

**SAARCSTAT TECHNICAL SUBGROUP
ON
INFORMAL SECTOR STATISTICS
(INDIA REPORT)**

1. Introduction

1.1 Informal Sector plays an important role, especially in developing countries, in employment and income generation. Therefore, the need for data on informal sector and methodology for measurement of informal sector has particular importance in case of SAARC countries.

1.2 The term **"informal sector"** came into existence in official documents as a result of an employment mission to **Kenya by the International Labour Organization (ILO) in 1972**. The term was used to denote tiny units, working hard in the production of goods and services but whose activities were not recognized, recorded, protected or regulated by the public authorities. A wide range of activities from street vending, shoe-shining, food processing and other petty activities requiring little or no capital and skills to activities involving some amount of skill and capital such as tailoring, repair of electrical and electronic goods, operation of transport equipments were included in the informal sector. Invariably, the motivation for these activities is employment and income and not necessarily the maximization of profit or return on investment.

2. Objective of the base paper:

2.1 The objective of the base paper is to introduce conceptual framework for Informal Sector adopted by the UN Statistical Commission alongwith the recommendations of the Delhi Group on compilation of Informal Sector Statistics to enhance international comparability. SAARC countries may exchange their views and experiences on measurement of informal sector, in light of the conceptual framework given in this paper, with a view to compiling and disseminating comparable statistics on informal sector.

3. Conceptual Framework for Informal Sector and Informal Employment

3.1 The ILO again came-up with a resolution in the **Fifteenth International Conference of Labour Statisticians (ICLS) in 1993** giving a conceptual framework and guidelines for the collection of statistics on the informal sector (Annexure-I). The resolution was intended, firstly to provide the first internationally approved technical guidelines for the development of statistics on the sector and to reduce un-necessary differences in the informal sector statistics of different countries and thus improve the international comparability of the data.

3.2 The preamble of the 15th ICLS recognized that informal sector statistics were especially needed in developing countries where the informal sector was playing an important role for total employment and income generation. It also recognized that at the time when the resolution was adopted, the experience in informal sector measurement was still limited, and that the concepts and techniques for informal sector measurement would be improved as additional experience was gained by countries.

3.3 In February 1993, the ICLS resolution was endorsed by the UN Statistical Commission and in July 1993, the definition of informal sector adopted by ICLS formed part of the revised System of National Accounts (SNA) adopted by the UN Economic and Social Council. The SNA (1993) characterised the informal sector as consisting of units engaged in the production of goods or services with the primary objective of generating employment and income to the persons concerned. They form part of the household sector as unincorporated enterprises owned by households. The broad characteristics of the informal sector are as under:

- **Private Un-incorporated Enterprises (Enterprises owned by individuals or households that are not constituted as separate legal entities independent of their owners)**
- **For which no complete accounts are available that would permit a financial separation of the production activities of the enterprise**
- **Produce at least some of their goods or services for sale or barter**
- **The employment size of the enterprise is below a certain threshold (to be determined according to national circumstances)**

- **And/or not registered under specific form of national legislation**

Informal Employment

3.4 As a consequence of rapid economic development and specialization of services and the increase in demand for labour resources in the recent past, the business community has moved towards outsourcing of services. This phenomenon has contributed to the development of more casual arrangements between owners of enterprises and those contributing labour services. Broadly the informal employment could be comprised of

- o informal jobs both in informal and formal enterprises and in households
- o Employees are considered to have informal jobs if their employment relationship is, by law or in practice, not subject to standard labour legislation, taxation, social protection or entitlement to certain employment benefits

3.5 The conceptual framework endorsed by the 17th ICLS relates the enterprise-based concept of employment in the informal sector in a coherent and consistent manner with a broader, job-based concept of informal employment (Annexure-II).

3.6 A person can simultaneously have two or more formal and/or informal jobs. Due to the existence of such multiple job holding, jobs rather than employed persons were taken as the observation units for employment. Employed persons hold jobs that can be described by various job-related characteristics, and these jobs are undertaken in production units (enterprises) that can be described by various enterprise-related characteristics.

4. Expert Group on Informal Sector Statistics (Delhi Group)

4.1 The “**Expert Group on Informal Sector Statistics**” commonly known as the “**Delhi Group**” was set up in 1997 as one of the city Groups of United Nations Statistical Commission (UNSC) to address various methodological issues involved in the treatment of the informal sector. The Secretary, Ministry of Statistics and Programme Implementation, Government of India is the Chairman of Delhi Group.

4.2 The Group has held **ten meetings** so far and has come to the conclusion that the informal sector manifests itself in different ways in different countries. Therefore, national definitions of the informal sector can not be fully harmonised. It recommended that international agencies should disseminate informal sector data according to the national definitions used. **In order to enhance the international comparability of informal sector statistics, the Delhi Group has adopted the following recommendations:**

- (i) All countries use the criteria of legal organisation (un-incorporated enterprises), of type of accounts (no complete set of accounts) and of product destination (at least some market output).
- (ii) Specification of the employment size limit of the enterprise in national definition of the informal sector is left to the country's discretion. For international reporting, however, countries should provide figures separately for enterprises with less than five employees/workers. In the case of multiple-establishment enterprises, the size limit should apply to the largest establishment.
- (iii) Countries using the employment size criteria provide disaggregated figures for enterprises, which are not registered, as well as for enterprises, which are registered.
- (iv) Countries using the criterion of non-registration provide disaggregated figures for enterprises with less than five employees/workers as well as for enterprises with five and more employees/workers.
- (v) Countries, which include agricultural activities, should provide figures separately for agricultural and non-agricultural activities.
- (vi) Countries should include persons engaged in professional or technical activities if they meet the criteria of the informal sector definition.
- (vii) Countries should include paid domestic services unless these are provided by employees.
- (viii) Countries should follow paragraph 18 of the Resolution adopted by the 15th ICLS regarding the treatment of outworkers/home-workers.

- Countries should provide figures separately for outworkers/home-workers included in the informal sector.
- (ix) Countries covering urban as well as rural areas should provide figures separately for both urban and rural areas.
 - (x) Countries using household surveys or mixed surveys should make an effort to cover not only persons whose main job is in the informal sector, but also those whose main job is in another sector and who have a secondary activity in the informal sector.
 - (xi) Treatment of Informal Sector in a separate Chapter in the SNA 1993-Rev-1 would be an instrument for improvement in the National Accounts, among other things, by reflecting the Informal Sector contribution to the Gross Domestic Product (GDP). Measuring the contribution of the informal sector/informal employment to GDP remains a major challenge. **Practices that treat the economic activities of the informal sector as a residual within the National Accounts ought to be abandoned, and direct sources of information should be given a greater role.**
 - (xii) A manual bringing out concepts, definitions and survey methodologies utilizing best practices and experiences should be brought out. The initiative has been taken by ILO for the preparation of a Manual on Surveys of Informal Employment and Informal Sector. This would consolidate the work so far done by the Delhi Group on conceptual frame work for measuring informal sector and informal employment.
 - (xiii) Time Use Surveys conducted in India and other developing countries have the potential to measure the work pattern of the population. It can throw light on the need to improve estimation of work participation rates in labour force surveys, although Time Use Surveys are not a substitute for Labour Force Surveys. Systematic and sound methodological comparison of results of Time Use Surveys and Labour Force Surveys could be encouraged.

4.3 The 10th meeting of the Expert Group on Informal Sector Statistics (Delhi Group) was held during 8-10 October, 2007 at International Labour Office (ILO), Geneva. The chapters 1 to 5 and 10 of the Manual on Informal

Sector and Informal Employment and the draft chapter on Informal Sector in SNA 1993 Rev.-1 were discussed in the meeting for finalisation. Draft Chapters are also available on the web-site of the Ministry of Statistics and Programme Implementation, Government of India (**mospi.gov.in under the head CSO, Social Statistics Division, Delhi Group on Informal sector**)

**Resolution concerning statistics of employment in the informal sector,
adopted by the Fifteenth International Conference of Labour
Statisticians (January 1993)
[Relevant extract]**

Concept

5 (1) The informal sector may be broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production and on a small scale. Labour relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.

(2) Production units of the informal sector have the characteristic features of household enterprises. The fixed and other assets used do not belong to the production units as such but to their owners. The units as such cannot engage in transactions or enter into contracts with other units, nor incur liabilities, on their own behalf. The owners have to raise the necessary finance at their own risk and are personally liable, without limit, for any debts or obligations incurred in the production process. Expenditure for production is often indistinguishable from household expenditure. Similarly, capital goods such as buildings or vehicles may be used indistinguishably for business and household purposes.

***Operational definitions* Informal sector**

6 (1) For statistical purposes, the informal sector is regarded as a group of production units which, according to the definitions and classifications provided in the United Nations System of National Accounts (Rev. 4), form part of the household sector as household enterprises or, equivalently, unincorporated enterprises owned by households as defined in paragraph 7.

(2) Within the household sector, the informal sector comprises (i) "informal own-account enterprises" as defined in paragraph 8; and (ii) the additional component consisting of "enterprises of informal employers" as defined in paragraph 9.

(3) The informal sector is defined irrespective of the kind of workplace where the productive activities are carried out, the extent of fixed capital assets used, the duration of the operation of the enterprise (perennial,

seasonal or casual), and its operation as a main or secondary activity of the owner.

Household enterprises

7. According to the United Nations System of National Accounts (Rev. 4), household enterprises (or, equivalently, unincorporated enterprises owned by households) are distinguished from corporations and quasi-corporations on the basis of the legal organization of the units and the type of accounts kept for them. Household enterprises are units engaged in the production of goods or services which are not constituted as separate legal entities independently of the households or household members that own them, and for which no complete sets of accounts (including balance sheets of assets and liabilities) are available which would permit a clear distinction of the production activities of the enterprises from the other activities of their owners and the identification of any flows of income and capital between the enterprises and the owners. Household enterprises include unincorporated enterprises owned and operated by individual household members or by two or more members of the same household as well as unincorporated partnerships formed by members of different households.

Informal own-account enterprises

8 (1) Informal own-account enterprises are household enterprises (in the sense of paragraph 7) owned and operated by own-account workers, either alone or in partnership with members of the same or other households, which may employ contributing family workers and employees on an occasional basis, but do not employ employees on a continuous basis and which have the characteristics described in subparagraphs 5 (1) and (2).

(2) For operational purposes, informal own-account enterprises may comprise, depending on national circumstances, either all own-account enterprises or only those which are not registered under specific forms of national legislation.

(3) Registration may refer to registration under factories or commercial acts, tax or social security laws, professional groups' regulatory acts, or similar acts, laws, or regulations established by national legislative bodies.

Enterprises of informal employers

9 (1) Enterprises of informal employers are household enterprises (in the sense of paragraph 7) owned and operated by employers, either alone or in partnership with members of the same or other households, which employ one or more employees on a continuous basis and which have the characteristics described in subparagraphs 5 (1) and (2).

(2) For operational purposes, enterprises of informal employers may be defined, depending on national circumstances, in terms of one or more of the following criteria:

- (i) size of the unit below a specified level of employment;
 - (ii) non-registration of the enterprise or its employees.
- (3) While the size criterion should preferably refer to the number of employees employed on a continuous basis, in practice, it may also be specified in terms of the total number of employees or the number of persons engaged during the reference period.
- (4) The upper size limit in the definition of enterprises of informal employers may vary between countries and branches of economic activity. It may be determined on the basis of minimum size requirements as embodied in relevant national legislations, where they exist, or in terms of empirically determined norms. The choice of the upper size limit should take account of the coverage of statistical inquiries of larger units in the corresponding branches of economic activity, where they exist, in order to avoid an overlap.
- (5) In the case of enterprises, which carry out their activities in more than one establishment, the size criterion should, in principle, refer to each of the establishments separately rather than to the enterprise as a whole. Accordingly, an enterprise should be considered to satisfy the size criterion if none of its establishments exceeds the specified upper size limit.
- (6) Registration of the enterprise may refer to registration under specific forms of national legislation as specified in subparagraph 8 (3). Employees may be considered registered if they are employed on the basis of an employment or apprenticeship contract which commits the employer to pay relevant taxes and social security contributions on behalf of the employee or which makes the employment relationship subject to standard labour legislation.

10. For particular analytical purposes, more specific definitions of the informal sector may be developed at the national level by introducing further criteria on the basis of the data collected. Such definitions may vary according to the needs of different users of the statistics.

Population employed in the informal sector

11 (1) The population employed in the informal sector comprises all persons who, during a given reference period, were employed (in the sense of paragraph 9 of resolution I adopted by the Thirteenth International Conference of Labour Statisticians) in at least one informal sector unit as

defined in paragraphs 8 and 9, irrespective of their status in employment and whether it is their main or a secondary job.

Treatment of particular cases

14. Household enterprises, which are exclusively engaged in non-market production, i.e. the production of goods or services for own final consumption or own fixed capital formation as defined by the United Nations System of National Accounts (Rev. 4), should be excluded from the scope of the informal sector for the purpose of statistics of employment in the informal sector. Depending on national circumstances, an exception may be made in respect of households employing domestic workers as referred to in paragraph 19.

16. For practical reasons, the scope of the informal sector may be limited to household enterprises engaged in non-agricultural activities. With account being taken of paragraph 14, all non-agricultural activities should be included in the scope of the informal sector, irrespective of whether the household enterprises carry them out as main or secondary activities. In particular, the informal sector should include secondary non-agricultural activities of household enterprises in the agricultural sector if they fulfil the requirements of paragraphs 8 or 9.

17. Units engaged in professional or technical activities carried out by self-employed persons, such as doctors, lawyers, accountants, architects or engineers, should be included in the informal sector if they fulfil the requirements of paragraphs 8 or 9.

18 (1) Outworkers are persons who agree to work for a particular enterprise, or to supply a certain quantity of goods or services to a particular enterprise, by prior arrangement or contract with that enterprise, but whose place of work is not within any of the establishments, which make up that enterprise.

(2) In order to facilitate data collection, all outworkers should be potentially included in the scope of informal sector surveys, irrespective of whether they constitute production units on their own (self-employed outworkers) or form part of the enterprise, which employs them (employee outworkers). On the basis of the information collected, self-employed and employee outworkers should be distinguished from each other by using the criteria recommended in the United Nations System of National Accounts (Rev. 4). Outworkers should be included in the informal sector, or in the population employed in the informal sector, if the production units, which they constitute as self-employed persons or for which they work as employees fulfil the requirements of paragraphs 8 or 9.

19. Domestic workers are persons exclusively engaged by households to render domestic services for payment in cash or in kind. Domestic workers should be included in or excluded from the informal sector depending upon national circumstances and the intended uses of the statistics. In either case, domestic workers should be identified as a separate

Annexure –II

Guidelines concerning a statistical definition of informal employment, Endorsed by the Seventeenth International Conference of Labour Statisticians (November-December 2003)

The Seventeenth International Conference of Labour Statisticians (ICLS), Acknowledging that the relevance of informal employment varies among countries, and that a decision to develop statistics on it is therefore determined by national circumstances and priorities,

Noting that the term ‘informal economy’ is used by the ILO as including the informal sector as well as informal employment, and that as a supplement to the System of National Accounts 1993 an international conceptual framework for measurement of the non-observed economy already exists, which distinguishes the informal sector from underground production, illegal production, and household production for own final use,

Recalling the existing international standards on statistics of employment in the informal sector contained in the Resolution concerning statistics of employment in the informal sector adopted by the Fifteenth ICLS (January 1993),

Noting the recommendation made by the Expert Group on Informal Sector Statistics (Delhi Group), during its Fifth Meeting, that the definition and measurement of employment in the informal sector need to be complemented with a definition and measurement of informal employment, Emphasizing the importance of consistency and coherence in relating the enterprise-based concept of employment in the informal sector to a broader, job-based concept of informal employment,

Considering the methodological work, which the International Labour Office and a number of countries have already undertaken in this area,

Supporting the request, which was made by the International Labour Conference in paragraph 37(n) of the Resolution concerning decent work and the informal economy adopted during its 90th Session (2002), that the International Labour Office should assist countries in the collection, analysis and dissemination of statistics on the informal economy,

Recognizing that the considerable diversity of informal employment situations poses limits to the extent to which statistics on informal employment can be harmonized across countries,

Realizing the usefulness of international guidelines in assisting countries in the development of national definitions of informal employment, and in enhancing the international comparability of the resulting statistics to the extent possible,

Endorses the following guidelines, which complement the Resolution concerning statistics of employment in the informal sector of the Fifteenth ICLS, and encourages countries to test the conceptual framework on which they are based.

1. The concept of informal sector refers to production units as observation units, while the concept of informal employment refers to jobs as observation units. Employment is defined in the sense of paragraph 9 of the Resolution concerning statistics of the economically active population, employment, unemployment and underemployment adopted by the Thirteenth ICLS.

2. *Informal sector enterprises* and *employment in the informal sector* are defined according to the Resolution concerning statistics of employment in the informal sector adopted by the Fifteenth ICLS. For the purpose of statistics on informal employment, paragraph 19 of the Resolution concerning statistics of employment in the informal sector adopted by the Fifteenth ICLS should be applied to exclude households employing paid domestic workers from informal sector enterprises, and to treat them separately as part of a category named ‘households’.

3. (1) *Informal employment* comprises the total number of informal jobs as defined in subparagraphs (2) to (5) below, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period.

As shown in the attached matrix, informal employment includes the following types of jobs:

- (i) own-account workers employed in their own informal sector enterprises (cell 3);
- (ii) employers employed in their own informal sector enterprises (cell 4);
- (iii) contributing family workers, irrespective of whether they work in formal or informal sector enterprises (cells 1 and 5);
- (iv) members of informal producers' cooperatives (cell 8);
- (v) employees holding informal jobs (as defined in subparagraph (5) below) in formal sector enterprises, informal sector enterprises, or as paid domestic workers employed by households (cells 2, 6 and 10);
- (vi) own-account workers engaged in the production of goods exclusively for own final use by their household (cell 9), if considered employed according to paragraph 9 (6) of the Resolution concerning statistics of the economically active population, employment, unemployment and underemployment adopted by the Thirteenth ICLS.

(3) Own-account workers, employers, members of producers' cooperatives, contributing family workers, and employees are defined in accordance with the latest version of the International Classification of Status in Employment (ICSE).

(4) Producers' cooperatives are considered informal, if they are not formally established as legal entities and also meet the other criteria of informal sector enterprises specified in the Resolution concerning statistics of employment in the informal sector adopted by the Fifteenth ICLS.

(5) 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 (advance notice of dismissal, severance pay, paid annual or sick leave, etc.). The reasons may be the following: non-declaration of the jobs or the employees; casual jobs or jobs of a limited short duration; jobs with hours of work or wages below a specified threshold (e.g. for social security contributions); employment by unincorporated enterprises or by persons in households; jobs where the employee's place of work is outside the premises of the employer's enterprise (e.g. outworkers without employment contract); or jobs, for which labour regulations are not applied, not enforced, or not complied with for any other reason. The operational criteria for defining informal jobs of employees are to be determined in accordance with national circumstances and data availability.

(6) For purposes of analysis and policy-making, it may be useful to disaggregate the different types of informal jobs listed in paragraph 3 (2) above, especially those held by employees. Such a typology and definitions should be developed as part of further work on classifications by status in employment at the international and national levels.

4. Where they exist, employees holding formal jobs in informal sector enterprises (cell 7 of the attached matrix) should be excluded from informal employment.

5. *Informal employment outside the informal sector* comprises the following types of jobs:

- (i) employees holding informal jobs (as defined in paragraph 3 (5) above) in formal sector enterprises (cell 2) or as paid domestic workers employed by households (cell 10);
- (ii) contributing family workers working in formal sector enterprises (cell 1);
- (iii) own-account workers engaged in the production of goods exclusively for own final use by their household (cell 9), if considered employed according to paragraph 9 (6) of the Resolution concerning statistics of the economically active population, employment, unemployment and underemployment adopted by the Thirteenth ICLS.

6. Countries, which do not have statistics on employment in the informal sector, or for which a classification of employment by type of production unit is not relevant, may develop statistics on informal employment, if desired, in specifying appropriate definitions of informal jobs of own-account workers, employers and members of producers' cooperatives. Alternatively, they may limit the measurement of informal employment to employee jobs.

7. Countries, which exclude agricultural activities from the scope of their informal sector statistics, should develop suitable definitions of informal jobs in agriculture, especially with respect to jobs held by own-account workers, employers and members of producers' cooperatives.

Conceptual Framework: Informal Employment

Producti on units by type	Jobs by status in employment									
	Own- account workers		Employers		Contrib uting family workers	Employees		Members of producers' cooperative s		
	Inform al	Form al	Inform al	Form al	Informal	Inform al	Form al	Inform al	Form al	
Formal sector enterpris es					1	2				
Informal sector enterpris es ^(a)	3		4		5	6		7	8	
Househol ds ^(b)	9					10				

(a) As defined by the Fifteenth International Conference of Labour Statisticians (excluding households employing paid domestic workers).

(b) Households producing goods exclusively for their own final use and households employing paid domestic workers.

Note: Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit in question. Cells shaded in light grey refer to formal jobs. Un-shaded cells represent the various types of informal jobs.

Informal employment:

Cells 1 to 6 and 8 to 10.

Employment in the informal sector:

Cells 3 to 8.

Informal employment outside the informal sector: Cells 1, 2, 9 and 10.

Note of the Lead Consultant: This was submitted to SAARC Sec. on 15-04-2008 thus calls for revision.