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How to Measure the Informal Sector In Iran

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1- Introduction

The term “Informal Sector” was first used in the early 1970s in order to describe certain characteristics of dual nature of the production system and employment status as they are observable in the developing countries. The informal sector developed as a labor market phenomenon resulting from a labor force surplus of the urban areas in developing countries during high economic growth periods and when the development strategies tended towards modern, large, and capital intensive industries. This occurred mainly due to the fact that most of manufacturing centers had been established in the large cities whereas the rural areas remained virtually ignored, consequently deepening the income gap between the urban and rural areas as well as causing migrants to rush to the city centers to find job opportunities. Unfortunately, the enterprises in the modern and formal sector were incapable of generating job opportunities to be responsive to this labor force surplus. Individuals were inevitably absorbed by informal sector activities in order to make their living (ILO, 1992).

Following the existing economic development strategies in Iran irrespective of the country’s indigenous conditions and population growth has produced similar results. Meanwhile, extended use of the 1993 System of National Accounts as a basis for preparation of such accounts at the international level, the Statistical Center of Iran’s application of the system in preparing its National Accounts, and the system’s recommendations for making a distinction between the formal sector and informal sector in calculations, totally prove the measurement of the informal sector as a necessity in Iran.

2- The objectives

The major concern of this study is to introduce an appropriate method for measuring the size of the informal sector in Iran’s economy. The other objectives sought by the study are as follows:

- Initial identification of activities being done informally
- A practical definition of informal sector in Iran
- Analysis of informal sector measurement methods through conduct of the statistical surveys in order to find the appropriate method

3- Definition of the Informal Sector

To measure the informal sector is, to some extent, dependent upon a very clear and accurate definition of this sector, particularly upon its definite and practical definition consistent with national and international concepts so as to base the statistical surveys thereon.

The term “informal sector” was formally coined by the ILO experts in Kenya in 1972. The term refers to the tiny units engaged in production of goods and services but not recognized, recorded, protected, or regulated by the government. This sector covers a variety of activities done by street vendors, shoeshines, and other activities requiring no skill or capital to run as well as the activities which require only a little capital or

skill to perform such as those that could be handled by tailors, electric and electronic equipment repair workers, etc. These activities are mostly intended to generate income and employment but not to maximize profit or return on the investment.

Considering the country's socio-economic conditions, the existing socio-economic statistics, and the related statistical surveys as well as with regard to the Delhi Group's Recommendations in its 1999 session, the following practical definition has been found appropriate for the informal sector in Iran:

Informal sector consist of unincorporated enterprises, with fewer than five workers in urban areas, engaged in sectors other than the agricultural and technical sectors.

4- The methods for measuring Informal Sector

It was formerly believed that the informal sector units and their activities couldn't be measured and that collection of data in the sector was impossible accordingly. In addition to the rough estimates on employment in the informal sector, the data pertaining to the employment and value added in the sector are mostly gathered through application of indirect methods for macroeconomic estimates or comparative analyses of data from various sources.

However, such indirect methods are always subject to criticism because they are approximate and based on various assumptions. The studies have proved that access to the detailed reliable and comprehensive data in the informal sector is only possible through the direct measurement, namely through conduct of surveys. First, the methods for measuring the informal sector will be described and then a set of existing surveys to collect data in the informal sector with a certain number of indirect methods recommended for estimation in the sector will be introduced.

direct Method

a. The Household Survey

If we mean to determine the changes in employment rate in the informal sector in terms of number and characteristics of individuals employed in the sector and their working conditions, the existing surveys of the economically active population and similar household surveys are useful devices in this respect. To achieve this purpose, we can insert the questions relating to the informal sector into such surveys' questionnaire. The questions should be asked about all persons employed during the survey period including the questions referring to their main and secondary jobs so that collection of the extensive data on employment and working conditions of all employed individuals including family workers and their share in this sector could be made possible. In addition, in order to reduce the data collection cost, data related to the employment in the informal sector can be collected together with those of employment and unemployment in the other sectors.

b. The Establishment Surveys

It is possible to collect the data on the informal sector through a variety of establishment surveys depending on the measurement objectives, intended uses of data, the structure of national statistical system, and accessibility of the sampling frame.

Meanwhile, use of the establishment survey presupposes the availability of a sampling frame of the establishments in the informal sector. Thus, the establishment survey of the informal sector units can only be conducted in connection with the informal sector establishments census or preferably a general census so that all establishments, economic activities, and the essential items can be covered to identify the informal sector units.

c. Mixed Household and Enterprise Survey

In recent years there has been a specific trend for survey of informal sector units using the Mixed Household and Enterprise Survey, since it has proved to be the most appropriate survey to give extensive data on the informal sector. Besides, in such combined surveys it is possible to cover easily all persons (excluding the homeless) employed in the informal sector irrespective of the business size, the kind of activities performed and type of workplaces used and jobs (main or secondary) which are either performed inside business owners' home or performed without any fixed location.

The mixed household and enterprise survey is arranged so as to give a sampling frame of the informal sector enterprises using the household survey. The household survey component, if appropriately designed, make it possible to identify the informal sector enterprises and the units in the sector can be covered irrespective of size, the kind of activities performed and type of workplaces used accordingly.

Indirect Method

In applying the indirect methods, the size of informal sector can be estimated according to the statistical data and sources prepared in advance for the other purposes. The methods such as Simple Currency Ratio, Residual Discrepancy, and Multiple-Indicator Multiple Cause can be mentioned here.

5- A method proposed for Informal Sector measurement in Iran

The existing statistical sources to collect data on the informal sector in Iran include Household Income and Expenditure Survey, Household Socio-Economic Characteristics Survey, General Census of Population and Housing, Results of the Manufacturing Establishments Survey, Trades and Services Survey as well as Employment and Unemployment Characteristics Survey.

Examination of the above-mentioned surveys indicate that, considering the present state of affairs, the Household Employment and Unemployment Characteristics Survey that has been conducted annually since 1994, can be the most appropriate survey to achieve the purpose. Of course, the survey's questionnaire cannot adequately meet requirements. So, it is suggested that, in the column pertaining to the employment status in the questionnaire, number of workers in the related establishments be asked in order to make it possible to have an access to the informal sector employment rate directly through the survey's results.

However, considering the fact that more detailed structural data such as output, intermediate consumption, valued added, capital equipment, etc. are of vital importance to collect in informal sector particularly from the standpoint of National Accounts, and access to such significant items may not be completely possible

through the existing surveys in Iran (not covering the whole sector) it is recommended that a separate survey be carried out (in five-year intervals). Studies done in this research and the other countries' experience prove that the mixed household and enterprise method is the most appropriate method by which all persons engaged in the informal sector whether with or without fixed location can be brought under coverage.

6- Conclusion and Recommendations

The findings of this research with the major aim to recommend an appropriate method for measuring the informal sector in Iran and minor objectives such as the initial identification of the informal sector activities, practical definition of this sector of economic activities, as well as evaluation of its measurement methods have been presented in seven chapters.

Chapter 1: introduces the objectives and the research methodology.

Chapter 2: deals with the theoretical frame.

Chapter 3: defines the informal sector.

Chapter 4, 5 and 6: examine the available methods for measuring the informal sector and recommend the most appropriate one for Iran.

Chapter 5: describes the direct and indirect methods for measuring the informal sector activities.

Chapter 6: reviews the experiences of the other countries and that of Iran in the informal sector.

Chapter 7: analyses the search findings based on the existing sources of data with regard to their weak and strong points in providing the required data on the inform sector activities from a large perspective.

In order to find the most appropriate method for the Statistical Center of Iran to follow in measuring the informal sector in Iran, this research recommends the following:

- To make the necessary modifications in the existing surveys (as suggested in Chapter 7) in order to obtain the initial essential data on the behavior of Iran's informal sector in the short-run.
- To support researches aiming at measuring indirectly the informal sector of Iran in order to obtain the initial essential data and to compare the data from the modified surveys with those of these researches in the short-urn.
- To carry out the independent survey of the informal sector activities (as suggested in Chapter 7) in the medium term.