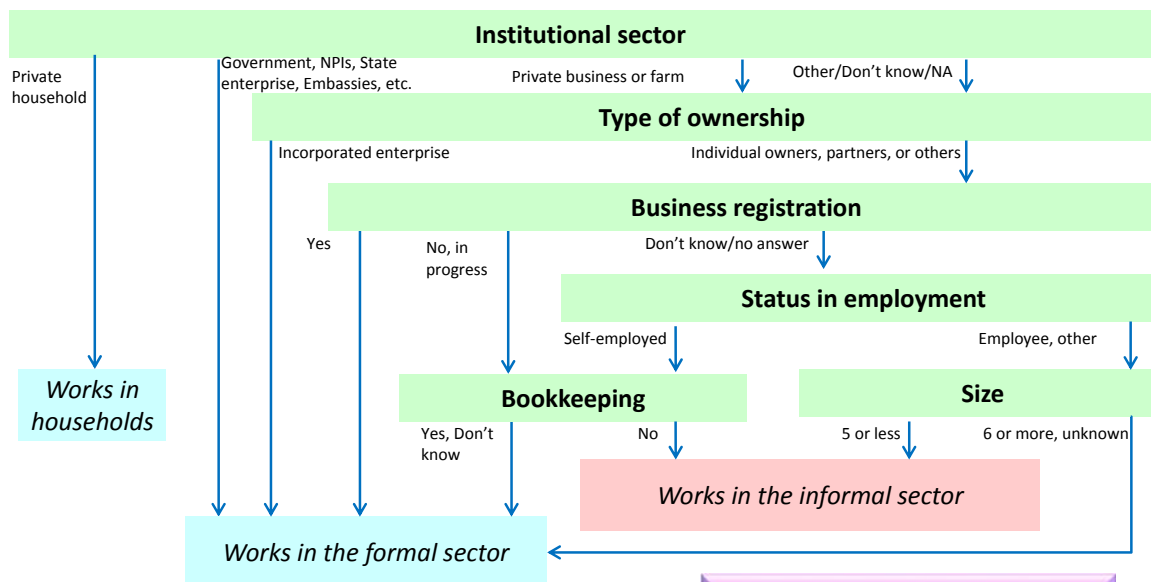


What to do with unknown values?

- It is important to foresee how to classify workers who have unknown information. For example,
 - If the institutional sector is unknown, it can be treated as a private household
 - If the type of ownership is unknown, it can be treated as an unincorporated enterprise
 - If it not known whether the unit is registered then additional conditions can be added, for example:
 - If the worker is a self employed, then the unit should not keep full accounts to be included in the informal sector
 - If the worker is an employee, then the unit should have 5 or less workers
 - If the status in employment is unknown, workers can be treated as if they were employees
- Two new relevant questions
 - Status in employment (employees, self employed)
 - Size (the unit has 5 or less workers, 6 or more workers)



Incorporating cases with unknown values



Pay attention to the navigational path in the questionnaire!!



Two track approach: Using different questions for employees

- Because paid employees may not know the characteristics of the economic unit
 - Questions for them should be about employee registration
 - Income tax deducted from salary
- To self employed persons, questions about
 - Bookkeeping
 - Registration of the enterprise
 - Legal organization and ownership
- Questions that all workers can answer:
 - Size of enterprise
 - Place of work



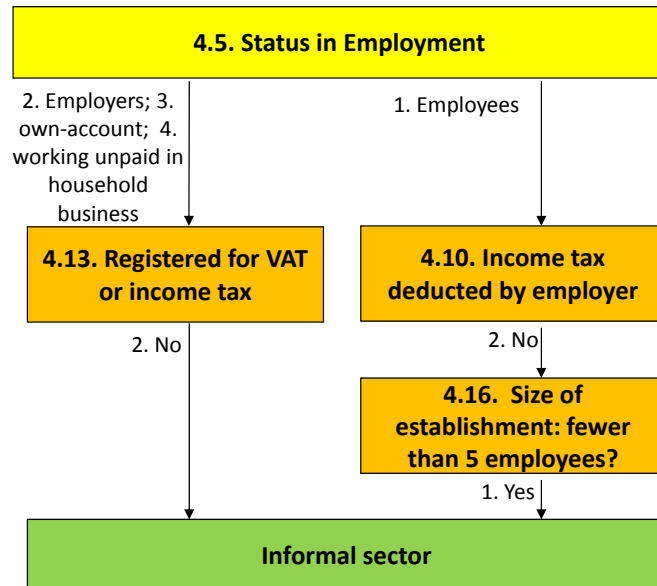
Question for employees: Income tax deduction from wage

Does your employer deduct income tax (PAYE / SITE) from your salary/wage?	
1 = YES	<input type="checkbox"/> 1
2 = No	<input type="checkbox"/> 2
3 = DON'T KNOW	<input type="checkbox"/> 3



Measuring the informal sector - two track approach (South Africa)

- (a) All self-employed workers who work in units that are not registered for sales tax or income tax (Q4.5=2 or 3 or 4 and Q4.13 = 2) ; and
- (b) All employees whose wages do not get deductions for income tax payments and work in units of less than 5 employees (Q4.5=1 and Q4.10=2 and Q4.16=1).



Using the double track approach Limitations

- If a person does not pay income taxes and there are less than 5 workers in the economic unit – informal sector worker
- But other workers in that economic unit may be paying income taxes
 - Then they would be formal sector workers
 - But they are working in the same economic unit!
 - Rather, an indicator of informal employment!!
- The question should target the criterion that “all of the employees are not registered”
 - This question targets the criterion that “at least one employee is not registered”



Key questions to measure informal employment outside the informal sector

Informal employees in the formal sector

- + Informal employees in households (domestic employees)
- + Contributing family workers in the formal sector
- + Producers of goods exclusively for own final use
- (+ Other unpaid workers)
- We only need additional questions to identify informal employees outside the informal sector
 - In the formal sector
 - In households

Because all other workers outside of the informal sector can be included without additional information



Key questions to identify informal employees

- Payment of social security (including pension fund) contributions for the employee by the employer
 - Insofar as it is related to employment (and not universal)
- Possibility to benefit from
 - Paid annual leave or compensation for it
 - Paid sick leave
 - Paid maternity leave
- Risk of arbitrary dismissal without advance notice by the employer
- Possibility to receive legal benefits and compensation in case of dismissal

This criterion may not be relevant in all countries



Social security and benefits

- Many countries identify informal employees on the basis of social security coverage alone
 - That gives a biased picture, too dependent on social security infrastructure
 - Workers may be entitled but not be able to actually benefit from Social Security coverage
 - It may be better to identify their actual benefits
 - In all cases, coverage should be related to their employment and not a universal right
 - Also identify other actual benefits related to their employment
 - Paid vacations, paid sick leave, paid maternity leave, etc.



Social security and benefits

- A. Does your employer pay contributions to the pension fund, health insurance and unemployment fund for you?
1. Yes, sure
 2. Possibly
 3. No
 4. I don't know
- B. Do you benefit from paid annual leave or compensation for unused leave?
1. Yes
 2. No
 3. I don't know
- C. Would you benefit from paid sick leave in case of illness?
1. Yes
 2. No
 3. I don't know

Employees can be considered to have informal jobs if the answer to any of the questions Q18, Q19 or Q20 is 'no'.



Type of work contract

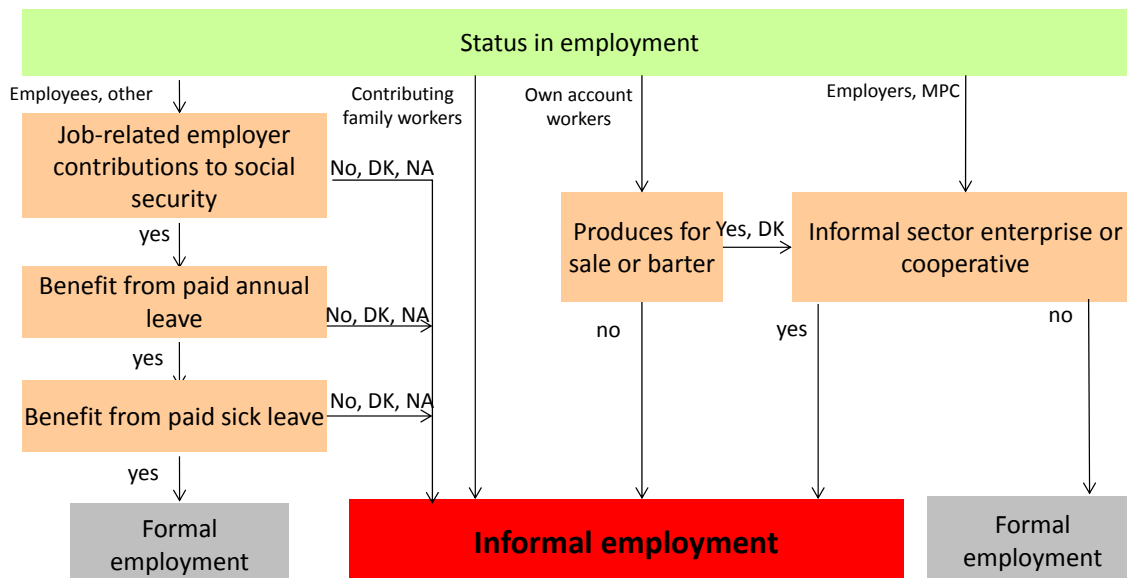
- Have you been employed on the basis of:
 - A written contract
 - A verbal agreement
- Is your contract or agreement of:
 - limited duration?.....
 - unlimited duration?.....

Is not part of the international definition!!
 Should only be used if it is linked with labour law enforcement in the country
 Beware that when this link cannot be guaranteed then ...

- Even regular government employees may have no written contract
- And very informal employees may have a written contract



Combining questions to measure informal employment



Quizzzzzzz!!!!

- To measure the informal economy with a LFS ...
 - A general sample design is good enough **NO !!**
 - The questionnaire design is very important **YES !!**
 - Only one simple question is enough **NO !!**
 - Only the main job needs to be covered **NO !!**
 - All activities, including agriculture, should be covered **YES !!**
 - It is possible to produce statistics on employment, production and number of informal units **NO !!**
- To measure the informal sector, the most important criterion is “place of work” **NO !!**
- Right now, countries all use the same definition of the informal sector **NO !!**



Quizzzzzzz!!!!

- To measure informal employment of employees, the most common question is the social security coverage **YES !!**
- The “two track approach” is when there is more than one definition of informal sector or informal employment in the country **NO !!**
- The “two track approach” may classify persons who work in the same economic unit in different sectors **YES !!**
- Interviewers should pose the questions using their own language **NO !!**
- Questions should as simple as possible **YES !!**

