

# **Case studies on the operation of the concept of “Informal Employment” as distinct from “Informal Sector Employment”**

**- Rodrigo Negrete**

It is clear that the Informal Sector Concept (I.S.C. hereafter) cannot explain every thing that is not measured by conventional means. I.S.C. does not account of the whole size of the so-called Non-Observed Economy which encompass also the non declared supply of commodities and services of non illegal nature (from which I.S. amounts for just a part of it) as well as those illegal in their very nature (see OECD: Handbook for Measurement of the Non-Observed Economy).

But it is clear also that the I.S. by itself neither cover all modalities not fully integrated in the regulatory labor frame, even those that are engaging in quite common activities spread all over the social landscape of the developing countries such as some traditional forms of agriculture or those carried away by domestic workers. As we know there are conceptual reasons firmly established in the international norm (SNA – ICLS 1993) to not include those examples within the I.S. range, for it only refers to the portion of the labor inputs used by households with market production contrasting with others activities (as those embodied by the above mentioned examples) that use labor inputs in order to generate a supply for the households own final consumption (non-market production). In the other hand there are another modalities quite irregular under the point of view of the labor conditions that spill over beyond the realm of SNA’s institutional household sector, hence the I.S. cannot account for. We are speaking about the ongoing process of informalization of the labour relationships that is taking place in some segments of the formal economy properly speaking. So we have a vast grey and heterogeneous zone outside the precise and rigorous definition of the I.S. (part traditional and part not) that had been haunted the Delhi Group since its inception back in 1997.

To differentiate and gauge this grey zone by no means is a useless obsession nor a trivial task at all. There is enough evidence we are dealing here with a growing trend that involves a different population profiles and behaves also in a specific manner in the face of the economic cycle in those economies under a liberalization process in the last ten years, thus posing a challenge in policy making design.<sup>1</sup> This grey zone also renders a contribution to the GDP that deserves a proper identification to complete the whole picture that engulfs the Informal Sector as a particular case in a more general picture.

Given that the main objective of the paper is to stress out the fact that just by consolidating the statistical infrastructure surrounding the measurement of the Informal Sector, both in terms of employment and economic dimension, we can get a reliable springboard in order to complete the whole puzzle of all those grey

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<sup>1</sup> See Negrete R. *The Mexican Experience: Why Employment in the Informal Sector and Not-Protected Employment should not be deemed as one and the same?*. Fifth Meeting of the Delhi Group, September 2001.

forms of employment and the economic significance that deserves attention in a fruitful analytical way. In doing so it is also highlighted that we have to cope with some up to now considered sided issues that cannot be postponed anymore, for not pushing them forward in getting a resolution would hinder the statistical task in practical terms. The following only attempt to provide a concrete and humble exemplification of all this.

**The Hussmann’s Matrix.** During the last meeting of the Delhi Group it was proposed a conceptual map to deal with the whole spectrum of the Employment that allows us to pinpoint different modalities of informal conditions that should be taken into account, thus providing a systematic way of description and classification (see: *Hussmanns Ralf. Informal Sector and Informal Employment: Elements of a Conceptual Framework*). To do so the matrix configures general cases by setting coordinates in terms of the domain of the production unit in one hand (rows) and the labour conditions that prevail for each status in employment (columns) in the other. For instance one case makes clear that even though it belongs to the domain of the formal economic unit, can be deemed informal if it seen under the labor conditions perspective (i.e. its relationship with the economic unit lacks the coverage of a legal attachment); the other way round was also envisioned at least as a theoretical possibility: a case operating under the domain of informal sector economic units but enjoying some sort of labour guarantee or protection. In all there were described at least seven different ways (the white areas in the matrix) to be an informal, three of them located beyond the Informal Sector domain. By contrast the black areas correspond to cases that don’t make sense in conceptual terms thus not deserving to be considered even as a theoretical possibility (i.e. it can’t be a contributing family worker with a formal labor attachment, either within Informal Sector Economic units or not Informal Sector Enterprises).

**ILO: Informal Sector and Informal Employment**

Enterprises by Type		Jobs by status in employment									
		Own-account workers			Employers		Contributing family workers		Employees		Members of producers' cooperatives *
		Producers for own final use only	producers for sale or barter								
			Informal	Formal							
Informal	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Formal		
Private unincorporated enterprises	Informal sector		1		2		3		4	5	
	Other sectors	6					7		8		
Other enterprises											

\* Producers' co-operatives, which are not formally established as legal entities, are treated as private unincorporated enterprises. Persons working in such informal co-operatives are included in one of the other categories of status in employment, and their jobs classified accordingly.

During the last meeting the membership of the Delhi Group accepted to fill out this matrix as a challenge in order to test the development of their statistical infrastructure at hand. May be it is not necessary to say that from this general scheme to its concrete exemplification in a national experience there is a long

way to go and that is exactly the interesting thing. In fact the general frame do not advance an universal definition of what should be understood as informal in terms of the columns of the matrix (That is, what is informal seen under the mere labour perspective, putting aside the nature of the economic unit) neither how to cope with the agricultural employment in order to get a national picture.

**To build a Matrix in the Mexican's case.** Our experience on this starts from the need to introduce more distinctions in the general frame, specially in what corresponds to the economic units (rows). The separation between Agricultural and Non Agricultural employment ought to be drawn in first place because the former demands some specific decisions to be made. As it can be seen in table 1, the production unit perspective is organized in two blocks: the first one (below) gravitates around the SNA's Institutional Household Sector meanwhile the second one describes three modalities clearly belonging to other realms. For the sake of economy we can call the former the "Traditional" economic units block and the second the "Non-Traditional" one, using this terminology as a provisional tag.

**Table 1: Employed persons in Mexico (2000)**

**Table 1**

Production units by type									
	Total (12 years and above)		Own-account workers		Employers		Contributing family workers	Employees	
	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Informal	Formal
Non-Agricultural Corporations	2,639,840	12,866,166	-	-	-	23,278	-	2,639,840	12,842,888
Agricultural Formal Sector enterprises	2,350,233	403,345	-	24,278	491,623	5,344	-	1,858,610	373,723
Non-Informal Sector Microbusiness	4,680,420	1,184,267	510,170	29,609	913,709	25,696	-	3,256,541	1,128,962
Informal Sector	9,107,542	-	5,961,693	-	522,453	-	1,660,961	962,435	-
Market oriented Micro-farm units	1,722,775	-	1,285,551	-	9,074	-	254,141	174,009	-
Households (Farm and No Farm) hiring labour or producing themselves for final consumption	3,574,831	454,436	1,020,042	-	-	-	1,642,931	911,858	454,436
<b>Total</b>	<b>24,075,641</b>	<b>14,908,214</b>	<b>8,777,456</b>	<b>53,887</b>	<b>1,936,859</b>	<b>54,318</b>	<b>3,558,033</b>	<b>9,803,293</b>	<b>14,800,009</b>

Source: INEGI, reprocessing of National Microbusiness Survey (ENAMIN) and National Employment Survey (ENE).  
\* Wage Domestic Workers

**Table 1.a: Employed persons in Mexico (2000)**

**Table 1a**

Production units by type	Total (12 years and above)		Own-account workers		Employers		Contributing family workers	Employees	
	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Informal	Formal
	Non-Agricultural Corporations	1,702,320	8,119,038	-	-	-	20,790	-	1,702,320
Agricultural Formal Sector enterprises	2,229,717	346,734	-	21,662	441,792	4,515	-	1,787,925	320,557
Non-Informal Sector Microbusiness	3,403,814	760,727	115,982	15,640	781,918	19,141	-	2,505,914	725,946
Informal Sector	5,402,714	-	3,720,033	-	415,363	-	534,461	732,857	-
Market oriented Micro-farm units	1,456,130	-	1,233,444	-	8,373	-	149,019	65,294	-
Households (Farm and No Farm) hiring labour or producing themselves for final consumption	2,181,325	70,123	980,346	-	-	-	1,114,383	* 86,596	* 70,123
<b>Men</b>	16,376,020	9,296,622	6,049,805	37,302	1,647,446	44,446	1,797,863	6,880,906	9,214,874

\* Wage Domestic Workers

Source: INEGI, reprocessing of National Microbusiness Survey (ENAMIN) and National Employment Survey (ENE).

**Table 1.b: Employed persons in Mexico (2000)**

**Table 1b**

Production units by type	Total (12 years and above)		Own-account workers		Employers		Contributing family workers	Employees	
	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Informal	Formal
	Non-Agricultural Corporations	937,520	4,747,128	-	-	-	2,488	-	937,520
Agricultural Formal Sector enterprises	120,516	56,611	-	2,616	49,831	829	-	70,685	53,166
Non-Informal Sector Microbusiness	1,276,606	423,540	394,188	13,969	131,791	6,555	-	750,627	403,016
Informal Sector	3,704,828	-	2,241,660	-	107,090	-	1,126,500	229,578	-
Market oriented Micro-farm units	266,645	-	52,107	-	701	-	105,122	108,715	-
Households (Farm and No Farm) hiring labour or producing themselves for final consumption	1,393,506	384,313	39,696	-	-	-	528,548	* 825,262	* 384,313
<b>Women</b>	7,699,621	5,611,592	2,727,651	16,585	289,413	9,872	1,760,170	2,922,387	5,585,135

\* Wage Domestic Workers

Source: INEGI, reprocessing of National Microbusiness Survey (ENAMIN) and National Employment Survey (ENE).

The more delicate decisions here consist on how to set up at the micro-scale level of the economic units the border line to decide the ascription of the employment to the informal sector or to other microbusiness that is, how to draw the upper limit of the “traditional block”, the one that determines where it reaches its end. To do that we can count on a conceptual frame well defined that operates through a specialized tool as it is the so called Microbusiness Survey, which help us to identify the share of employment in a low scale of operation that is engaged in the Informal Sector properly speaking and the share that is not. As we can see in the matrix through the category “Non-Informal Sector Microbusiness” the latter by no means is insignificant. Here the discussion can be focused on issues as how to make estimations in order to generalize what a Urban Microbusiness Survey tell us to a national scale, but the problem it is not mainly of a conceptual nature.

A different approach is needed where dealing with agricultural employment as such. In first place is ought to be said that in Mexico, -as it happens in most countries with specialized mixed household-economic units surveys- the gathering data effort is not directed to agriculture. Here we have to think on which part of the employment is engaged in economic units analogous to those that operates in the Informal Sector an which is not, either because it is related with the non-traditional block or because it is so elementary that can be placed at the bottom of the traditional one rather than at its upper level. Thus the agriculture sector ought to be split in three categories to carry on the task.

Now how we did determine what is similar, what is different and how is it different in the agriculture domain on regard the informal sector? Decisions were made in terms of which proxy variables we can find meaningful for this purpose in an Employment Survey. First of all the Mexican one (ENE) has a National Coverage (contrasting with other more specialized surveys) and on regard agriculture’s employment there are specific questions that give us hints of the nature of the economic activity involved. So it is possible to know if the crops are sold on a regular basis or not, also we know if the employer used salary workers in a permanent way all over the year or only during specific moments of it and if the family workers contributions are peripheral or central in conducting those activities. So those cases of employment in low scale farms but with clear market orientation (and where paid labour inputs are used only on occasional basis) were consider similar to the informal sector (*Market-oriented Micro-farms units*); these were deemed different in turn of those with an occasional sell out of crops (there not exists a chemically pure self-consumption agriculture) and based solely in the family labour support: this cases filled out the bottom row of the “traditional” block alongside the wage domestic workers in the category described as *Households (Farm and No Farm) hiring labour or producing themselves for final consumption*. In this way the whole block is completed and the agriculture employment in each of the two agriculture categories so far described have in common that is entangled in operational modalities that use also (or mainly) contributing family workers; where this is not the case all the employment involved is classified in the Non-Traditional block under the label “*agriculture formal sector enterprises*”. The only category left to describe of the six shown in the table is the one that corresponds to *Non-Agricultural Corporations*. As we know the identification of its share on employment do not pose any particular

problem, starting for the fact that the employment survey makes clear we are not dealing here with micro-scale activities of any sort.

It is worth to underlay that the Informal Sector identification has been the pivotal of the whole process; the central and starting point of reference around it every thing is classified as a gradient, running from similitude to the utmost contrast.

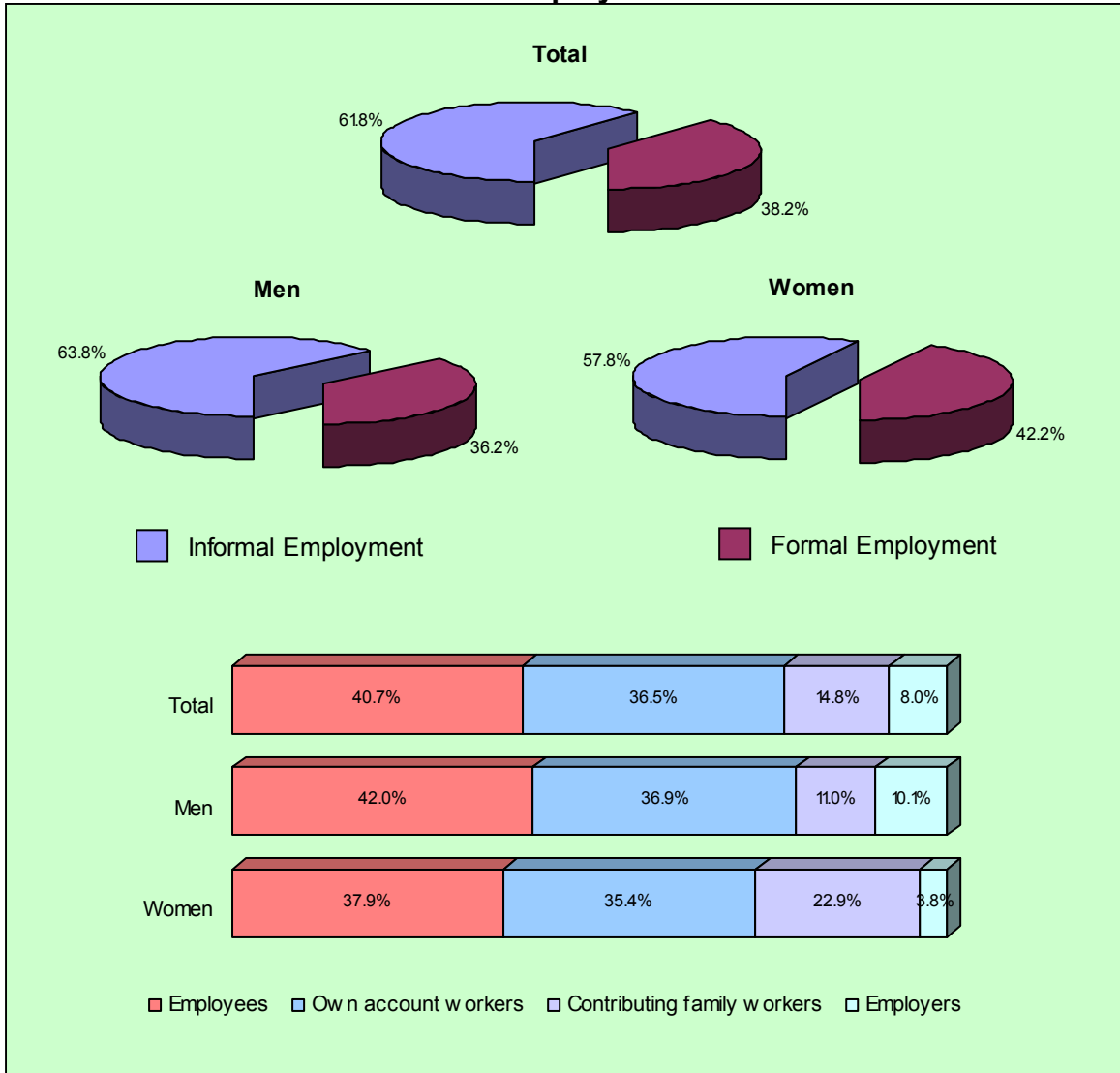
But this is only one dimension of the kind of decisions that had to be taken given the information available and the state of the art of the Mexican Statistical System: on this regard the other decision taken and crucial for this exercise is how to cope with the notion of informality seen just in terms of labour conditions. The criteria chosen here was as simple as the circumstance that the individual has or has not Social Security Protection in conducting his economic activity.

This render that even though does exist the possibility that under the Mexican Legislation could be micro-business lacking a complete set of accounts (thus belonging to the Informal Sector) with paid employees registered in the Social Security System, in empirical terms it didn't happen in neither the two years from which this matrix was built 1998 and year 2000.

Hence the informal sector appears under this perspective as a subset of a more general phenomenon that is the overall Informal Employment. Again, the Hussmanns matrix does not imply that but in practice that's the case so far.

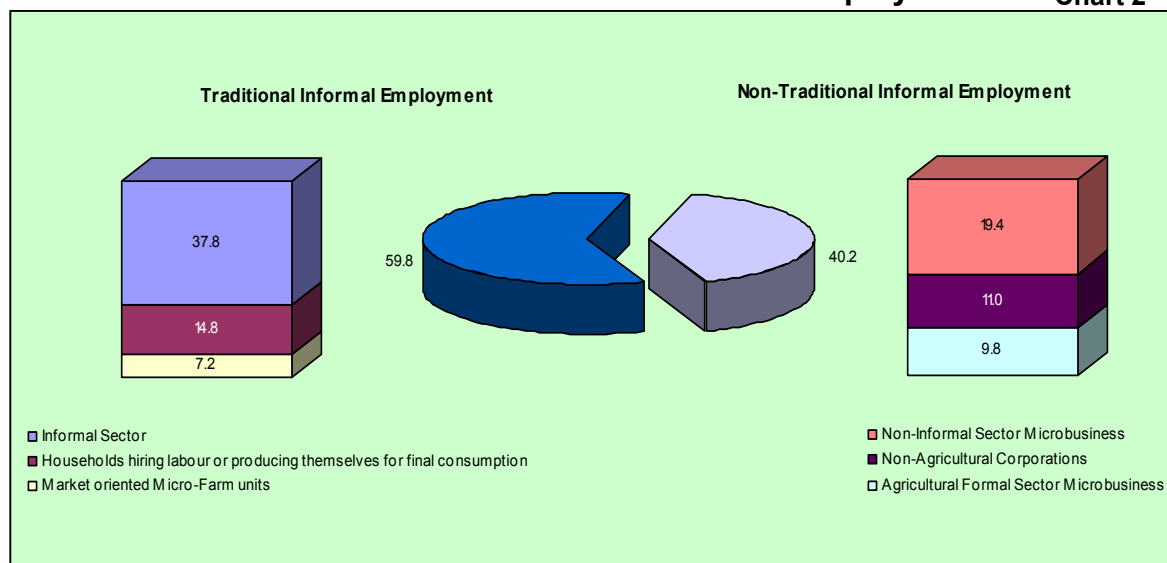
# Formal and Informal Employment in Mexico: 2000

Chart 1



Source: INEGI, reprocessing of National Microbusiness Survey (ENAMIN) and National Employment Survey (ENE).

## Traditional and Non-Traditional "Informal Employment" Chart 2



Source: INEGI, reprocessing of National Microbusiness Survey (ENAMIN) and National Employment Survey (ENE).

### Final considerations

In carry on the task of building a Hussmanns Matrix in practical terms lead us not only to the necessity to count with a specialized surveys as such as the so-called mixed ones directed to the Informal Sector, but also a guidelines in how to link it to another surveys either with a wider coverage or conducted with more frequency. So the first point arising here is that we cannot try to solve everything or cope with any category or concept by means of ad-hoc tools; rather a fruitful and feasible way may consist in thinking which would be the relationships between specialized and non specialized surveys so a subsystem of information can be envisioned. However this do not mean that those not specialized surveys (as the labour ones) should remain as they are. In this way it is very important that the Delhi Group promote that those tools with a better scope or coverage - develop in their design such features needed to guarantee an in deep-analysis. For instance it is of foremost importance that every employment survey includes questions on regard Social Security Protection, also as it has been said in other occasions, that the status in employment approach in its design be less dependent on the self-classification given by the respondent moreover, that the inquire incorporates questions directed to the nature of activity involved and if possible some aiming towards the nature of the economic unit itself. In other words, it is of foremost importance to think in those proxy variables that could help in identify the Informal Sector condition as such and other modalities related to, taking into account of course some limitations on this regard surrounding the respondent. In the limit a modular approach could be considered in order to identify just the employment dimension of the Informal Sector: the more specialized surveys then would have the mission to provide strategically data, ratios or coefficients (such as production to labour inputs) as well as the minimum data set to take a step further in order to the National Accounts necessities. The problem so far in which the Delhi Group at a times seems to be stuck is as if everything depend (both the identification of the I.S. as well as the supply of data for National Account purposes) on the very same specialized surveys. In the case of those countries that already have them this is perfect; however it might not be

preposterous to think that with some key modifications in their design the construction of the matrix could be solved at the labour survey level for those countries without resources to conduct other kind of operatives. So the Delhi Group should make recommendations depending on a typology of different degrees of development of a statistical system, setting up which would be the attainable goals for each of them, going from the adoption of key modifications in the labour surveys to the construction of satellite accounts throughout more specific means.

The exercise shown here illustrates for instance something could be done once we have to deal at a national level with the problem posed by agricultural employment. What has been said on this regard is almost nothing since the 1993 ICLS-ILO recommendations but the issue cannot wait any longer in carry on the Hussmanns's Matrix task. In knowing how close or far away is one situation on respect the one characterizing the Informal Sector it is not of much use to rely merely in the size of the activity, for in the agricultural sphere the number of workers could be deceptive depending the season, the quality of soil and the nature of the crops yield by the plot. Quality issues should be more significant instead: how often paid work is used; which is the degree of engagement of the contributing family workers in the activity or if that the crops are sold seldom or on a regular basis. This is a kind of answers that an average respondent can provide. Maybe is unavoidable to use a wider time span of reference but those are the kind of adaptation in a Labour Survey of national coverage that we shall discuss if they are worth to promote or not, because is better to have proxy variables than nothing.

In closing it is important to stress out something about the terminology used. No doubt the last Delhi Group meeting achieve an important step in including the vast zone of the gray employment –far beyond the range of the Informal Sector– as a part of its main concern. The Hussmanns Matrix provide a concrete way to handle this expanded horizon. However if it is true that to the membership of the group the distinction between *Employment in the Informal Sector and Informal Employment* is quite clear, not too much imagination is needed to understand that for outsiders and decision makers this way sound as a hair splitting terminology, thus the risk that one thing would be reduced to another. Many of us have had hard time enough in transmitting the message that the Informal Sector is not the same as other many things to say also that it is not the same as another stuff with the Informal tag on it.

If the lack of social protection criteria used in this exercise to determine the informal condition under the labour perspective is considered a valid one, it could be considered the use of the term *non-protected employment*, to designate this situation in a more direct an explicit manner less prone to spread confusion.

The Hussmanns Matrix outlines the domain of the Delhi Group. It might be envision a third dimension on it no mentioned so far: the precarious employment whatsoever it is defined. Thus the conceptual task of the Group might reach its end once a frame including the nature of the economic unit, the labour protection and the quality of labour as well be completed, thus bringing a conceptual tool that allows us to describe the relationships and correlations among them.

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