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Informal Sector

**THE INFORMAL SECTOR IN THE 1993 SNA, REV. 1**

by Ivo Havinga and Carol Carson

## The Informal Sector in the *1993 SNA, Rev. 1*

Prepared by Ivo Havinga and Carol Carson<sup>1</sup>

### Executive Summary

1. Following up on the information paper presented in December 2004, the purpose of this paper is bring to the AEG a fuller paper on issue 32, the treatment of the informal sector in the *1993 SNA, Rev. 1*, including a plan for the work to be undertaken before October 2006. The main focus of the work ahead, within an envisaged collaborative effort, is to develop a new chapter for the *1993 SNA, Rev. 1* that elaborates the concept and measurement of the informal sector within the national accounts framework.
2. The current SNA treats the informal sector in Chapter IV (paragraph 4.159) under the subheading *The household sector and its sub-sectors (S.14)*. It introduces the concept of the informal sector and makes reference to the guidelines developed by the International Labour Organization (ILO) on employment in the informal sector, an extract of which is reproduced in the Annex to Chapter IV. (Resolution of the 15<sup>th</sup> International Conference of Labour Statisticians (ICLS) concerning statistics of employment in the informal sector, January 1993.) Other than this Annex, there is no methodological recommendation *per se* on the informal sector in the *1993 SNA*.
3. The *1993 SNA*, in *Perspectives of the 1993 SNA: Looking Back and Looking Ahead* (page xliii), indicated that the topic is on the national accounting research agenda to support continued collaboration with the ILO, which is the lead agency for this work.
4. The paper has four parts. The first part confirms why the informal sector is an important issue for the Update of the *1993 SNA*, mentioning the policy relevance of the informal sector and the substantial developments related to the topic since 1993. At the end of this part, there are three questions for the AEG:
  - (1) Do members of the AEG confirm that there are strong reasons why guidance on the treatment of the informal sector should be added to the updated *1993 SNA*?
  - (2) Do members of the AEG agree that there seems to be a substantial body of methodological literature and of practical experience available to serve as a

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<sup>1</sup> Vu Viet collaborated in the preparation of the series of papers presented by UNSD during 2005. The views expressed in the paper are the views of the authors and not the United Nations. The authors benefited from the comments and assistance of Ralf Hussmanns of ILO.

foundation on which to prepare guidance on the treatment of the informal sector within the national accounts framework?

(3) Can AEG members recommend any other sources to be consulted, or do they commend any in particular of those mentioned?

5. The second part of the paper attempts to identify the differences between the ICLS concepts of informal sector and informal employment, on the one hand, and the SNA framework, on the other hand. While the paper focuses on differences, it should be understood that they are being discussed with the substantial amount of common ground as a backdrop. These differences, some more important than others, have been identified in various papers and publications of the ILO and Expert Group on Informal Sector Statistics (Delhi Group). They appear to be about terminology, segmenting the economy, the boundaries of market production and production for own final use, and universe of household enterprises. The comparisons presented should be viewed as tentative; it is expected that they will be refined and further elaborated during 2006. At a minimum, they should result in a comprehensive formulation of the differences between the ICLS concepts and SNA framework for inclusion in the *1993 SNA, Rev. 1* as an aid to their users. However, if differences can be narrowed, reporting on national accounts statistics and informal sector and informal employment could benefit significantly. The questions for the AEG are as follows:

(4) Should the different meanings of “sector,” “informal,” “households,” and “formal” be clarified and explained in the updated *SNA*?

(5) Do AEG members agree that the updated *SNA* should describe the differences between the ICLS and *SNA* definitions of the types of production units and where possible reconcile the differences?

(6) Do AEG members agree that there are advantages to the ICLS “some or all” criterion in identifying market producers? If so, could it be developed as an application for analytical and policy oriented purposes? Which option is preferred—in the core household production account or in a supplementary presentation?

(7) What are the views of the AEG on the question of comparability? Should further attempts be made, working with ILO and the Delhi Group, to identify groupings of household enterprises, including the informal sector, in the *SNA* household production account that have a greater degree of international comparability, especially to facilitate the preparation of macroeconomic indicators on household production that are internationally comparable and consistent with the *SNA*?

(8) Should a bridge table be developed, in coordination with the ILO and Delhi Group, between the informal sector special cases and their *SNA* counterparts for inclusion in the updated *SNA*?

6. The third part presents an annotated outline of what a chapter in the *1993 SNA, Rev. 1* about the informal sector might look like, pending the results of the work to be pursued with the ILO and Delhi Group. After they have considered the outline, the views of the AEG members on at least the following points would be useful.

(9) Are there relevant topics that are missing from the outline?

(10) What are the views of the AEG members about the approach of tracing with broad brush strokes the evolution of the subject as a frame within which to explain differences in terminology and differing analytical needs?

(11) What are the views of the AEG members about the balance struck between being too much and too little?

7. The fourth part presents key aspects of a work plan for the next nine months, with the target of including the recommendations about the informal sector in the consolidated recommendations that go to the Statistical Commission in March 2007.

(12) Are there AEG members who would like to volunteer for the sub-group to be set up to provide advice and review progress on the development of a recommendation on the informal sector?

(13) Are there forums—groups or meetings—in addition to the Delhi Group whose views should be sought or that can be used to test preliminary proposals?

### ***Part 1. The Context for Discussion of the Informal Sector in the SNA Update***

#### **The Informal Sector: Calls for Statistical Guidelines**

8. The informal sector represents a substantial portion of economic activity, especially in developing and transition countries. The contribution of the informal sector to non-agricultural GDP has been estimated at 27 percent for Northern Africa, 41 percent for Sub-Saharan Africa, 29 percent for Latin America, and 31 percent for Asia.<sup>2</sup> The sector has not only grown in recent decades, but has emerged in new guises and unexpected places in the wake of industrial restructuring, globalization, and financial crises. It is of high policy interest in many parts of the world. First, it is linked directly and indirectly to the main development objectives such as increased income, job creation and reduction of poverty. Second, the informal sector's characteristics are key factors in designing and monitoring targeted support and assistance programs.

9. Against the backdrop, there has been a continuous demand for more and better statistical guidance on the measurement of the informal sector. One result of this demand was the inclusion of this issue among the 44 issues for updating of the *1993 SNA*.

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<sup>2</sup> Based on selected country estimates; table 2.8 and the accompanying box in ILO, *Women and Men in the Informal Economy: A Statistical Picture*, 2002.

The Statistical Commission in 1999, approving the updating of the *1993 SNA*, proposed “further work on...exhaustiveness/measurement of the non-observed economy,” which includes the informal sector (document E/1999/24, paragraph 18.d). 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, paragraph 16.e).

10. Further, a major development account project has been approved by the United Nations Department of Social and Economic Affairs, to be led by UNESCAP, to improve statistics on the informal sector. It would be important to have an up-to-date and fully elaborated set of guidance on the informal sector within an SNA framework to be drawn upon for this project.

11. Finally, a new manual, *Surveys of Informal Sector and Informal Employment*, is being prepared by the ILO in cooperation with members of the Delhi Group (with funding from ILO and the Government of India). The manual will have a chapter on the uses of informal sector data for national accounting purposes. It would be useful to exploit the synergies between this manual and the discussion of the informal sector in the *1993 SNA, Rev. 1*.

### **Developments Since 1993**

12. Since the publication of the *1993 SNA*, significant advances in methodology have taken place in fields related to the informal sector. Also, countries have gained extensive experience in collecting and working with data on the informal sector. These developments, which are highlighted below, suggest that there is a body of work to be taken into account in updating the treatment of the informal sector in the SNA.

- The proceedings and papers of the meetings of the Delhi Group on Informal Sector Statistics, beginning in 1997, contain the results of extensive conceptual and analytical work, including country practices in the area of the informal sector.
- The United Nations handbook *Household Accounting: Experience in Concepts and Compilation, Volume 1: Household Sector Accounts* (UN, 2000), the product of a 1997 expert group, contains papers on various aspects of the treatment and measurement of the informal sector. The chapter “The informal sector as part of the household sector” is of particular interest.
- The results of the work started by Eurostat in the mid-1990s and carried out through its Task Force for Accuracy Assessment of Basic data in European Union member countries and the related pilot tests conducted in candidate countries revealed the extent of exhaustiveness adjustments and their implications for the value of the GDP.
- Research on statistical methods for improving the exhaustiveness of measures of economic production lead to the preparation by OECD, IMF, ILO, and CISSTAT of the handbook *Measuring the Non-observed Economy* (OECD, 2002). The

handbook's chapter on informal sector production provides a core definition, clarifies the distinctions between informal sector production and concepts with which it is often confused, and outlines the main methods for measurement.

- The results of a survey of country practices in 29 countries are summarized in the 2003 UNECE manual *Non-observed Economy in National Accounts*.
- The ILO elaborated the concept of informal employment as a companion to the concept of employment in the informal sector, and the conceptual framework was endorsed by the 17<sup>th</sup> ICLS in 2003.
- Over the decade, a number of workshops with a focus on the informal sector were held, organized singly or jointly by UNSD, the regional commissions, ILO, and others. The most recent of these was the OECD/UNESCAP/ADB Workshop on Assessing and Improving Statistical Quality: Measuring the Non-observed Economy, held in Bangkok in May 2004. It contributed further to defining the non-observed economy (and within it the informal sector) and its measurement framework.

### **The informal sector in the Update process**

13. A paper for information was presented to the AEG at its December 2004 meeting (SNA/M2.04/12). The AEG confirmed the importance of the informal sector especially for developing countries. It indicated that coverage of the informal sector needs to be closely defined and its relation to other analytical constructs made explicit. Extended text in *Rev. 1* should cover these points and make reference to household production and satellite accounts.

14. During 2005, UNSD discussed an evolving series of papers at the regional meetings organized with UNESCAP (April), UNECLAC (October), and UNECA (November) and prepared a paper for the 2005 meeting of the Delhi Group.<sup>3</sup> At the UNECA meeting, for example, the report noted that all the countries represented emphasized the importance of the informal sector to the economy. The discussion brought out that while countries appreciated the flexibility of adapting the definition to their own circumstances they also would like to have guidance on how to prepare more internationally comparable estimates of the informal sector.

15. In conclusion, the calls for statistical guidance and the developments since the 1993 SNA with respect to the measurement of the informal sector set the context within which a consensus will be sought on an updated treatment of the informal sector in the 1993 SNA, *Rev. 1*.

- (1) Do members of the AEG confirm that there are strong reasons why guidance on the treatment of the informal sector should be added to the updated 1993 SNA?

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<sup>3</sup> UNSD also set up an EDG on the informal sector. No contributions were received.

(2) Do members of the AEG agree that there seems to be a substantial body of methodological literature and of practical experience available to serve as a foundation on which to prepare guidance on the treatment of the informal sector within the national accounts framework?

(3) Can AEG members recommend any other sources to be consulted, or do they commend any in particular of those mentioned?

## ***Part II. The Definition of the Informal Sector***

16. With its resolution on employment in the informal sector, the 15<sup>th</sup> ICLS (1993) provided an international statistical definition of a grouping of household enterprises in recognition of their importance in creating employment and income for households owning and operating them. Various considerations were taken into account when formulating the definition of this grouping, termed the informal sector and characterized by production units with low level of organization, little or no division of factors of production, of small scale, and little or no contractual arrangements with formal guarantees. These considerations included (i) the policy relevance of the resulting statistics, (ii) the identification of a homogenous group of enterprises with similar economic objectives and behavior, (iii) practical data collection aspects, (iv) national legislation on registration of enterprises and labor, and (v) national accounts requirements based on the then-emerging *1993 SNA*.

17. Subsequently, as the ILO assisted countries, practical experience accumulated in the collection, analysis and dissemination of statistics on the informal sector. Building on that experience, the 17<sup>th</sup> ICLS (2003) introduced the concept informal employment to complement the concept of the informal sector, both within the framework of the informal economy. In formulating the concept of informal employment, the importance of consistency and coherence was emphasized in relating the enterprise-based concept of the informal sector to a job-based concept of informal employment.

18. With the point of view that the SNA is the overarching statistical framework for economic statistics, this part of the paper attempts to identify the differences between the ICLS concepts of informal sector and informal employment, on the one hand, and the SNA framework, on the other hand. These differences, which have been identified in various papers and publications of the ILO and Delhi Group, appear to be about terminology, segmenting the economy, concept of market production and production for own final use, and universe of household enterprises.

19. The comparisons presented in this part of the paper should be viewed as tentative. It is expected that they will be refined and further elaborated during 2006 in collaboration with the ILO, the Delhi Group, and members of the AEG. At a minimum, they should result in a comprehensive formulation of the differences between the ICLS concepts and SNA framework for inclusion in the *1993 SNA, Rev. 1* as an aid to their users. However, if differences can be narrowed, both the national and international reporting of national accounts statistics and of statistics on employment in the informal sector and informal

employment stand to gain. They could benefit from possibilities of closer integration of data collection and analytical use as well as improve in quality as a result of cross-checks.

20. An initial set of questions related to these differences appears in the sections of this part of the paper in which they are discussed.

### **The ICLS Definition of the Informal Sector: Key Features**

21. As noted in Part 1, the 1993 SNA, as an annex to chapter 4, included extracts from the resolution of the 15<sup>th</sup> ICLS. To facilitate discussion of this part of the paper, key features of the definition are summarized in Box 1.

#### **Box 1. Key Features of the Informal sector as defined by 15<sup>th</sup> ICLS**

1. The 15th ICLS definition of informal sector starts with the enterprise-based criterion of *legal status*. This criterion identifies household enterprises by excluding enterprises that are incorporated as separate legal entities independent from their owners and do have complete sets of accounts, including balance sheets. By extension, this criterion excludes quasi-corporations and all legal production entities, such as corporations, cooperatives, limited liability partnerships, non-profit institutions and government units that are set up for purposes of engaging in production and that are recognized by law as legal units separate from their owners.

These household enterprises are those owned by one or several individuals of the same household or owned jointly with other households.

2. The ICLS then separates household enterprises with employment by two types of employment:

(a) *Own-account enterprises*: household unincorporated enterprises with own-account owners/workers that do not employ employees on a continuous basis.

(b) *Enterprises of employers*: household unincorporated enterprises that one or more employees on a continuous basis.

3. To define the informal sector enterprises within household enterprises with employment, the ICLS uses two additional enterprise-based criteria:

(a) *Market production*: All or at least some of the goods or services produced are meant for sale and barter and thereby excluding production of goods and services exclusively carried out for own final use.

(b) *Size and/or registration*: *Size of employment* should be under a nationally determined threshold and/or *non-registration of the units or non-registration of employees* under factories or commercial acts, tax or social security laws, professional groups' regulatory acts, or similar acts, laws or regulations established by national legislative bodies.

Note: Additional kind-of-economic-activity criteria deal with special cases.



## Differences between ICLS and SNA in Terminology

22. It is useful to begin with terminological differences. Although it is not always easy to recognize when the same word is being used in different ways, in some sense these differences are the easiest to deal with.

23. The informal sector according to the 15<sup>th</sup> ICLS is an enterprise-based concept defined in terms of certain types of household enterprises. When the concept was introduced in the *1993 SNA*, it was not explained that the use of the word “sector” in this context did not precisely match the definition of the term in the national accounts framework. The ICLS concept is built around production, income and employment and thereby mainly on the elements of the production account. In contrast, the SNA concept of sector refers to the presentation of a complete set of accounts of production, income, accumulation and balance sheets, and for the household sector the role of consumption is crucial.

24. The word “informal” has also been a source of misunderstanding and confusion. It can refer to data collection practices with regards to the exhaustiveness of the measurement of GDP as well as a unit of production with specific characteristics. Moreover, it is likely that the liberal reference to the term informal sector led to the view that it implied a formal-informal sector distinction between household enterprises.

25. In the mapping of the informal economy, the 17<sup>th</sup> ICLS used a three-way breakdown of production units by type: “formal sector enterprises,” “informal sector enterprises” and “households,” where households were identified as producers of goods for own final use or as employers of paid domestic workers. The word “households” has a broader meaning in the national accounts framework. In the national accounts framework, the term not only refers to households as producers but also as consumers, lenders and borrowers, and so on. Also, the national accounts framework encompasses a broader range of household production units. (See table 1.)

Table 1. Typology of Production Units in the *1993 SNA* and 17<sup>th</sup> ICLS

<b>1993 SNA: Enterprises by institutional sector</b>		<b>17<sup>th</sup> ICLS: Production units by type</b>
Non-financial and financial corporations, general government, NPIs serving households		Formal sector enterprises
Households	Household enterprises as market producers	Informal sector enterprises
	Household enterprises as producers for own final use	Households (as producers of goods for own final use or as employers of paid domestic workers)

26. Finally, the use of the word “formal” in the ICLS term “formal sector enterprises” may lead to misunderstandings between the labor statistician and the national accountant. The latter consider the formal segment of the enterprises to be confined to institutional sectors other than the household sector. An example may be useful. In Europe, many farms and restaurants are unincorporated and do not have a full set of accounts, yet they are registered under national legislation. Under the ICLS definition they would be a formal enterprises. In contrast, in the SNA framework, they would fall in the household sector, not in one of the institutional sectors that may be seen as “formal.”

- (4) Should the meanings of “sector,” “informal,” “households,” and “formal” used by the ICLS be explained in the updated SNA along side the normal SNA usage of these terms?

### Differences between ICLS and SNA in Segmenting the Economy

27. In the interest of greater relevance for analysis and policy making, the ICLS definition of the informal sector deliberately did not comprise the full universe of production units in the household sector. Rather, it first identified two segments in the household sector based on two types of household enterprises by type of employment: *own account enterprises* and *enterprises of employers*. Within these segments, as will be explained in the next section, additional criteria were then used to identify informal sector enterprises. These criteria relate to market production, size and/or registration under national legislation, and kind of economic activity (to deal with special cases). The informal own-account enterprises and enterprises of informal employers constitute the informal sector enterprises, shaded in the table below.

Table 2. Household Enterprises: Informal Sector Enterprises and Other Household Enterprises, by Type of Employment

Informal own-account enterprises	Other own-account enterprises	Own-account enterprises
Enterprises of informal employers	Other enterprises of employers	Enterprises of employers
Informal sector enterprises	Other household enterprises	

Source: *Measuring the Non-observed Economy: A Handbook*, paragraph 10.15

28. The framework for the informal employment, as accepted by the 17<sup>th</sup> ICLS, led to further segmentation of household enterprises. Three segments were identified: formal sector enterprises, informal sector enterprises and households. These by-type-of-enterprise characteristics were combined with by-type-of-job characteristics to create a matrix that provided a mapping of employment in the informal economy, where the informal economy is seen as comprising both employment in the informal sector and informal employment outside the informal sector. (See addendum 1.)

29. Without being exhaustive, two aspects of the segmentation applied in the concepts of informal sector and informal economy may be highlighted. First, it is noted in *Measuring the Non-observed Economy: A Handbook* (paragraph 10.18), that the criterion of non-registration of enterprises in many countries could coincide with lack of legal identity and lack of complete set of accounts.<sup>4</sup> This would seem to suggest that it would be worth exploring whether there are possibilities of aligning more closely the ICLS criterion and the SNA criterion for segmenting enterprises.

30. Second, given the objective of measuring informal employment and employment in the informal sector, the two ICLS concepts refer only to production units that engage labor as input in their production of goods and services. This holds whether or not the production is for own final use. Clarification may be suggested to make explicit that these units do not constitute the complete universe of household production units in the national accounts framework; the national accounts framework also includes owner-occupied dwellings, trusts and other funds.

(5) Does the AEG agree that the updated SNA should describe the differences between the ICLS and SNA definitions of the types of production units and where possible reconcile the differences?

### **Differences between ICLS and SNA in the Use of Enterprise-based Criteria**

31. As outlined in Box 1, the ICLS definition of informal sector starts with the application of a legal status criterion. This enterprise-based criterion relates to whether or not the household enterprise is recognizable as independent of its owners and whether or not it has a complete set of accounts. To be considered as part of the informal sector, the household enterprise would not be independent of its owner and would not have a complete set of accounts. This criterion is thus consistent with the SNA concept of a unincorporated enterprise in the household sector.

32. The ICLS then separates household enterprises that employ labor by type of employment: (i) own account enterprises and (ii) enterprises of employers. Subsequently, the informal sector enterprises are selected from this universe of household enterprises based on three enterprise-based criteria: (i) market production, and (ii) size of employment and/or non-registration of the production unit or non-registration of employees and (iii) kind of economic activity (to deal with special cases).

33. On the criterion of market production, there are differences. The SNA defines market producers as those that sell *most or all* of their production on the market at economically significant prices. In contrast, the ICLS uses the phrase *some or all*. In its

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<sup>4</sup> Registration refers to specific forms of national legislation. The legislation referenced includes factories' and commercial acts, tax and social security laws, professional groups' regulatory acts, and similar acts, laws or regulations established by *national* legislative bodies. Regulations enacted by local authorities for the purpose of obtaining a trade license or a permit to operate a business are excluded from the criterion (*Measuring the Non-observed Economy: A Handbook*, paragraph 10.18).

considerations, the ICLS created a clear distinction between household unincorporated enterprises that are exclusively engaged in the production of goods for own final consumption or own fixed capital formation from those enterprises that produce for the market. With the units producing housing services from owner-occupied dwellings already excluded from the ICLS universe of own-account enterprises and enterprises of employers because they do not employ labor, the remaining own-account producers are households exclusively producing goods for their own final use and services for own final use with domestic staff as employees.

34. In the SNA framework, the definitions of market production, production for own final use and other non-market production are applied consistently in terms of *most or all* of the goods and services produced. Moreover, this distinction between the different types of producers is used consistently across the institutional sectors and considered as a criterion for the classification of a production unit by institutional sector when it meets the requirements as institutional sector unit.

35. The ICLS definition of market producers broadens the universe of household enterprises with market production as compared to the SNA. If the SNA definition of market production had been applied, the undesirable outcome would have been that a large segment of the household enterprises in many countries would have been classified as producers for own final use and therefore excluded from the informal sector.

36. On practical grounds, the ICLS definition of market producers has an advantage. Among household enterprises that do not maintain accounts and are characterized by using minor amounts of financial, produced and non-produced assets, *some or all* of the products sold on the market at economically significant prices is a far better operational criterion for data collection than *most or all*. Gauging “most” requires a more refined judgment than gauging “any.”

37. Considering the conceptual and practical advantages of the ICLS definition of market producers, it may be suggested to provide guidance in the updated SNA on the application of the ICLS definition of market producers (it is not suggested or implied to change the SNA definition of market producers). Two options may be considered. Option 1: to present the interpretation of the ICLS concept of market producers in the core of household production account of the SNA; or option 2: to present the ICLS concept of market producers in a supplementary presentation of the household production account to be recommended for countries for which the ICLS concept of market producers has relevance.

(6) Do AEG members agree that there are advantages to the ICLS “some or all” criterion in identifying market producers? If so, could it be developed as an application for analytical and policy oriented purposes? Which option is preferred—in the core household production account or in a supplementary presentation?

38. Under both options and applying the elements of the ICLS concept of informal sector, the universe of the household enterprises in the SNA could be divided into (i)

household enterprises with employment and (ii) household enterprises without employment (i.e. owner-occupied dwelling units). Subsequently, the household enterprises with employment could be divided into (i) enterprises with market production and (ii) enterprises with production for own final use. With the application of the criterion on employment and/or non-registration, the household enterprises with market production could be divided into (i) informal sector enterprises and (ii) other household enterprises. In summary:

- Household enterprises with employment
  - Enterprises with market production
    - Informal sector enterprises
    - Other household enterprises
  - Enterprises with only production for own final use
- Household enterprises without employment

Variations on this segmentation of the household production account could also be worked out.

39. As mentioned, the main objective of alternative segmentation would be to arrive at macroeconomic contributions in terms of employment and income from household production for those countries for which these macroeconomic indicators are relevant as official national accounts statistics.

40. In this context, it should be noted that the application of the criterion on size of employment and/or non-registration for identifying an informal sector enterprise helps identify the sub-universe of household enterprises that are small and non-registered. However, as mentioned in paragraph 29, there are reasons to believe that it would be worth exploring where there are possibilities of aligning more closely the ICLS criterion and the SNA criterion.

41. When the ICLS included the size and/or non-registration criterion, it was understood that it meant that the emphasis was not on seeking comparability across countries. Rather, emphasis was on providing flexibility to the informal sector as an analytical and political concept according to national procedures, legislation and data collection practices. Experience has shown that indeed the variety of applications of this criterion does hamper international comparability. The third meeting of the Delhi Group (1999) considered this situation and made a set of recommendations about a subset of informal sector data that might be defined uniformly. Further analyses of country experiences might provide directions that could be explored to narrow down the options of the criterion on “size and/or non-registration.”

(7) What are the views of the AEG on the question of comparability? Should further attempts be made, working with ILO and the Delhi Group, to identify groupings of household enterprises, including the informal sector, in the SNA household production account that have a greater degree of international comparability, especially to facilitate the preparation of macroeconomic

indicators on household production that are internationally comparable and consistent with the SNA?

### **Differences between ICLS and SNA in the Universes of Household Enterprises**

42. As mentioned in paragraph 30, the ICLS universe is taken from the universe of household unincorporated enterprises that use labor inputs in the production process, this latter being most relevant for analysis and policy making on employment creation and social protection. Consequently, household enterprises in the SNA universe that have no labor inputs in the production process, mainly owner-occupied dwellings producing housing services for own final use, are excluded from the ICLS universe.

43. The resolution of the 15th ICLS also refers to treatment of special cases. An option was given in that resolution to include or exclude services produced for own final use with paid domestic staff as employees depending on national circumstances. In order to be consistent to the principle of excluding services for own use in the informal sector concept, the decision of 17th ICLS supersedes the decision of the 15th by excluding the units that produce services for own final use with paid domestic staff as employees.

44. Moreover, for practical reasons, the ICLS proposed to limit the scope of economic activities of the informal sector to household enterprises engaged in non-agricultural activities whether taking place in the geographical areas designated as urban or rural areas. The ICLS recommended measuring agricultural and related activities separately because the sheer number of units would require a considerable expansion of survey operations and thus cost. Moreover, many countries with a large agricultural sector cover those units that meet the criteria through agricultural surveys rather than through separate informal sector surveys. However, non-agricultural activities undertaken as secondary activities by units principally engaged in agricultural and related activities should be covered by informal sector surveys.

45. The 15<sup>th</sup> ICLS discusses outworkers. These persons were defined (as in the SNA) as persons who agree to work for a particular enterprise, or to supply a certain quantity of goods and services to a particular enterprises, by prior arrangement or contract with that enterprises, but whose place of work is not within any of the establishments that make up that enterprise. Outworkers should be included in the informal sector if the production units which they constitute as self-employed persons or for which they work as employees meet the enterprise-based criteria.

46. Similarly, mobile (without a fixed location) units such as street vendors and hawkers should be included in the informal sector if they meet the criteria of the informal sector.

47. From the descriptions of the treatment of the various special cases in the ICLS informal sector concept, it should be concluded that the application of the informal sector concept is directed to non-agricultural activities producing market production. This

market production could be undertaken as primary or secondary activity in both urban and rural areas.

- (8) Should a bridge table be developed, in coordination with the ILO and Delhi Group, between the informal sector special cases and their SNA counterparts for inclusion in the updated SNA?

### ***Part III. Outline of a Chapter on the Informal Sector for Rev. 1: A Discussion Draft***

48. As this paper was being written, the ISWGNA concluded that a chapter should be devoted to an expanded discussion of the informal sector in the *1993 SNA, Rev. 1*. ” The attachment presents an annotated outline of what might be included in such a chapter. The material to be included, like that on several other topics (for example, measurement of capital services within an integrated framework) would aim to strike a balance. The *SNA* is not meant to include everything that might be useful to any party concerned, but the assumption is made that there is need for fuller guidance and discussion.

49. The draft annotated outline is meant to indicate the topics that might be covered and something about the material that might be brought in. The outline does not aim at originality; it draws liberally on existing material. It is meant as a point of departure for discussion at the AEG, and then with the AEG’s comments, to be discussed with the Delhi Group and the ILO.

50. With the above considerations about the draft annotated outline in mind, the AEG may wish to comment on the following points:

- (9) Are there relevant topics that are missing from the outline?
- (10) What are the views of the AEG members about the approach of tracing the evolution of the subject as a frame within which to explain differences in terminology and differing analytical needs?
- (11) What are the views of the AEG members about the balance struck between being too much and too little?

### ***Part IV. Work Plan***

51. As noted earlier, it is essential that work to expand the discussion of the informal sector in the *1993 SNA, Rev. 1* be undertaken in collaboration with the ILO and the Delhi Group. Main elements of a work plan are listed below. They are being discussed with ILO and the Delhi Group as this paper is being written; an update will be brought to the AEG at the Frankfurt meeting. The goal of these elements, taken together, is to be able to include a recommendation about the treatment of the informal sector in the set of consolidated recommendations that is to be sent to the Statistical Commission for its approval in March 2007.

- A small sub-group of the AEG will be set up to provide informal [pun intended] advice and to review progress from time to time. The whole of the AEG will be kept informed at appropriate milestones.
- The Project Manager, UNSD, or both will participate in the early 2006 meeting of the Delhi Group.
- Work sessions with the ILO will be scheduled for April, June, and possibly September, with UNSD and the Project Manager taking an active role.
- The ISWGNA, Project Manager, and Editor will consider a consultant to draft the proposed chapter, following the annotated outline that evolves from the advice from the AEG, the Delhi Group, and the ILO.

52. The views of the AEG about this work plan, as updated at the Frankfurt meeting, would be welcome.

(12) Are there AEG members who would like to volunteer for the sub-group to be set up to provide advice and review progress on the development of a recommendation on the informal sector?

(13) Are there forums—groups or meetings—in addition to the Delhi Group whose views should be sought or that can be used to test preliminary proposals?



The Informal Sector:  
An Annotated Outline for New Text in the *1993 SNA, Rev. 1*

*Annotations are in square brackets.*

I. Introduction [The Editor proposes that each chapter begin with an “introduction,” meant to provide an overview of the chapter. This outline proposes topics that might be considered in the spirit of such an overview.]

A. The purpose of this chapter is to cover topics that will be useful to national accountants in preparing statistics about a subset of economic activities that are a significant part of the economy in many countries and are highly relevant for policy analysis and formulation.

B. The *1993 SNA* introduces the definition of the informal sector that, just months before that volume’s completion, had been agreed by the International Conference of Labour Statisticians. The research agenda (*1993 SNA*, page xliii) noted that the distinction between informal and formal activities is widely recognized as useful and identified further collaboration with the ILO, which is the lead agency for this work, as an area of further research.

C. This chapter is organized as follows. [Sketch main headings.] Throughout, in recognition that there are players from several different fields involved in statistics of the informal sector, it attempts to trace history, note conceptual as well as practical considerations, and compare and contrast as a way to build bridges among them.

II. The informal sector: a broad statistical perspective

A. The words “informal” and “sector” have several meanings, and this has sometimes lead to confusion, tension and misunderstanding.

1. Informal: As descriptive of the sector, the term refers to such as (1) units that are unregistered and unrecorded in official statistics and (2) activities that are undertaken within a very small and with very low level of organization.

2. Sector: The term came into use in the 1970’s outside national accounts and became very popular. The term was carried over to national accounts even when it did not quite fit with the strict meaning of institutional sector in the SNA.

B. The informal sector, it is generally agreed, can be described in terms of the units involved. [The paragraphs that follow are from the resolution of the 15<sup>th</sup> ICLS, paragraphs 5.1 - 5.3. They were quoted in the *1993 SNA* and still remain valid.]

5. (1) The informal sector may be broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organisation, with little or no division between labour and capital as factors of production and on a small scale. Labour relations -where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.

(2) Production units of the informal sector have the characteristic features of household enterprises. The fixed and other assets used do not belong to the production units as such but to their owners. The units as such cannot engage in transactions or enter into contracts with other units, nor incur liabilities, on their own behalf. The owners have to raise the necessary finance at their own risk and are personally liable, without limit, for any debts or obligations incurred in the production process. Expenditure for production is often indistinguishable from household expenditure. Similarly, capital goods such as buildings or vehicles may be used indistinguishably for business and household purposes.

(3) Activities performed by production units of the informal sector are not necessarily performed with the deliberate intention of evading the payment of taxes or social security contributions, or infringing labour or other legislations or administrative provisions. Accordingly, the concept of informal sector activities should be distinguished from the concept of activities of the hidden or underground economy.

C. The informal sector manifests itself in different ways in different countries, in different regions within the same country, and even within smaller geographical areas. It encompasses different kinds of activities and different types of enterprises, and it stems from different motives. (Real world examples, such as cited in Hussmanns, in volume 1 of *Household Accounting Experience in Concepts and Compilation*.)

D. The informal sector presents statistical challenges.

1. Size: The informal sector represents a substantial portion of economic activity, especially in developing and transition countries. [Cite recent estimates, such as those in table 2.8 of *Women and Men in the Informal Economy: A Statistical Picture*.]
2. Growth and change: The informal sector has not only grown in recent decades, but has emerged in new guises and unexpected places in the wake of industrial restructuring, globalization, and financial crises. [Examples, such from the UNECE's *Non-Observed Economy in National Accounts: Survey of Practices*.]
3. Units: The units engaged in informal activities do not lend themselves easily to measurement: small size and large number of units, mobility of the units, turnover, seasonality, and scant record keeping. Important progress has been made in recent years in modifying traditional survey techniques and development of new methods (see section V).

- E. The informal sector is of high policy interest in many parts of the world.
  - 1. The informal sector is linked directly or indirectly to the main development objectives of increased production, job creation, and reduction of poverty. [Elaborate.]
  - 2. The informal sector's characteristics are key factors in designing and monitoring specific support and assistance programs. [Examples.]

### III. Definition of the informal sector

A. At several points in the 1980s and early 1990s, researchers attempted to develop criteria to distinguish between formal activities and informal (or traditional/unorganized, as they were sometimes called) activities. As well, some practical uses were made of the concept (such as the survey of country practices in estimating hidden and informal activities for national accounts made in 1991 by the UNECE).

B. The 15<sup>th</sup> International Conference of Labour Statisticians (ICLS), in January 1993, approved a resolution that provided a standard international definition of the informal sector. [This section, specifically points 2 and 3, draws heavily on *Measuring the Non-observed Economy: A Handbook*.]

- 1. Context: The resolution describes the informal sector in broad terms and provided the framework within which countries could formulate their own operational definitions (*Measuring the Non-observed Economy: A Handbook*).
- 2. Starting point: Informal sector is restricted to activities included in the SNA production boundary.
- 3. Core definition in terms of enterprises: The informal sector encompasses household unincorporated enterprises that are ...
  - a. Informal own-account enterprises (optionally, all or those that are not registered under specific forms of national legislation)
  - b. Enterprises of informal employers (optionally all those with less than a specified level of employment and/or not registered and/or employees not registered)
- 4. Additional provisions: The Resolution included recommendations regarding the scope of surveys and treatment of borderline cases.
  - a. Household unincorporated enterprises that are engaged exclusively in own-account production are excluded from the informal sector.
  - b. For practical reasons, agricultural production and related activities are excluded from the scope of informal sector surveys (it is recommended that they are measured separately).
  - c. For practical reasons, countries were given the option of collecting data on only on urban areas, leaving rural areas for later development.
  - d. Professional and technical services should be included or excluded in the informal sector on the same basis as other enterprises.

- e. Outworkers should be included in the informal sector if the production units which they constitute as self-employed persons or for which they work as employees meet the enterprise-based criteria.
- f. Paid domestic workers could be included or not as a country determination, but if included they should be separately identified to enhance international comparability. (See III.D.2 below.)

C. To build on this work, an Expert Group on Informal Sector Statistics, was set up as a “city group” under the auspices of the United Nations Statistical Commission in 1997. This group, the Delhi Group, exchanges experience in the measurement of the informal sector, documents the data-collection practices, including definitions and survey methodologies followed by member countries, and recommends measures for improving the quality and comparability of informal sector statistics. [Examples of work particularly relevant to national accountants, such as on methodology to estimate the contribution of the informal sector to GDP.]

D. Subsequent developments in ILO’s work: The 17<sup>th</sup> ISLS clarified the concept of informal employment within the framework of the informal economy, complementing the concept of employment in the informal sector.

- 1. A matrix that delineates the informal economy: This matrix, organized around production units by type and jobs by employment status, is useful in identifying segments of the labor-employing economy. [See the addendum to this outline.]
- 2. One specific change to the scope of the informal sector as outlined by the 15<sup>th</sup> ICLS: paid domestic workers. Households employing domestic workers to produce services for own consumption were excluded from informal sector enterprises (on recommendation of the Delhi Group).

E. In the section on “The household sector and its subsectors,” the 1993 SNA noted that for some countries it is important to be able to distinguish between the informal and formal sectors of the economy.

- 1. The text (paragraph 4.159) referred to the resolution of the 15<sup>th</sup> ICLS as providing an international statistical standard definition of the informal sector and an Annex reproduced an extract of the 15<sup>th</sup> ICLS resolution.
- 2. The brevity of the text may have led to misunderstandings. [Elaborate if further work indicates that it would be helpful.]
- 3. Table/set of bullets [to be developed] identifies the features of the definition and provides some commentary, including relevant comparison and contrast with counterpart SNA terminology.

F. For the *Rev. 1.*, ...[this section would cover whatever clarifications, re-emphases, updating (e.g., about paid domestic workers), or proposals for change or supplementary delineations—for example, a minimum coverage for international comparability—comes out of the Update.]

IV. Other concepts. The concept of informal sector production should be distinguished from some other concepts with which it is sometimes confused. [This section would draw heavily on the *Handbook on the Non-Observed Economy*. ]

A. Illegal production: Illegal production comprises the production of goods and services whose sale, distribution or possession is forbidden by law, and production activities that are usually legal but become illegal when carried out by unauthorized producers. The vast majority of informal sector activities provide good and services whose production and distribution are legal. Examples.

B. Underground production: Underground production consists of activities that are productive in the economic sense and quite legal, but that are deliberately concealed from public authorities for reasons such as avoiding paying taxes. Informal sector activities are not necessarily performed with the deliberate intention of evading taxes or social security contributions, or infringing labour legislation...Examples. In summary, although informal sector production and underground activities may overlap, the concepts need to be clearly separated.

C. Production for own final use: see section III.E.3.

D. Non-observed production: Non-observed production includes informal production, illegal production, underground production, production for own final use, and production missed due to deficiencies in statistical programs.

E. Informal economy: This ILO-defined concept comprises the informal economy and informal employment outside the informal sector.

## V. Measurement

A. Measurement of the activities of the informal sector are of interest in their own right as well as providing a contribution to achieving exhaustive measures of GDP and other main aggregates.

B. Several approaches may be used to record activity in the informal sector. The choice or combination will depend on the objectives. [This section would draw heavily on the *Measuring the Non-Observed economy: A Handbook*.]

1. Labour force surveys
2. Household income and expenditure surveys
3. Informal sector enterprise surveys
4. Informal sector mixed household-enterprise surveys

C. In recent years, a number of countries have undertaken substantial efforts to collect information on the informal sector. In a number of cases, they introduced innovative techniques. Several of the efforts, some highlighting the informal sector mixed household-enterprise surveys, may be sketched. [Thumbnails

sketches of, for example, efforts in India, Kenya, Mexico, South Africa, or Tunisia, drawing on the ILO's *Women and Men in the Informal Economy: A Statistical Picture*.]

D. Further development of macroeconomic estimates and indicators of the contribution of the informal sector enterprises (and other household producers) to GDP and employment in the framework of the SNA could be built on several strands of work.

1. Segmentation of the household enterprises could be further explored and then further applied.
2. Guidance on the use of informal sector data by national accountants would help populate conceptual frameworks. [Draw on the chapter to be in the manual on *Surveys of Informal Sector and Informal Employment*.]
3. Methodologies are being tested. [Draw on Delhi Group papers, for example from India and Namibia.]

### **Selected references**

*Household Accounting Experience in Concepts and Compilation Vol. 1*

*Household Sector Accounts (United Nations, 2000).*

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<http://www.ilo.org/public/english/bureau/stat/res/index.htm> .

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### A Conceptual Framework: The Informal Economy

Production units by type	Jobs by status in employment								
	Own-account workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal
Formal sector enterprises					1	2			
Informal sector enterprises <sup>(a)</sup>	3		4		5	6	7	8	
Households <sup>(b)</sup>	9					10			

<sup>(a)</sup> As defined by the Fifteenth International Conference of Labour Statisticians in 1993 (see box on 1993 ICLS definition of informal sector)

<sup>(b)</sup> Households producing goods for their own final use and households employing domestic workers.

Dark blue cells refer to jobs that by definition do not exist in the type of production unit in question. Light blue cells refer to jobs which exist in the type of production unit in question but which are not relevant to our concerns. The unshaded cells are the focus of our concern – they refer to types of jobs that represent the different segments of the informal economy.

**Cells 1 and 5 :** Contributing family workers: no contract of employment and no legal or social protection arising from the job, in formal enterprises (cell 1) or informal enterprises (cell 5). (Contributing family workers with a contract of employment, wage, social protection, etc. would be considered employees in formal employment).

**Cells 2 and 6 :** Employees who have informal jobs whether employed by formal enterprises (cell 2) or informal enterprises (cell 6).

**Cells 3 and 4:** Own-account workers (cell 3) and employers (cell 4) who have their own informal enterprises. The informal nature of their jobs follows directly from the characteristics of the enterprise they own.

**Cell 7 :** Employees working in informal enterprises but having formal jobs. (This may occur, for example, when enterprises are defined as informal using size as the only criterion).

**Cell 8:** Members of informal producers' cooperatives.

**Cell 9:** Producers of goods for own final use by their household (e.g. subsistence farming).

**Cell 10:** Paid domestic workers employed by households in informal jobs.

Source: ILO, *Decent Work and the Informal Economy* Report VI, International Labour Conference, 90th Session, (Geneva 2002).