

The Informal Sector Enterprise Surveys in Cities in Nepal 2024

I. Introduction

This document provides information on the Informal Sector Enterprise Surveys data collected by the World Bank Group's (WBG) Enterprise Analysis Unit (DECEA) in several cities in Nepal. The survey covers the following cities: Kathmandu, Biratnagar, Dhankuta, Janakpur, Birgunj, Pokhara, Butwal, and Nepalgunj. The fieldwork was implemented by Solutions Consultant Pvt. Ltd., and the data was collected between November 2024 and March 2025.

The primary objectives of the Informal Sector Enterprise Surveys are to: i) understand demographics of the informal sector in the covered cities, ii) describe the environment within which these businesses operate, and iii) enable data analysis based on the samples that are representative at each city level.

This report briefly describes the sampling design of the data, the structure of the dataset as well as additional information that may be useful for data users.

II. Definition of Informality and Universe

The Informal Sector Enterprise Surveys cover all informal businesses within a well-defined geographic area, typically a city. All eligible businesses are considered as forming the universe of inference for the survey. Informality is defined as all businesses that are not legally registered with the government and, therefore, are excluded from taxation. The exact details of these criteria vary by country. For the 2024 Informal Sector Enterprise Surveys in cities in Nepal, a business is considered informal if it is not registered with the Inland Revenue Department (IRD). Thus, the universe of the survey includes all businesses that meet the above definition of informality, including all sectors of activity of any size. The universe excludes, however, any illicit or illegal activity.

III. Sampling Approach

This section briefly outlines the sampling approach of the Informal Sector Enterprise Surveys (please see Aga et al. (2022) for further details). A challenge to conducting a representative survey of informal sector businesses is the lack of a proper sampling frame since these businesses are not registered and, therefore, they are almost always absent from official registries or any other potential sampling frame. The Informal Sector Enterprise Surveys follow an area-based sampling methodology. Each city is overlayed with a spatial grid, dividing the area into squares of equal size.¹ In the case of the 2024 Informal Sector Enterprise Surveys in cities in Nepal these squares measured 150 meters by 150 meters. This spatial grid is prepared using a GIS software. Often, the boundaries of the city match a set of administrative boundaries. Nevertheless, when appropriate, a wider urban area (possibly outside of administrative boundaries) is used to

¹ This methodology can be applied to any geographic area. The Informal Sector Enterprise Surveys are typically conducted within a city/well-defined urban area.

best capture the extent of informal business activity in an area. The resulting map is reviewed and approved by the relevant WBG Task Team Leader (TTL) in consultation with the implementing contractor.

Each square in the spatial grid, referred to as a block, constitutes a Primary Sampling Unit (PSU). The Informal Sector Enterprise Surveys use the Adaptive Cluster Sampling (ACS) method (Thompson, 1990, 1991), whereby an initial sample of starting blocks (n) is randomly selected from the city's grid. See Appendix B for the number of starting blocks selected for each city. All encountered informal businesses within each starting block are then fully enumerated. ACS takes advantage of the expectation that informal businesses are geographically clustered. To do so, a threshold number of informal businesses is defined. All blocks that meet the threshold trigger full business enumeration of all surrounding blocks. This process of sample expansion continues until no blocks meet the set expansion threshold.²

Each sampled block (starting or selected through subsequent expansions) is thoroughly enumerated whereby basic information (such as sector, size, etc.) for all informal businesses located in the block is collected (listed businesses). Enumerators are instructed to list and account for businesses that refuse the listing exercise as well as those that are unavailable at the time of fieldwork (e.g., they are encountered during off-hours). In those cases, enumerators record the refusal/unavailability and record a few pieces of information by observation. A randomly selected subset of the available enumerated businesses is interviewed through a 25-minute questionnaire (“interview”). As such, the Informal Sector Enterprise Surveys follow a two-stage sampling process, whereby a probability of selection is clearly defined by integrating selection probabilities from both stages for each interviewed business resulting in a sample that is representative of the informal sector at the city level.

For increased precision, the Informal Sector Enterprise Surveys use the stratified version of the ACS. After the spatial grid is created, blocks in the grid of each city are categorized into three strata: residential, commercial, and market center.³ The stratification was based on the survey contractor’s local knowledge combined with the land use of each square based on satellite imagery data. Note that blocks stratified as market centers are not selected using ACS but rather through stratified random sampling (SRS). In the case of Nepal, ACS was implemented only in Kathmandu and Pokhara. For the other 6 cities, due to the limited efficiency gains of applying ACS given the relatively small size of the urban centers, SRS was adopted as sampling method.

IV. Survey Implementation

This survey was fully implemented using the World Banks’ Survey Solutions CAPI software. The selection for interviews was conducted in the field and in real time, via a random algorithm programmed in the CAPI so that enumerators do not have control over who gets selected. A detailed monitoring protocol was put in place during the data collection to ensure the

² Different patterns of expansion can be implemented through this methodology. The Informal Sector Enterprise Surveys typically activate all surrounding blocks of those meeting the expansion threshold. If the expansion process is considerably longer than expected, a TTL can force a stop to expansions.

³ There is a fourth category for blocks that are physically inaccessible. This category is excluded from the sampling.

integrity of the fieldwork and methodology. In addition to supervision through assigned supervisors, every enumerator records his/her path using a tracking software installed on all CAPI tablets. Enumerators submit captured paths to a centralized server at the end of the enumeration of every block. This tracking path is checked to ensure that enumerators have fully covered the block assigned to them. This quality check was done at high frequency. In cases where the tracking path indicated a lower than acceptable level of effort in listing informal business, the enumerator was asked to re-survey the block. For detailed information about the total number of blocks covered, informal businesses enumerated, and interviews conducted in each city, please see Appendix B.

V. Database Structure

The main datafile is based on interviews conducted through a standardized questionnaire, which was piloted and reviewed before fieldwork, building on previous modules used by the World Bank's Enterprise Analysis Unit to survey informal businesses. For more information about the questionnaire, see Aberra et al. (2022). Together with the standardized questions, the 2024 Informal Sector Enterprise Surveys in cities in Nepal questionnaire includes a set of Nepal-specific questions, all of which are marked with prefix "NPL". For more details, please see the questionnaire provided as part of the survey documentation. The language in which the interview was conducted (Nepali) is given in variable *a1a*.⁴

The data contains a unique business identifier variable named *idstd*. Most variables in the dataset are numeric, except those with suffix "x", which are string variables. The variables *wweak*, *wmedian*, *wstrict* are the (consolidated from the two stages) sampling weights corresponding to the different weighting criteria (see next section for details). The sampling weights enable inferences to the population of informal businesses in each city and are strongly recommended to be used in data analysis. The variable *strata* indicates the sampling design stratum within each city. The variable *id_square* identifies businesses that have been interviewed in the same block.

All monetary questions record the answers in the local currency unit, Nepalese Rupee (NPR).

VI. Sampling Weights⁵

To estimate population parameters, weights are applied to survey samples. In survey designs following standard SRS, the selection probability of all units is known before the actual data collection. Hence, weights can be derived as the inverse of the probability of selection. A similar process is followed for ACS, with the probability of selection (within stratum) adjusted to account for the adaptive selection process.

Let n_h denote the total number of starting blocks (PSUs) selected by stratum h , with $h = 1, \dots, H$ indexing each stratum. Let N_h denote the total number of blocks in the universe of stratum h . Within stratum, starting PSUs are selected using SRS without replacement. Whenever the

⁴ The interviews were conducted in Nepali.

⁵ For seminal discussions of adaptive cluster sampling, including issue of sampling weights and proper estimators to use, see Thompson (1990, 1991). Discussions and notation in this section draws heavily, among others, on Thompson (2012), Turk and Borkowski (2005), and Tout (2009).

number of informal businesses in a given starting block is above a pre-defined threshold, determined by city, all surrounding blocks are enumerated as long as they are not inaccessible or market centers (market centers are selected by SRS and are not eligible for expansion). The enumeration of surrounding blocks continues until no block meets the pre-defined threshold requirement. This process produces a set of *networks*, which are formed by a group of contiguous blocks that all meet the expansion threshold. Thompson (1990, 1991) defines a network as any group of blocks where the enumeration of one block would lead to the enumeration of all blocks in the network. This definition helps show how, within a network, the probability of selection can be estimated. Specifically, let m_i denote the total number of blocks in a network i .⁶ In the case that a starting block i does not meet the threshold, it is considered as a network with a size of $m_i = 1$. Then, the inclusion probability of a block in network i is defined as π_i and given by⁷:

$$\pi_i = 1 - \prod_{h=1}^H \left[\frac{\binom{N_h - m_{h,i}}{n_h}}{\binom{N_h}{n_h}} \right]$$

The inverse of π_i provides the first-stage weight for each block belonging to network i . For market center blocks, the weight is calculated as $\frac{n_h}{N_h}$.

In providing population estimates using ACS (with stratification), Thompson (1990, 1991) has shown that these weights produce unbiased estimators; however, in many cases there will be informal businesses that are enumerated in blocks that are not part of the starting selection and do not meet the expansion threshold. These blocks are called *edge units*, and the unbiased estimators call for omitting these blocks. The reason for this is that for edge units, there are neighboring, surrounding blocks that have not been enumerated, and so the actual probability of selection for edge units cannot be known. Due to the expense of fieldwork and the fact that there are often interviews obtained in edge units, the choice has been made to calculate weights for edge units as well. These weights are estimated according to the formula for π_i with the following substitutions: the term $m_{h,i}$ is replaced with $(2m_{h,i} + e_h)$ where e_h is a dummy that equals 1 for edge units of strata h and 0 otherwise, and n_h is replaced with $2n_h$.⁸ The resulting weights have a known but directionally agnostic bias on population estimates when edge units are retained in this manner. As of the publication of the 2024 Informal Sector Enterprise Surveys in cities in Nepal, we feel it is worth the bias to retain the information collected.

The Informal Sector Enterprise Surveys datasets are also published with variables that identify various groupings of blocks: *M_ID* identifies the network to which a block belongs. *Id_cluster* denotes what is termed a *cluster*, which is a contiguous group of enumerated blocks, regardless of whether those blocks are from the initial selection, part of expansions, and whether

⁶ Note that within a network, all blocks are treated as the same, and so some ACS literature indexes by network rather than block.

⁷ If there are no blocks with stratum h in the network i , then N_h and n_h are set to 0. Note that with networks of size $m_i = 1$, all blocks will be within one stratum and the probability of selection simplifies to the same probability of the initial SRS selection (within the stratum).

⁸ In the special scenario where an edge unit is of a stratum that the adjacent network does not contain, the formula uses N_h and n_h of stratum h (i.e., avoiding adjustment detailed in footnote 3 above).

or not they meet the expansion threshold.⁹ Data users are provided these variables for their own discretion in the treatment of standard errors: if a user believes that they need to adjust standard errors to account for correlation within a given area, for example, they can choose to apply a clustering option by *Id_cluster*.

The published Informal Sector Enterprise Surveys datasets consist of all interviews, respondents of which are selected randomly within blocks. These datasets therefore include second-stage weights that are applied to these interviews. These weights are produced by multiplying the first-stage (block-level) weight by an adjustment factor, which is given by the inverse of the ratio of the number of interviews completed to the total number of informal businesses found in the block.¹⁰ Since within blocks, there typically are both refusals to the enumeration exercise and informal businesses that cannot be reached (and are recorded by observation), assumptions may be needed to calculate this adjustment factor. Specifically, three versions of the second-stage weights are provided based on different assumptions that are used in estimating the total number of informal businesses found in a block, with varying ways of handling refusals and unavailable businesses, as follows:

Assumption	Variable Name	Condition of Inclusion
Strict	wstrict	All confirmed informal businesses only
Median	wmedian	All confirmed informal businesses and refusals that don't have signage/permits on display
Weak	wweak	All confirmed informal businesses and all refusals

The strict assumption calculates the total number of informal businesses found in a block by including only businesses that are confirmed to be informal. The median assumption assumes that businesses that refused to participate in the survey and do not have signage and permits on display are part of the informal sector of the economy; these businesses are added to those confirmed to be informal. The weak assumption treats all refusals, regardless of signage and permits, as part of the informal economy. Therefore, by definition:

$$wweak \geq wmedian \geq wstrict$$

Data users can choose to apply whichever weight they conclude is appropriate under these assumptions. All indicators and analysis conducted by the Enterprise Survey team use the wweak weights.

Data users should note that there is a debate on whether and how to use weights in regressions (see Deaton, 1997, pp.67; Haider et al. 2013; Lohr, 1999, chapter 11, Cochran, 1977, pp.150). There is no strong, large-sample econometric argument in favor of using weighted estimation for a common population coefficient if the underlying model varies per stratum

⁹ It is therefore possible for a cluster to contain multiple networks.

¹⁰ Weights of the blocks that contain no completed interviews are proportionally transferred to blocks that (i) have at least one completed interview, (ii) have the same stratum, and (iii) have the same first-stage weight. If matching with these three parameters is not possible, the requirement of the same first-stage weight is replaced with a requirement that the blocks are in the same cluster. If matching is still not possible, only the first two parameters are used.

(stratum-specific coefficient): both simple OLS and weighted OLS are inconsistent under regular conditions. However, weighted OLS has the advantage of providing an estimate that is independent of the sample design. More generally, if the regressions are descriptive of the population then weights should be used. If the models are developed as structural relationships or behavioral models that may vary for different parts of the population, then there is no reason to use weights.

VII. Caveats

Although all possible efforts were exerted to successfully implement this methodology, some informal business units are bound to be missed during enumeration, particularly the type of activities that are hidden on purpose. This is more likely to be the case for household-based activities, although the enumeration process involved, to the extent possible, knocking on every house in each enumerated block to check for informal business activities. Additionally, as explained above, the survey is representative only of informal businesses in the covered geographic area and not necessarily of the entire province or country.

References

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Appendix A: Primary Sampling Units, Sampling Frames

Figure A-1: Kathmandu

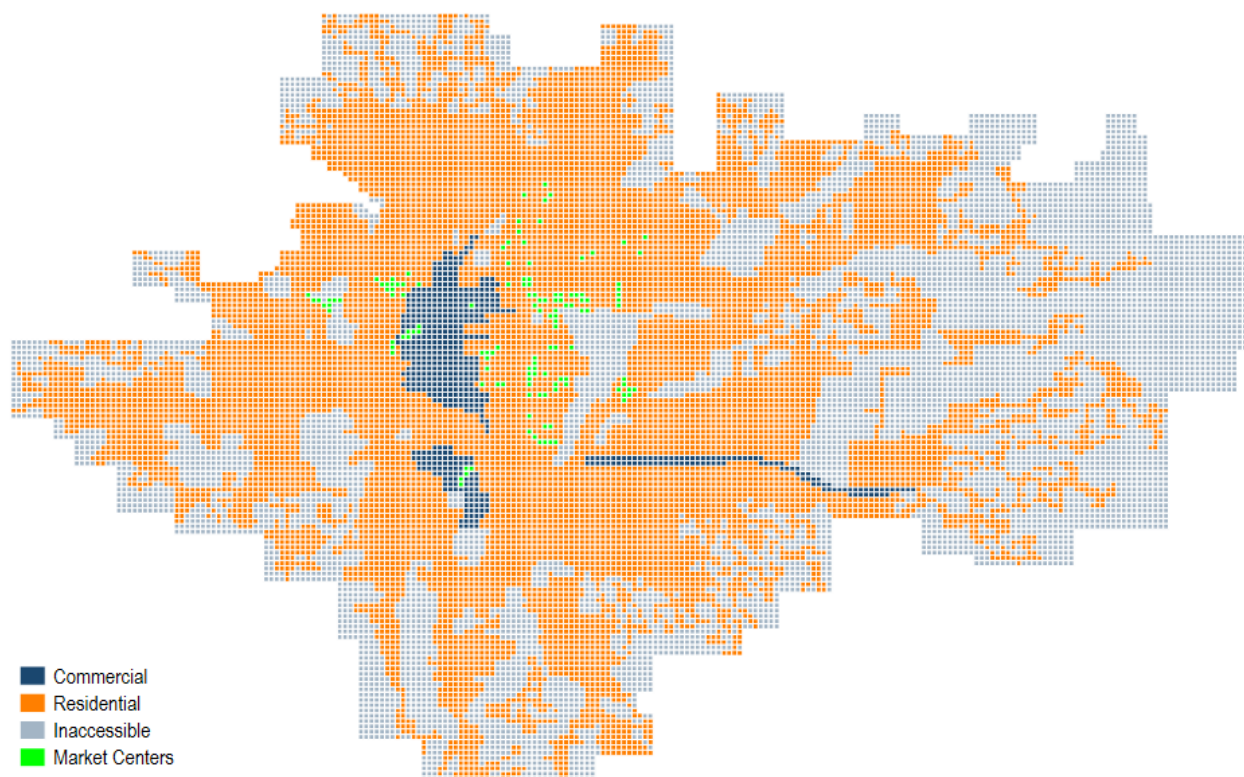


Figure A-2: Biratnagar

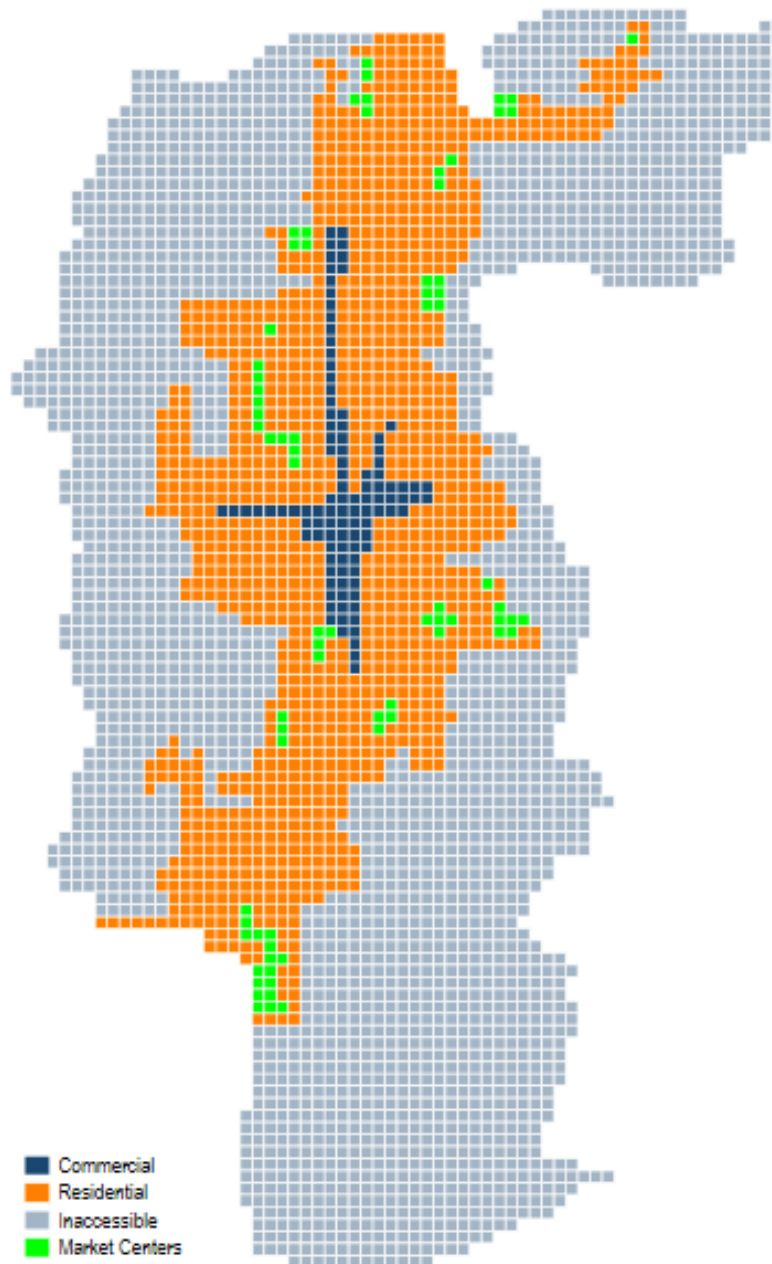


Figure A-3: Dhankuta

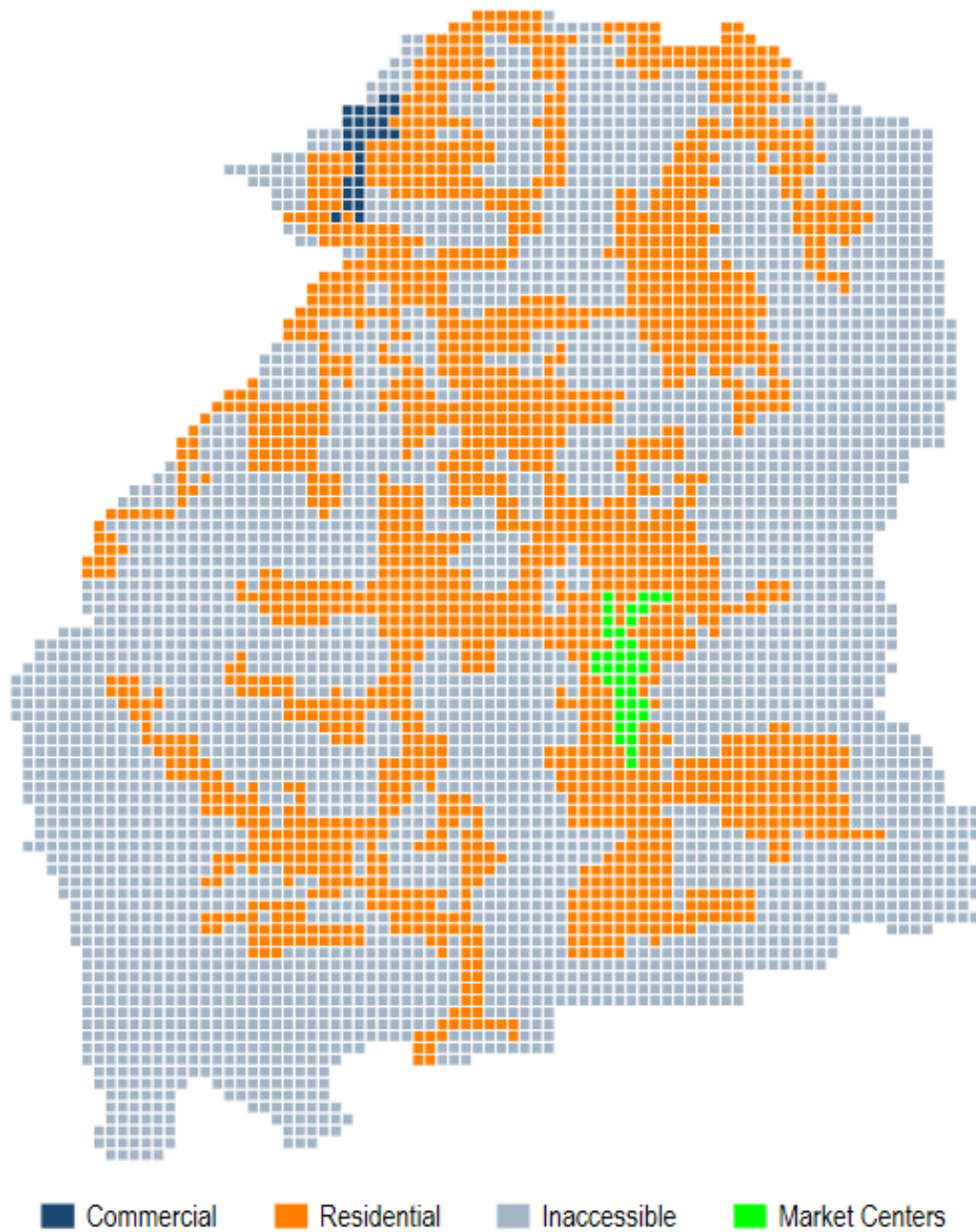


Figure A-4: Janakpur

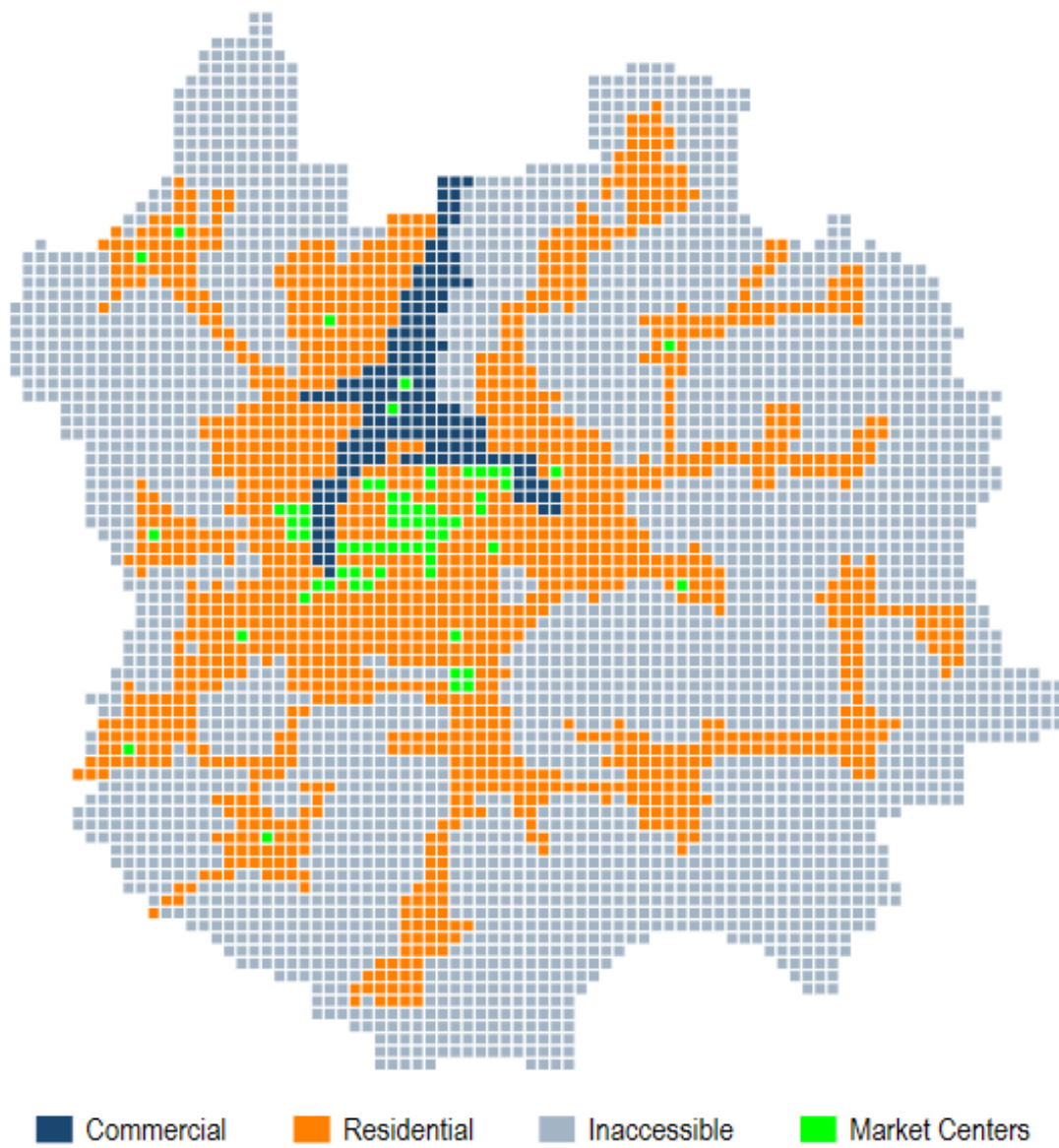


Figure A-5: Birgunj

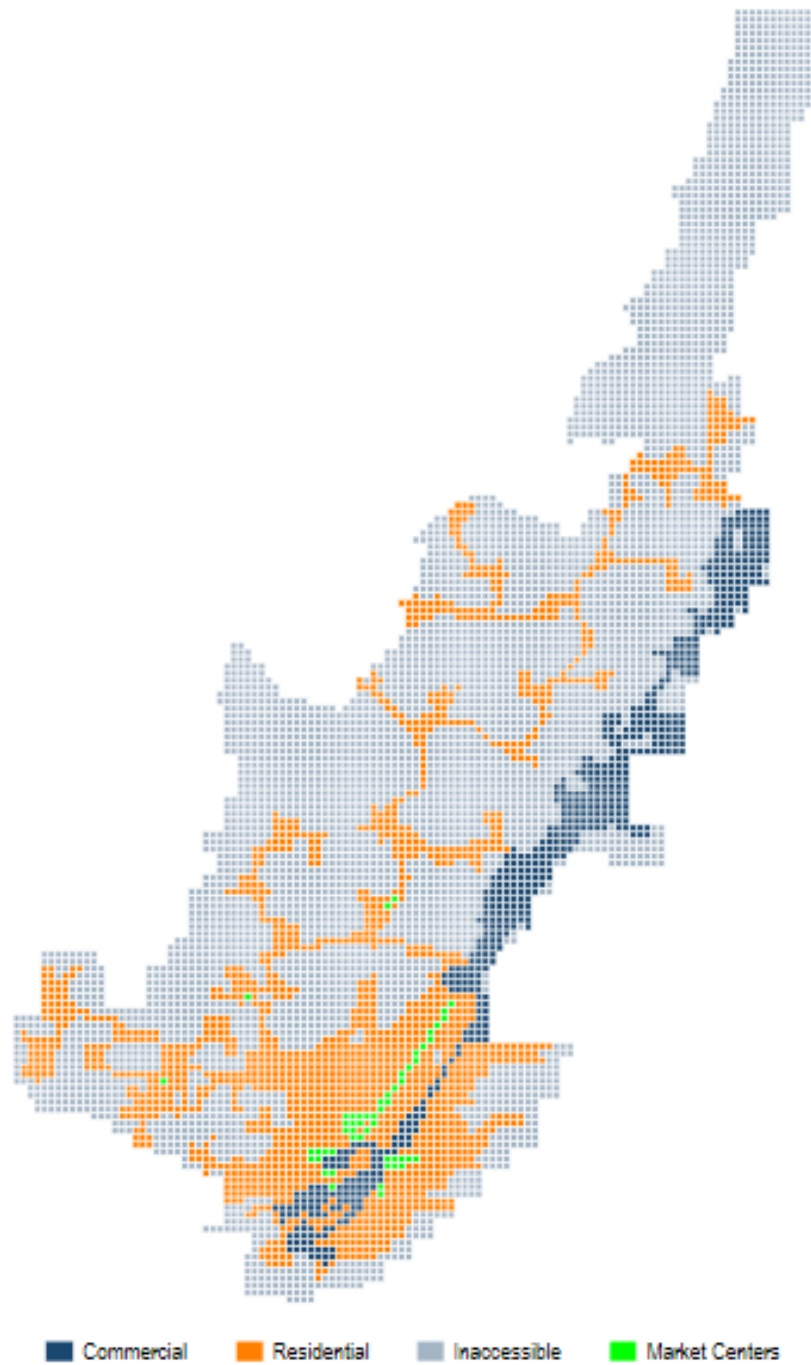


Figure A-6: Pokhara

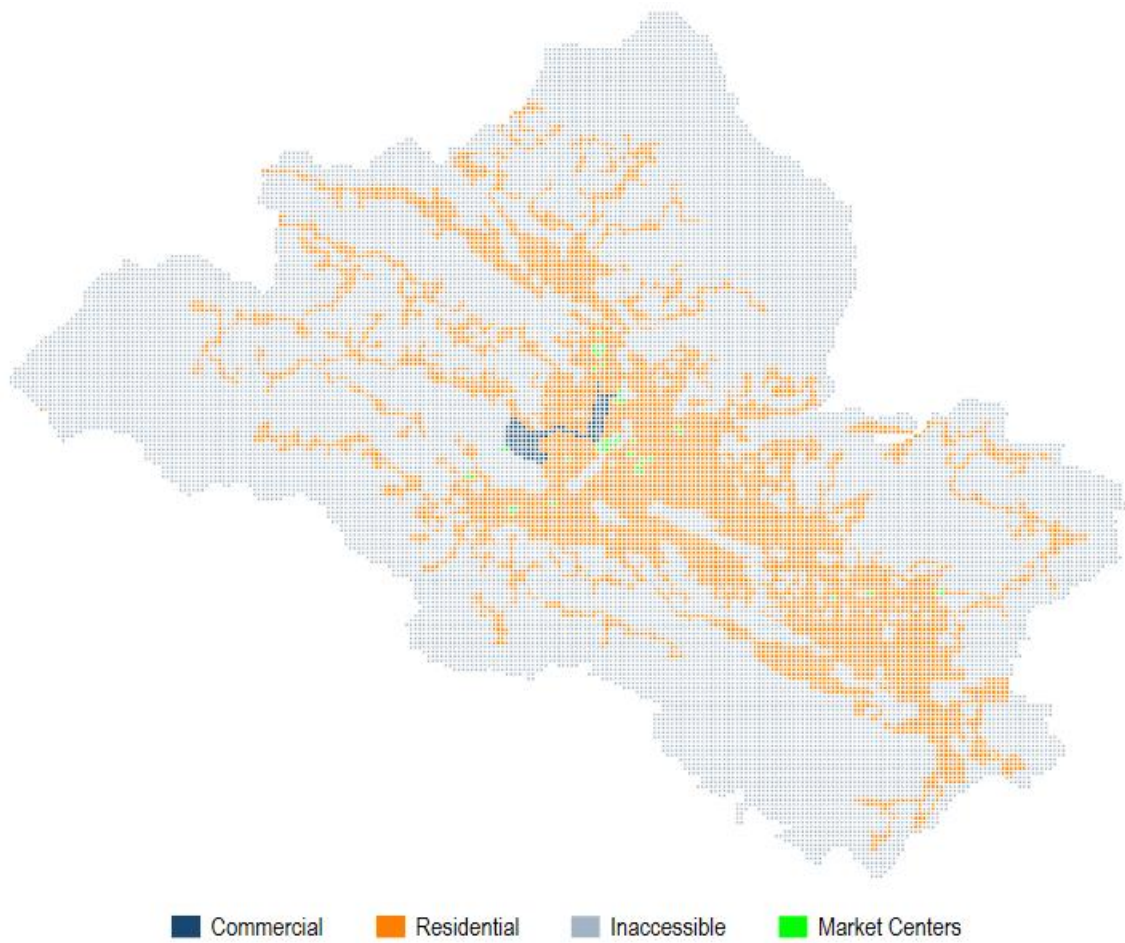


Figure A-7: Butwal

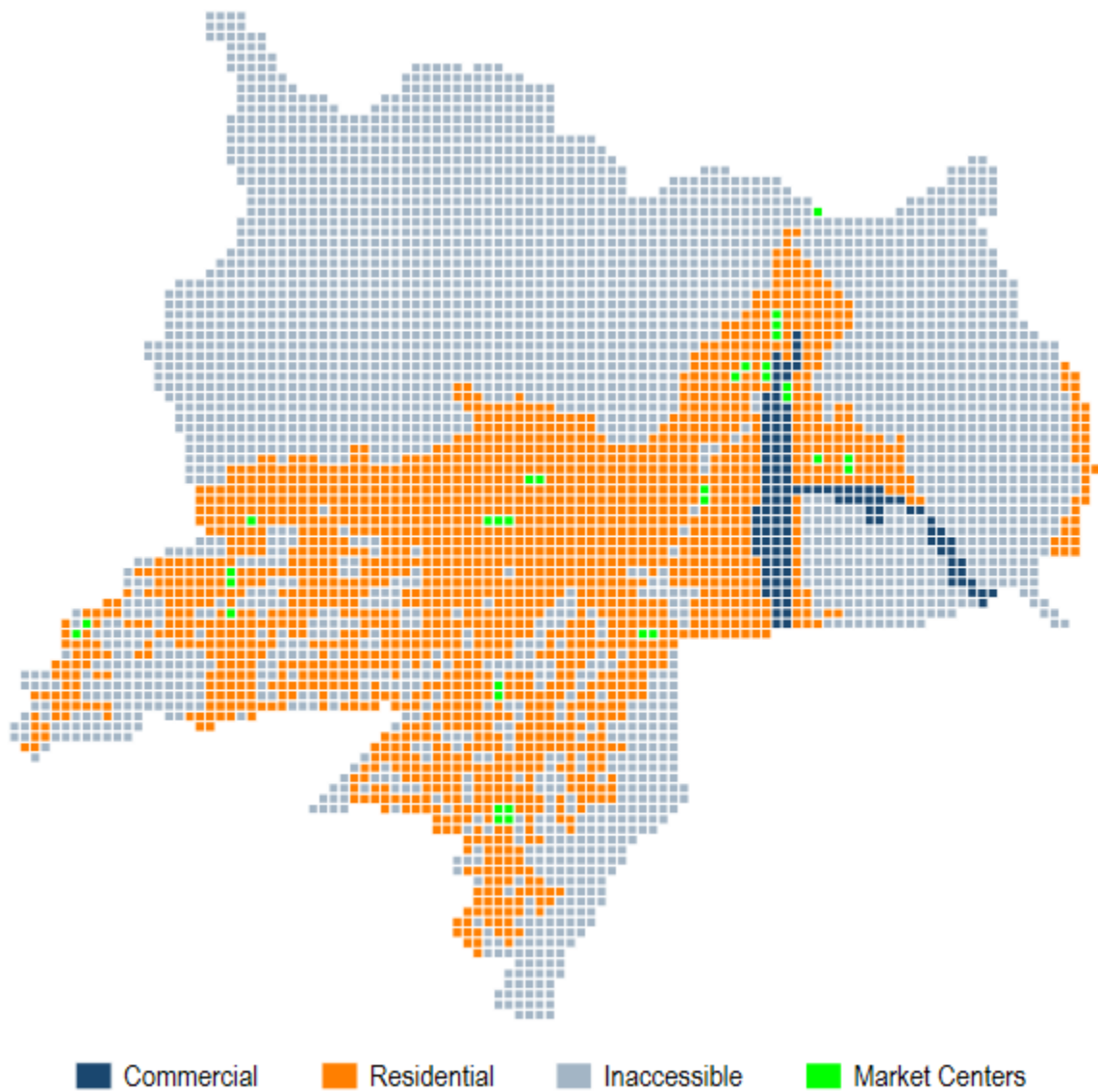
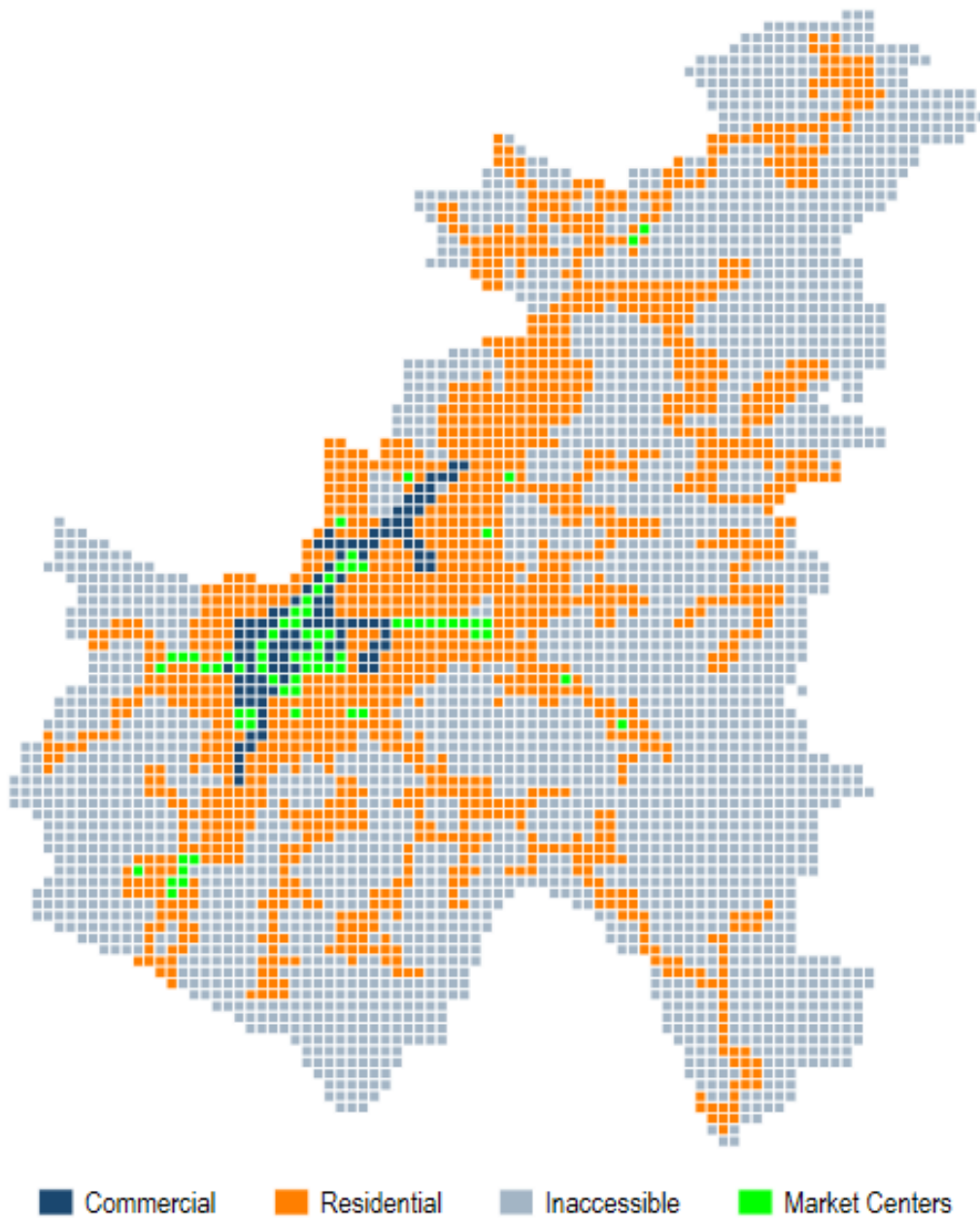


Figure A-8: Nepalgunj



Appendix B: Details of Survey Implementation

Table B-1: Number of blocks enumerated, and interviews completed

City	Strata	Universe of blocks	Starting blocks enumerated	Total number of blocks enumerated	Informal business units enumerated	Average number of informal business units per block	Interviews completed
Kathmandu	Commercial	591	119	151	762	5.05	34
	Residential	11,453	573	911	7,096	7.79	643
	Inaccessible	7,469	0	0	0	0.00	0
	Market centers	134	134	134	1,680	12.54	288
	TOTAL	19,647	826	1,196	9,538		965
Biratnagar	Commercial	106	50	50	335	6.70	49
	Residential	1,236	90	90	214	2.38	32
	Inaccessible	2,489	0	0	0	0.00	0
	Market centers	75	75	75	1,092	14.56	149
	TOTAL	3,906	215	215	1,641		230
Dhankuta	Commercial	28	28	28	117	4.18	50
	Residential	1,902	140	140	13	0.09	5
	Inaccessible	3,517	0	0	0	0.00	0
	Market centers	40	40	40	127	3.17	59
	TOTAL	5,487	208	208	257		114
Janakpur	Commercial	154	80	80	478	5.97	56
	Residential	1,401	100	100	328	3.28	39
	Inaccessible	2,941	0	0	0	0.00	0
	Market centers	68	68	68	2,184	32.12	171
	TOTAL	4,564	248	248	2,990		266

City	Strata	Universe of blocks	Starting blocks enumerated	Total number of blocks enumerated	Informal business units enumerated	Average number of informal business units per block	Interviews completed
Birgunj	Commercial	564	90	90	465	5.17	83
	Residential	1,704	90	90	255	2.83	32
	Inaccessible	4,283	0	0	0	0.00	0
	Market centers	54	54	54	1,021	18.91	164
	TOTAL	6,605	234	234	1,741		279
Pokhara	Commercial	124	75	94	554	5.89	114
	Residential	6,747	220	250	291	1.14	63
	Inaccessible	16,522	0	0	0	0.00	0
	Market centers	56	56	56	472	8.43	74
	TOTAL	23,449	351	400	1,317		251
Butwal	Commercial	121	80	80	268	3.35	45
	Residential	1,811	180	180	175	0.97	55
	Inaccessible	3,149	0	0	0	0.00	0
	Market centers	34	34	34	370	10.88	83
	TOTAL	5,115	294	294	813		183
Nepalgunj	Commercial	110	60	60	351	5.85	84
	Residential	1,461	120	120	136	1.13	38
	Inaccessible	2,774	0	0	0	0.00	0
	Market centers	72	72	72	463	6.43	125
	TOTAL	4,417	252	252	950		247
GRAND TOTAL		73,190	2,628	3,047	19,247		2,535

Table B-2: ACS parameters, networks, and clusters

City	Threshold for ACS expansions	Number of networks enumerated	Number of clusters enumerated
Kathmandu	20	825	486
Biratnagar	SRS	215	64
Dhankuta	SRS	208	97
Janakpur	SRS	248	64
Birgunj	SRS	234	128
Pokhara	10	348	201
Butwal	SRS	294	95
Nepalgunj	SRS	252	84

Note: Stratified Random Sampling was implemented for Biratnagar, Dhankuta, Janakpur, Birgunj, Butwal and Nepalgunj, therefore no threshold for ACS expansion was identified.