Country Report

Informal Sector - Sri Lanka

Department of Census and Statistics
Ministry of Finance and Planning
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1. Introduction

Informal sector is a very important for a developing country, as it generates employment opportunities for the population, while the formal sector of the country cannot absorb all the labour force of the country. However, generally it is believed that informal sector employments are highly vulnerable in nature due to lack of job and income security. Therefore, for a developing country like Sri Lanka, this sector is very important as an employment generator but due to high vulnerability and the closer relationship to working poverty, more attention should pay on this sector in order to eradicate poverty and to achieve decent work conditions of the country.

1.1 Informal Sector Statistics in Sri Lanka

The Department of Census and Statistics as the main government body for national data compilation and dissemination, publishes statistics on informal sector employment of the country from year 2006. The information related to informal sector employment has been collected with the Annual Labour Force Survey since then.

1.2 National Definition for Informal Sector

A national definition to define informal sector was introduced in year 2006 with the assistance of an expert from UNESCAP. For this, the data collected at the Sri Lanka Labour Force Survey -2006 was utilized. At this process some key aspects on informal sector, which were considered at the 15th ICLS (International conference on Labour Statisticians) resolution and guidelines given in the SNA 1993 were mainly considered.

**Key aspects of identifying informal sector in Sri Lanka**

- Registration of the organization
- Accounts keeping practices of the organization
- Total number of regular employees of the organization

**Formal Sector Employment**
However, by reviewing the above national statistical definitions of the informal sector shows that they do not always fully correspond to the international definition adopted by the 15th International Conference of Labour Statisticians (15th ICLS) and the System of National Accounts (SNA) 1993.

**Deviations from 15th ICLS resolution**
- Do not identify whether the institute is unincorporated enterprise.
  - But the registration in the Employees Provident Fund or Inland Revenue and having formal accounts can be considered as proxies for this.
• Do not consider whether the institute has a market production.
  • Subsistence farming and activities of households as employers are included in the informal sector.

1.3 Informal Employment in Sri Lanka
• A national definition has not yet introduced and discussions on this are in progress.

1.4 Introducing 1-2 Survey in Sri Lanka
Survey on Household Unincorporated Enterprises -2008/09

With the collaboration of UNESCAP under the Development Account Project “Interregional cooperation on the measurement of the informal sector and informal employment” Sri Lanka conducted above survey during the period from 2008- Q4 till 2009-Q3. Sri Lanka was one of the piloted country for the survey with two other countries Philippines and Mongolia.
• Two separate questionnaires were designed for (1-2) survey namely Phase-1 and Phase-2. The questionnaires were developed by considering generic questionnaires which were provided by UNESCAP on this project.
• Household Unincorporated Enterprises with at least market some market production were identified at Phase-1.
• The identified HUEMs were interviewed at Phase -2 to collect more details such as Input, Output, Assets, Employment, Problems, Prospects, Loans taken…… etc.

1.5 Updating the LFS Questionaire in order to Improve International Comparability of Informal Sector Statistics
• The Survey schedule for the year 2013 LFS has updated in order to improve international comparability of informal sector statistics and informal employment statistics of the country.
• The lessons learned at the 1-2 survey was used to improve the questionnaire. Questions to get the information, which are important to correspond with ICLS definition, were included in the LFS questionnaire.

2. Overview of Informal Sector Employment in Sri Lanka

2.1 Distribution of Labour Force of the country from 1990

Table 1.1 Distribution of Age 10 & above Household Population by Labour Force Characteristics - (1990-2011)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>HH Population-Age 10 &amp; above (millions)</td>
<td>11.5</td>
<td>12.7</td>
<td>13.1</td>
<td>14.7</td>
<td>15.0</td>
<td>15.3</td>
<td>15.0</td>
<td>15.0</td>
<td>15.0</td>
</tr>
</tbody>
</table>

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The above Table 1.1 clearly shows distribution of population by various labour force characteristics. Further more, this reveals that about 62 percent of total employment comprises with informal sector employment.

2.2 Distribution of informal and Formal Sector -2011

Sri Lanka labour Force Survey- 2011 reveals that in Sri Lanka the contribution of informal sector employment to the total employment is over 60 percent. Following Table 1.2 shows that about 86 percent of agriculture sector employment comprises with informal sector employments and about fifty one percent of non-agriculture sector activities is informal sector employments. Also more informal workers are reported from lower levels of education compared to higher levels of education groups.
Table 1.2 Composition of Informal/Formal sector employment by economic sector - 2011

<table>
<thead>
<tr>
<th>Economic Sector</th>
<th>Total No.</th>
<th>Total %</th>
<th>Agricultural No.</th>
<th>Agricultural %</th>
<th>Non Agricultural No.</th>
<th>Non Agricultural %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal sector</td>
<td>30577</td>
<td>44</td>
<td>29402</td>
<td>19.1</td>
<td>10483</td>
<td>74</td>
</tr>
<tr>
<td>Informal sector</td>
<td>51391</td>
<td>83</td>
<td>28955</td>
<td>74</td>
<td>67365</td>
<td>80.9</td>
</tr>
<tr>
<td>Total</td>
<td>81969</td>
<td>27</td>
<td>5488907</td>
<td>100.0</td>
<td>2708020</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Figure 1: Distribution of Informal sector employment by employment status - 2011

As seen in the above Figure: 1 about 50% of informal sector workers are own account workers.
Survey results reveal that the existing variability of percentages of informal sector contributions among the districts may be due to the special distribution of non-agricultural industries in the country.