

## CONCEPT AND MEASUREMENT OF EMPLOYMENT IN THE INFORMAL SECTOR (IS)

*(First of a Two-Part Series on Informal Sector)*

### INTRODUCTION

For most developing economies, the informal sector (IS) plays a very integral role in the labor market, particularly in providing the needed employment and the resulting incomes for most of their people. The IS tends to absorb most of the labor supply which the formal sector cannot accommodate, especially for countries with high population growth and urbanization, like the Philippines. Hence, there is a need to provide the necessary support to measure/estimate the contribution of the IS, particularly on employment.

This issue of the LABSTAT Updates compares the official operational definition of the IS in the Philippines as prescribed by the *National Statistical Coordination Board (NSCB)* with the standard international concept and measurement of the IS based on the *International Labor Organization (ILO)*. It also discusses some relevant measurements/estimations of the IS as adopted by some agencies in the country, including the estimation of workers in "vulnerable employment" as recommended by the *Technical Working Group on Employment under the Millenium Development Goals (MDGs)* and the ILO.

Presented also in this issue is the "crude" estimate on the size of employment in the informal sector used by the *Bureau of Labor and Employment Statistics (BLES)* of the *Department of Labor and Employment (DOLE)* as culled from the *public use files (PUFs)* of the *Labor Force Survey (LFS)* of the *National Statistics Office (NSO)*. For purposes of planning and program development for the sector, the DOLE determines its clients in the IS by simply adding the number of *self-employed persons* and *unpaid family workers* under the class of worker category of employed persons in the LFS.

### OFFICIAL DEFINITION OF THE INFORMAL SECTOR IN THE PHILIPPINES

Recognizing the significant role that the IS plays in the generation of output, employment and income, as well as in the economic and social development of the country, the *National Statistical Coordination Board (NSCB)* approved for adoption under NSCB Resolution No. 15 Series of 2002,

a standard conceptual and operational definition of the IS. Except for some minor deviations in terms of exclusion of some cases in the definition, the country's conceptual and operational definition of the IS hews closely with the international definition as prescribed by the ILO.

### Conceptual Definition

The IS consists of "units" engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons concerned in order to earn a living. These units typically operate at a low level of organization with little or no division between labor and capital as factors of production. It consists of household unincorporated enterprises that are market and non-market producers of goods as well as market producers of services. This means that these are owned or operated by households engaged in the production of goods and/or services that are not constituted as legal entities independent of the households or household members that own them.

Labor relations, where they exist, are based on casual employment, kinship or personal and social relations rather than formal or contractual arrangements.

### Operational Definition

For statistical purposes, the IS shall refer to household unincorporated enterprises which consists of both *informal own-account enterprises* and *enterprises of informal employers*.

*Informal own-account enterprises* are household unincorporated enterprises owned and operated by own-account workers, either alone or in partnership with members of the same or any other households which may employ unpaid family members as well as occasionally/seasonally hired workers but do not employ employees on a continuous basis.

On the other hand, *enterprises of informal employers* are household unincorporated enterprises 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.

## INTERNATIONAL CRITERIA FOR DEFINING IS ENTERPRISES

The resolution concerning statistics on employment in the IS adopted by the 15<sup>th</sup> *International Conference of Labor Statisticians (January 1993)* defines employment in the IS as "comprising all jobs in IS enterprises, or all persons who, during a given reference period, were employed in at least one IS enterprise, irrespective of their status in employment and whether it was their main or secondary job."

*IS enterprises*, on the other hand, are defined on the basis of the following criteria:

1. They are *private unincorporated enterprises* excluding quasi-corporations;
2. All or at least some of the goods or services produced are meant for sale or barter;
3. Their size in terms of employment is below a certain

threshold to be determined according to national circumstances, and/or they are not registered under specific forms of national legislation, and/or their employees (if any) are not registered; and

4. They are engaged in non-agricultural activities, including secondary non-agricultural activities of enterprises in the agricultural sector.

The term "*enterprise*" refers to any unit engaged in the production of goods or services for sale or barter. It covers not only production units, which employ hired labor, but also production units that are owned and operated by single individuals working on own account as *self-employed persons*, either alone or with the help of *unpaid family members*. The activities may be undertaken inside or outside the enterprise owner's home, and they may be carried out in identifiable premises,

unidentifiable premises or without fixed location. Accordingly, self-employed street vendors, taxi drivers, home-

based workers, etc., are all considered enterprises.

## DEVIATION OF PHILIPPINE DEFINITION OF IS WITH ILO DEFINITION

The 15<sup>th</sup> ICLS provided considerable flexibility to countries for defining the informal sector. In the case of the Philippines, minor differences from the standard definition can be traced from the exclusions made on some cases as enumerated under NSCB Resolution No. 16 series of 2003 on *Adopting A Set of Criteria for Identifying the Informal Sector*. The seven (7) exclusions to the definition of informal sector are enumerated, below:

1. Single proprietorship, partnerships and corporations (including corporate farms, commercial livestock raising, commercial fishing and similar units);
2. Quasi-corporations;
3. Units with ten (10) or more employees (unless they satisfy all the criteria);
4. Domestic helpers hired by households;
5. Units engaged in professional services (unless they satisfy all the criteria);
6. Farms managed by cooperatives; and
7. Farms, regardless of size, keeping sets of accounts separate from the households

The Philippines conforms to the ILO standard definition of excluding from IS definition items number 1, 2 and 3. For item no. 4 on domestic helpers hired by households, the ILO allows flexibility to countries whether to include or exclude them depending upon national circumstances and intended use of statistics. As such, items 5 to 7 makes the local definition slightly different from the ILO definition. The reason for the exclusion of professional services (item no. 5) is that almost all professionals in the country are required to register with the *Professional Regulation Commission (PRC)* or other professional regulating bodies such as the Supreme Court in the case of lawyers. It should be noted that non-registration under national legislation is one of the criteria for inclusion in the ILO definition. (see item 3 on page 1).

Another difference is the exclusion of farms managed by cooperatives and farms regardless of size. The criterion on the availability and keeping of complete sets of accounts that would permit a financial separation of the production activities of the enterprise from the households exclude them as part of IS.

## ESTIMATING THE SIZE OF WORKERS IN THE IS

While several efforts had been undertaken by the *Philippine Statistical System (PSS)* to characterize the IS of the country, dating back as early as the '70s, the lack of financial resources hampered the conduct of an appropriate survey that will measure the contribution of the IS to the economy. For want of an official statistics from the PSS and in view of the need to come up with program interventions for workers in the IS, the BLES-DOLE came up with a simplistic approach to estimate the size of

workers employed in the IS through the use of LFS data of the NSO.

Given the operational definition of the IS as described earlier, the closest estimate that could represent the *informal own-account enterprises* and *enterprises of informal employers* are the self-employed persons and the unpaid family workers under the class of worker category in the LFS. Under the *LFS Enumerator's Manual*, a self-employed person without any paid employee is defined as one working for profit or fees in own business, farm,

profession or trade without any paid employee. An unpaid family worker, on the other hand, is one who works without pay in a farm or business operated by another member living in the same household. The room and board and any cash allowance given, as incentives are not counted as compensation for these family workers. Given these premises, the BLES-DOLE estimates the number of employment in the IS by adding the number of self-employed workers with the number of unpaid family workers.

This approach is consistent with the concept of "*vulnerable employment*" recommended by the ILO and the *Millennium Development Goals (MDGs) Technical Working Group on Employment* as one of the four (4) indicators for its new target of making the goals of full and productive employment and decent work a central objective of relevant national and international policies and national development strategies. The TWG calculated vulnerable employment as the sum of contributing family workers and own-account workers as a percentage of total employment.

The TWG explained that by definition, contributing family workers and own-account workers are less likely to have formal work arrangements, which allows the usage of the indicator on vulnerable employment to confirm or refute claims of an increasing informalization of labor markets.

Ideally, however, two (2) major occupation groups (officials of government and special interest organizations, etc., and professionals) should be deducted but upon closer scrutiny of the various occupational components of the aforementioned major groups, some may indeed fall under the IS. For instance, under the officials of government and special interest organizations, and etc. group, the bulk of workers ranging from 97.7 percent in 2001 to 99.7 percent in 2004 were composed of general managers or managing proprietors who could be managing their own household enterprises, while the occupation group

on professionals include artists, computer programmers, reflexologists, midwives, folk singers, dancers and etc., who are not registered with any regulatory body. And in view of the fact that the release of *public use files (PUFs)* from the LFS (from which the two-digit occupations could be generated) comes later than the printed tables, the DOLE has to resort to this "*crude*" method for purposes of resource allocation.

Meanwhile, the *Bureau of Rural Workers (BRW)* of the DOLE whose main clientele are workers of the IS has initiated a program termed *IS-WORKTREPS Program "Unlad Kabuhayan Program Laban sa Kahirapan"* to bring about improved socio-economic well-being of the poor IS-WORKTREPS, thus, contributing to the government's national goal of reducing poverty.

Under this program, IS-WORKTREPS are defined as self-employed workers who operate subsistence livelihood or businesses and without paid employees. They are called IS-WORKTREPS because they operate outside government regulations and are not covered by social protection schemes normally provided to workers in the formal sector. The IS-WORKTREPS are engaged in undertakings such as ambulant vending; alternative transport services; home-based and home services such as carpentry, laundry, plumbing, scrap collecting/gathering; and in agricultural works such as farming and fishing.

Based on this definition, BRW estimates IS employment through residual approach of selected indicators culled from the LFS and *List of Establishments* of the NSO. Presented herein is the IS employment by residual approach for the period 2002-2003.

**IS EMPLOYMENT BY RESIDUAL APPROACH, PHILIPPINES: 2002-2003**  
(In 000)

<b>INDICATOR</b>	<b>2002</b>	<b>2003</b>
Wage & Salary Workers	14,653	15,354
- Private Household	1,609	1,553
<b>- Family Operated (1)</b>	<b>120</b>	<b>139</b>
- Private Establishments	10,547	11,294
- As captured by List of Establishments (LE)	5,485	5,710
<b>- Not captured by LE (2)</b>	<b>5,062</b>	<b>5,584</b>
- Gov't/Gov't Corporation	2,378	2,367
Own-Account Workers	11,399	11,517
<b>- Self-Employed (3)</b>	<b>9,737</b>	<b>9,912</b>
- Employer	1,662	1,605
<b>Unpaid Family Workers (4)</b>	<b>4,009</b>	<b>3,764</b>
<b>TOTAL IS WORKERS</b> (Sum of (1), (2), (3) & (4))	<b>18,928</b>	<b>19,339</b>
TOTAL EMPLOYMENT	30,062	30,635
<b>% of IS Workers to Total Employment</b>	<b>63.0%</b>	<b>63.1%</b>

*Source of data: Bureau of Rural Workers (BRW) as sourced from the NSO.*

One notes that the above estimates are higher than the outright estimation of adding the self-employed and the unpaid family workers, (Nos. 3 & 4)

which are 45.7 percent and 44.6 percent to total employment in 2002 and 2003, respectively.

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