



P-Glossary



Informal Sector

Loosely defined, the informal sector is a collective term referring to all legal economic transactions that are not captured by the National Accounts. (Illegal economic transactions are referred to as the underground economy.) The size of the informal sector varies from one economy to another. It is likely to be bigger, for example, in a country where the tax collection mechanism is immature. It can also depend on the organizational behavior of the economy with respect to the ways people are inclined to conduct economic activities.

The concept of the informal sector itself has evolved over time. During the 1950s and 1960s, there was a common view that in the process of economic growth, the traditional sector comprised of petty traders and small producers and the range of casual jobs would be absorbed into the formal economy. However, by the early 1970s, the Kenya Employment Mission of the International Labour Organization (ILO) recognized that the traditional sector had not just persisted but even expanded to include profitable and efficient enterprises as well as marginal activities. To reflect that phenomenon, the Kenya Mission decided to use the term "informal sector" rather than "traditional sector" for the range of small-scale and unregistered economic activities. Since then the term informal sector has become popular in the economic literature.

There was a debate over the role of the informal sector in economic development. By the 1980s, the focus of the informal sector debate had expanded to include the changes that were taking place in developed countries. The larger presence of the informal sector sparked a growing interest in statistics on it among international organizations. The Fifteenth International Conference of Labour Statisticians in 1993 defined the informal sector as all unregistered or unincorporated enterprises below a certain size, including: microenterprises owned by informal employers who hire one or more employees on a continuing basis; and own-account operations owned by individuals who may employ contributing family workers and employees on an occasional basis. (*Source: APO Productivity Databook 2008*)