

Treatment of the informal sector in the 1993 SNA

Prepared by UNSD

Executive Summary

A. Introduction

1. The purpose of this paper is to provide information on the status of review of the treatment of the informal sector in the 1993 System of National Accounts (1993 SNA), as part of the 1993 SNA updating programme. This paper is limited to describing (i) the current treatment of this issue in the SNA, (ii) presenting an overview of existing recommendations and (iii) formulating the main questions to be resolved. It does not offer a specific recommendation or alternatives for consideration yet, since a fully elaborated issues paper will be submitted for discussion and decision at the next (November 2005) meeting of the AEG. It outlines, however, the work ahead between now and September 2005 and an envisaged collaborative effort to develop the proposal for the treatment of the informal sector in the 1993 SNA Rev.1.

B. Current 1993 SNA position

2. The current SNA treats the informal sector as part of the household sector. Chapter IV paragraph 4.159 under the subheading *The household sector and its sub-sectors (S.14)* introduces the concept of the informal sector, by stating its significance, particularly in developing countries, and makes a reference to the guidelines developed by ILO on employment in the informal sector, the text of which is reproduced in full in the Annex to Chapter IV. (Resolution of the 15th International Conference of Labour Statisticians concerning statistics of employment in the informal sector, January 1993.) Other than this Annex with the reproduced text of the ILO resolution, there is no methodological recommendation *per se* on the informal sector in the 1993 SNA.

I. Overall objective

3. With the aim to improve the exhaustiveness of accounts and also to ensure measurement of the informal sector for analytical purposes, the current Annex to Chapter IV of the 1993 SNA has to be replaced by a more comprehensive, improved description of the treatment of the informal sector for inclusion in Chapter IV. Section F. "The household sector and its sub-sectors". This would include a harmonized definition, describe the essential characteristics of the informal sector, clarify the delineation of the

formal and informal sectors and provide a detailed presentation of the measurement issues involved.

Reasons for the review

4. The inclusion of this issue among the 44 issues for updating has been the result of the continuous demand for a review and improvement of the guidelines on the treatment of the informal sector. In commenting on the initial list of issues, individual countries, e.g. Peru, expressed their need for better guidelines. The establishment of the Delhi Group in 1997 was initiated mainly by developing countries where the informal sector is significant, for clarification and improvement of the concepts and measurement methods. The Statistical Commission in 1999, approving the updating of the 1993 SNA, proposed “further work on...exhaustiveness/measurement of the non-observed economy” (document E/1999/24, para. 18.d) that includes the informal sector. Furthermore, the Statistical Commission in 2004 called for collaboration between UNSD and the Delhi Group in preparing a recommendation on the informal sector for the 1993 SNA updating (document E/2004/24, para. 16.e).

II. Overview of the existing sources on methods and practices for the treatment of the informal sector

5. Since the publication of the 1993 SNA, significant methodological developments have taken place in the field of the informal sector that need to be reflected in the updated 1993 SNA. The main sources of improved knowledge on the informal sector are summarized below.

6. The proceedings of the subsequent meetings of the Delhi Group on Informal Sector Statistics and the papers discussed between 1997 and 2004 contain the results of extensive conceptual and analytical work, including country practices in the area of the informal sector. Based on these deliberations, a consensus has developed on a definition of the informal sector, presented in part III of this paper.

7. In the Handbooks of National Accounting series, the United Nations publication *Household Accounting: Experience in Concepts and Compilation, Volume 1: Household Sector Accounts* (UN, 2000) contains articles on various aspects of the treatment of the informal sector under the chapter “The informal sector as part of the household sector”.

8. The results of the work started by Eurostat in 1999 through its Task Force for accuracy assessment of basic data and the related pilot tests conducted in European Union countries revealed the extent of exhaustiveness adjustments and their implications on the value of the GDP.

9. Advancement in research of statistical methods for improving the exhaustiveness of measuring economic production lead to the publication of the handbook *Measuring the*

Non-observed Economy by the OECD in 2002. This handbook includes a chapter on informal sector production, provides a core definition and methods for measurement.

10. The results of a survey of country practices are summarized in the 2003 UN-ECE manual *Non-observed Economy in National Accounts*.

11. The ILO refined and improved the concept of informal employment and the definition was endorsed by the 17th International Labour Conference in 2003.

12. The OECD/UNESCAP/ADB Workshop on Assessing and Improving Statistical Quality: Measuring the Non-observed Economy, held in Bangkok in May 2004 contributed further to defining the non-observed economy (within it the informal sector) and its measurement framework.

III. Definition and measurement framework of the informal sector to be considered for inclusion in the 1993 SNA Rev.1

13. Experts are still struggling with the definition of the informal sector though it has been much better clarified after the meeting of the Delhi Group in 1999, which reflects in the paper presented by the ILO in the Delhi Group meeting in 2004¹. In the paper, the informal sector enterprises are more clearly defined than the Annex of the 1993 SNA: “Extract form the resolution of the fifteenth International Conference of Labor Statisticians (ICLS), ...”:

- (a) They [informal sector enterprises] are private unincorporated enterprises (excluding quasi-corporations), i.e. enterprises owned by individuals or households that are not constituted as separate legal entities independently of their owners, for which no complete accounts are available...Included in private unincorporated enterprises are unincorporated partnerships and co-operatives formed by members of different households, if they lack complete sets of accounts;
- (b) All or at least some of the goods or services produced are meant for sale or barter;
- (c) Their size in terms of employment is below a certain threshold to be determined according to national circumstances and/or;
- (d) They are not registered under specific forms of national legislation as distinct from local regulations for issuing trade licenses or business services;
- (e) They are engaged in non-agricultural activities including secondary non-agricultural activities of enterprise in the agricultural activities.

¹ Ralf Hussmanns, Statistical definition of informal employment: Guidelines endorsed by the Seventeenth International Conference of Labor Statisticians (2003), the 7th Meeting of the expert Group on Informal Sector Statistics (Delhi Group), New Delhi, 2-4 February 2004.

14. First and foremost, the ICLS resolution states that the informal sector is a sub-sector of the household sector. This is consistent with the current SNA and no change is proposed to this treatment. As a consequence of its nature (as unincorporated enterprises owned by households), it has to be stated that there is no overlap with the corporate sector.

15. Second, the ICLS informal sector definition excludes illegal activities and agricultural production activities. Given the seasonal movement of labor between agricultural and non-agricultural activities, it might be considered to broaden the definition of the informal sector to include the agricultural sector. Moreover, the distinction between primary and secondary activities of enterprises in agricultural activities might be practically difficult to make.

16. Third, the informal sector excludes all units that have complete set of accounts which should be classified as quasi-corporations and thus as part of the corporations sector of the SNA.

16. The informal sector by the characteristics defined in para. 13 also includes the “underground”, “hidden”, “shadow”, “gray” etc. activities that are often, and erroneously, used interchangeably with the informal sector. Existing concepts like underground activities are defined in the SNA (para. 6.34)² and will be preserved while other concepts might need to be elaborated.

17. The summary of the ICLS informal (sub) sector definition of the household sector is presented in table 1, but with the following qualifications which are still under discussions by the Delhi group on informal sector:

- The ICLS wants to let countries decide on the size of employment in household unincorporated enterprises under which they should be treated within the informal sector while India proposes that size should be less than five employees. The rationale behind a strict application of a size-rule is the international comparability of a core definition. Countries could still apply a broader definition in accordance with national practices in addition to core definition;
- The ICLS criteria exclude the enterprises units that have to register under national legislation. However, it should be resolved what should be the treatment of enterprises that are eligible for registration but do not comply with the national legislation.
- Another question is whether households producing *domestic services by employing paid domestic workers* and *owner-occupied housing services* should be part of the informal sector.

18.

² as legal activities that are deliberately concealed from public authorities for avoiding paying taxes, social security contributions, or avoiding complying with certain legal and administrative standards such as minimum wages, safety, health standards, etc..

Table 1. the informal (sub)sector within the household sector

Corporations sector	Household sector					
	Informal sector					
Quasi-corporate household enterprises	Unincorporated enterprises owned by households, engaged in <i>farming</i>	Unincorporated enterprises owned by households, engaged in <i>non-farm</i> production with <i>fixed</i> location	Unincorporated enterprises owned by households, engaged in <i>non-farm</i> production with <i>non-fixed</i> location	Households producing <i>domestic services by employing paid domestic workers</i>	Households producing <i>owner-occupied housing services</i>	Illegal activities

IV. Work ahead

20. Currently, ILO and the Delhi Group are working on the draft of a manual on the informal sector that is scheduled for discussion at the next meeting of the Delhi Group in 2005. Also, UNSD and the Delhi group are collaborating to generate contributions from expert members of the Delhi Group for the review of the treatment of the informal sector in the SNA. Discussion of the modalities of this collaboration is under way. Additionally, UNSD has already approached directly a number of country experts seeking their contributions.

21. Moreover, an Electronic Discussion Group was established, moderated by UNSD, where papers, comments and clarifications on various details of the issue are expected. Contributions are encouraged and should be sent to the moderator, Magdolna Csizmadia, UNSD at csizmadia@un.org with the subject line: EDG informal sector.

22. The detailed recommendations will be drafted, by taking into account the above mentioned contributions, for consideration and final decision at the November 2005 AEG.