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# INFORMAL SECTOR ON LABOUR MARKET

## - Theoretical considerations

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### *Abstract*

*The informal sector is omnipresent, existing in the market economies and centrally planned economies in both the developing and developed ones. The sector achieved results that run the economy and engage workers who work, earn income and consume. Knowledge of this segment and its measurement is of particular importance in terms of economic science. This requires first drawing a conceptual framework that provides a historical approach and theoretical point of view of the economy and informal employment, and a discussion on the latest concepts designed to capture the “informality” in the economy.*

*Two concepts were adopted: the **employment in informal sector** and the **informal employment** - that complement each other (Concepts adopted by the International Conferences of Labour Statisticians in 1993 and 2003). According to first concept the definitions was done in terms of characteristics of the production units in which the activities take place, while according to the second concept, in terms of the characteristics of the persons involved or of their jobs.*

***Key words:** concept, informal sector, employment in informal sector, informal employment, undeclared work*

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In the literature there are a variety of names given to a large segment of the structure of employment and economic activities, known today under the name of “informal”. Among the more common and met names for this segment are: underground, hidden, clandestine, gray, shadow, unnoticed, unreported, undeclared, unrecorded, secondary, parallel, black, moonlight, illegal, nonofficial, not-measured, not-taxed, unorganized. These too vague labels are evidence of attempts to explore a variety of relatively little known area of economic activity.

During the last three decades there have been numerous debates on the origin, composition and role of the informal sector and its contribution to national economy development.

The term informal sector, first used by Keith Hart [7], English economist, in an article “Informal Income Opportunities and Urban Employment in Ghana”, describes the economic activities in segments of low-income work force in Accra, which formed the urban sub-proletariat, mostly composed from illiterate and unskilled migrants.

According to Centeno and Portes (2003) [10], informal sector concept has been institutionalized by the International Labour Office, which has linked informality with low levels of productivity, and storage capacity, and poverty. In the PREALAC (Regional Employment Programme for Latin America) publications, employment in the informal sector has been called “underemployment” and was supposed to affect workers who can not gain entry into a modern economy.

Other specialists who were bent on the informal sector in developing countries, particularly in Latin America, saw things in a different light. The Peruvian economist Hernando de Soto [8] reiterated Hart’s original theme on the idea that informal activities are seen as a sign of popular entrepreneurial dynamism and gave a new impetus to study this issue. Feige [9], in 1990, identified four specific types of “underground” economic activities: illegal, unreported, unrecorded and informal, types that are differentiated for various relevant economic issues.

Undeclared work term was introduced in the late 90s by the European Commission. According to the Communication [1] on undeclared work, it refers to “any paid activities that are lawful as regards their nature but not declared to the public authorities, taking into account differences in the regulatory systems of Member States”.

OECD proposes a similar definition, using the word hidden employment to refer to the work / activity “which although not illegal in itself, did not have to be declared one or more administrative authorities” [2].

*Employment in the informal sector* and *informal employment* are two concepts, which refer to different aspects of the ‘informalisation’ of employment and to different targets for policy-making. One of the two concepts cannot replace

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the other [3]. The two complement each other, being necessary and useful to achieve the relevant analysis.

The 15th International Conference of Labour Statisticians (January 1993) adopted an international statistical definition of the informal sector, which was subsequently included in the revised international System of National Accounts (SNA 1993). This definition was done more in terms of characteristics of the production units in which the activities take place, rather than in terms of the characteristics of the persons involved or of their jobs.

According to the Resolution adopted [4] by the conference, the employment in the informal sector was defined as total number of jobs belonging to the informal sector or of all persons who, during a given period of time (reference period), were employed in at least one unit belonging to the informal sector, irrespective of their status in employment and whether it is their main or a secondary job. The informal sector was defined as comprising: (i) informal own-account enterprises and (ii) the enterprises of informal employers.

The resolution also states that, depending on national circumstances, either all own-account enterprises will be considered as informal, either only those which are not registered under specific forms of national legislation. Concerning the enterprises of informal employers recommendations suggest to define them in terms of one or of more criteria: size of the unit below a specified level of employment (less than 10 employees), non-registration of the enterprise or its employees.

In principal, recommendations are to exclude agricultural and related activities from the scope of informal sector. Non-agricultural households enterprises engaged mainly in the agricultural sector are to be included if they meet the criteria for the definition of the informal sector. Experience has shown that these activities are often undertaken as secondary activities of households with agricultural activity or during the season off.

Ten years later (in December 2003) the 17th International Conference of Labour Statisticians [5] defined the **informal employment** as the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, comprising:

- own-account workers and employers employed in their own informal sector enterprises;

- contributing family workers, irrespective of whether they work in formal or informal sector enterprises since they usually do not have explicit, written contracts of employment, and that usually their employment is not subject to labour legislation, social security regulations;

- employees holding informal jobs, whether employed by formal sector enterprises, informal sector enterprises, or as paid (domestic) workers by households;

- members of informal producers' cooperatives;
- own-account workers engaged in the production of goods exclusively for own final use by their household (such as subsistence farming or do-it-yourself construction of own dwellings).

The major new element in this definition and most difficult to measure is the informal jobs of employees. Also has to be added that, at least equally, is extremely difficult to identify and measure the category of formal sector employees who perform work in enterprises belonging to the informal sector.

Conceptual differences and similarities in terms of coverage between the two definitions can be seen more easily with the following example:

**Coverage of informal employment by type of production units and by status in employment**

			Production units by type		
			Formal sector enterprises	Informal sector enterprises (a)	Households (b)
Jobs by status in employment	Own-account workers	Informal		3	9
		Formal			
	Employers	Informal		4	
		Formal			
	Contributing family workers	Informal	1	5	
	Employees	Informal	2	6	10
		Formal		7	
	Members of producers' cooperatives	Informal		8	
		Formal			

(a) As defined by the 15th 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.

Allocation algorithm is:

- 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.

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.

From the definition and markers set at the 17th International Conference of Labour Statisticians are some comments and proposals for change.

If own-account workers who worked exclusively for the production of goods for personal or household consumption of their own (self) are recommended to be classified in the household sector (category 9), similarly should be treated the category of contributing family workers that - and especially common among households in rural areas - work with own-account workers helping them to operate\* in exchange for a payment in kind (housing, food, clothes, etc.). Default and definition of informal employment should be, in our opinion, properly complemented, i.e. with changes marked by italic character: “contributing family workers, irrespective of whether they work in formal or informal sector enterprises *or households sector (where are the households whose production is intended solely for self-consumption)* since they usually do not have explicit, written contracts of employment, and that usually their employment is not subject to labour legislation, social security regulations”

In this situation, the extent of informal employment by type of production units and by status in employment is to be amended as necessary to distinguish the 11th category, highlighted in another colour:

**Revised coverage of informal employment by type of production units and by status in employment**

			Production units by type		
			Formal sector enterprises	Formal sector enterprises	Formal sector enterprises
Jobs by status in employment	Own-account workers	Informal		3	9
		Formal			
	Employers	Informal		4	
		Formal			
	Contributing family workers	Informal	1	5	11
		Formal			
	Employees	Informal	2	6	10
		Formal		7	
	Members of producers' cooperatives	Informal		8	
		Formal			

\* INS household labour force statistical survey AMIGO (aligned to International Standard Classification on Professional Status – ISCE 93 – elaborated by ILO) uses the definition: family allowance (unpaid family worker) – person who carries out his activity within a family economic unit as family member or relative, for which he does not receive remuneration as salary but payment in kind (shelter, food, clothes etc.)

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Allocation algorithm becomes:

- Informal employment: Cells 1 to 6 and 8 to 11.
- Employment in the informal sector: Cells 3 to 8.
- Informal employment outside the informal sector: Cells 1, 2 and 9 to 11.

Application of this complex definition can be achieved only with direct methods (field surveys conducted by interview).

We consider the existence and meaning of concepts: employment in the informal sector and informal employment. The two concepts complement each other and relate to different aspects of employment “informality”. Ideal would be to capture and measure the employment according to both studied concepts. To construct appropriate policies in this area is appreciated as essential the content knowledge, appropriate meaning of both concepts.

Note that three major international organizations perceived the meaning and, therefore, defined in close terms the informal employment even if the terminology used was not the same (*undeclared work* by ILO and European Commission, *hidden employment* in case of OECD). It means that the undeclared work may be understood as any paid work, legal in principle, but that is not declared to public authorities even if national law governs its declaration. It includes the employed segments of populations that often are not covered by legislation, such as those working in the agricultural sector and those providing services in households.

In another approach, undeclared work can be seen as in the mirror with the declared work, by “undeclared” understanding non-declaration to the authorities responsible for taxation, social security and / or objectives of labour law.

Informal employment or undeclared activities exclude the sale of illicit goods and services. Informality should not be associated with criminal activities. We believe that if informal employment is a “natural phenomenon” of the contemporary economic system characterized by flexible forms of employment (work at home, self-employment, part-time etc.) illegal activities constitute challenges to security and stability.

### **Conclusions**

In Romania’s case the concept of undeclared work should be used. Two basic arguments support this proposal: first, as stated, although the terminology differs, the meaning is kept regardless of the international organization of reference, and secondly, as a member of the EU, it is appropriate to adopt the concept implemented by the European Commission in 1998.

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Knowing the limited but allowed degree of freedom in adaptation of the definition of undeclared work according to the specificities of each country, it calls for the definition of undeclared work by including the segment of the population engaged in agricultural activities (taking into account the considerable proportion of the employed population in this area), but with particularity of measuring the phenomenon separately on two sectors: non-agricultural and agricultural.

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