Measuring Informal Economic Activities in Nepal: A Review

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Abstract

The informal sector activities account for a significant proportion of production, consumption and employment of the Nepali economy, thereby resulting underestimation of GDP. However, the measurement of the informal sector activities has been problematic. The collection of the informal sector statistics is limited to the non-agriculture sector because of the difficulty in defining informal sector activities in the agriculture sector. The informal sector activities is defined only on the basis of the persons' main job in respect of those currently engaged in the non-agriculture sector. Other secondary job has not been incorporated because of the nature of the complexity of jobs to be counted in the informal sector. Information was collected on the number of regular paid employees and this information has been used in defining the informal sector. The criterion of the registration is not taken into account.

The collection of statistics pertaining to informal sector was attempted for the first time in Nepal through the Nepal Labor Force Survey 1998/99. There is no regular survey to specifically collect data related to informal sector. The information on the informal sector is being updated with the data collected through 2007/08 Nepal Labor Force Survey.

This paper compares and analyses the data on informal sector from the two NLFS surveys for the use of policy makers. It critically examines the methodology being used in the collection of informal sector statistics as well as identifies its weaknesses.. It also discusses various methodologies being used in other developing countries, specially the South Asian countries, in the collection and compilation of informal sector statistics. Based on the reviews, the paper recommends appropriate methodology which can be used for improving the collection of informal sector statistics in Nepal on a regular basis.