

## Chapter 25: Informal aspects of the economy

### A. Introduction

25.1 No economy is completely regulated and captured perfectly by statistical enquiries. Steps have to be taken, therefore, to attempt to cover unregulated activity and survey imperfections as special exercises. There are two approaches that, although they share a lot of common ground, are directed towards two rather different goals. The first is to ensure that all activities including those that may be described as "hidden" or "underground" are encompassed in measures of total activity. The second is to define what is meant by the sub-set of economic units that can be considered "informal" and to measure this.

25.2 The rationale for the first activity is obvious; to have a view of the economy as a whole that is as complete as possible and as comparable over time and across countries as possible. The part of the economy difficult to measure has become known as the Non-Observed Economy (NOE) and several publications have been dedicated to measuring it, notably the handbook *Measuring the Non-Observed Economy* published by OECD on behalf of a number of international organisations. As the techniques in the handbook make clear, a specific measure of the NOE is not important in itself. Attention focuses on ensuring that the measurement of total activity is complete or "exhaustive".

25.3 The second alternative recognizes the analytical importance, especially in developing countries, of being able to measure that part of the economy that reflects the efforts of people without formal jobs to engage in some form of monetary economic activity. This part of the economy has become known as the informal sector. It is by estimating the size of the informal sector that the activity of people living on the street or in shanty towns is captured and it becomes possible to assess how far the benefits of development reach them. Those supporting the second approach do not deny the importance of the comprehensive measure of the economy but for them this is not sufficient. Despite the difficulty of doing so, attempts must be made to identify and measure an informal sector.

**Comment [I1]:** Associating the informal sector with people living on the street or in shanty towns misrepresents the reality. The importance of the informal sector goes far beyond marginalized population groups.

25.4 There is a large overlap between both concerns. However, while the NOE and the informal sector overlap, neither is a complete subset of the other. This can be seen in figure 25.1. The solid circle represents the non-observed economy and the dotted circle the informal sector. Thus the overlap consists of activities that are not observed and undertaken informally but there are some activities that are not observed but are not undertaken informally and some that are undertaken informally but are observed. The relative size of the three segments in figure 25.1 will vary from country to country.

25.5 Efforts to cover the NOE ensure that all enterprises are covered in statistical estimates even if not covered by statistical enquiries. Some of the supplementary estimates may well relate to informal enterprises but some will relate to large enterprises, not regarded as informal. In addition,

the NOE aims to cover mis-reporting in large enterprises, whether this is inadvertent or deliberate. The NOE thus covers some activity by informal ~~units-enterprises~~ but also information for some formal enterprises.

**Comment [12]:** The term 'informal units' is ambiguous. It refers to informal enterprises as well as informal jobs.

25.6 Within the informal sector, some information may be captured statistically. Consider a household that lets rooms to visitors for one or several nights. The activity cannot be treated as a quasi-corporation because it is impossible to make a clear separation of costs from regular household costs and to partition that fraction of the house treated as an asset associated with the letting of rooms from its main function as a family home. However, the value of the letting activity may be captured in a survey directed at tourism activities, for example.

25.7 Other examples might be considered. Street traders or taxidriviers may be both not observed and informal. A vehicle repair shop with 5-10 employees may be formal but too small to be covered by statistical enquiries and therefore not observed. Teaching assistants may be informal but observed. The situation is complicated by the fact that street traders, taxi drivers, vehicle repair shops and teaching assistants may be formal in some countries and informal in others, just as they may be observed in some and not in others.

Figure 25.1: The non-observed economy and the informal sector

Not observed, Observed,  
not informal informal

Not observed and informal

25.8 It should be noted that all countries have both non-observed parts of their economies and informal enterprises though the scale of each and the policy interest in identifying the latter may vary.

### 1. The policy interest in measuring activity undertaken in the informal economy

25.9 Production in the informal economy appears in different ways in different countries. When the motivation is a pure survival strategy or a desire for flexible work arrangements, it is likely to be encouraged. However, when the motivation is to avoid taxes and regulations, or to engage in illegal activities, efforts are likely to be made to curtail these. Most kinds of production activities may be undertaken by an informal ~~enterprise~~unit. These units may operate without a fixed location, or in homes, small shops or workshops. The activities covered range from street vending, shoe shining and other activities that require little or no capital and skills to activities that involve a certain amount of investment or level of expertise such as tailoring, car repair and professional services. Many informal enterprises are operated by an individual working alone, as a selfemployed entrepreneur (own-account worker), or with the help of unpaid family members, while other informal unincorporated enterprises may engage paid workers.

**Comment [13]:** The chapter uses the term 'informal economy' without defining it. Note that for the ILO 'informal economy' stands for the sum of the informal sector and informal employment. The ICLS rejected the use of the term for statistical purposes.

25.10 The size and significance of production undertaken by informal ~~unit~~enterprise depends on the social structures, national and local economic regulations, and enforcement efforts of a given country. The level of policy interest varies from country to country depending on the type of activity and magnitude of it. The size, registration and other characteristics of the production units involved are key variables in determining whether to encourage or discourage certain modes of production or enlarge the scope of the formal economy by recognising units operating below previous thresholds. Specific social support and assistance programmes may be designed and monitored to see how far they support goals such as increased production, job creation and security, poverty reduction and the empowerment of women.

### 2. Structure of the chapter

25.11 Section B looks at the characteristics of production units to try to identify the characteristics significant for the nonobserved economy, the informal sector or both.

25.12 In the context of compiling national accounts, much attention focuses on the non-observed economy. This topic is addressed briefly in section C.

25.13 The International Labour Organization (ILO), in adopting a resolution of the International Conference of Labour Statisticians (ICLS), has been instrumental in establishing a concept of an informal sector to identify a set of production units within the SNA households sector that are particularly relevant for policy analysis and formulation, especially in many developing countries and countries in transition. This

work addresses the question of how the market economy is penetrating areas outside the formal parts of the economy. This topic is addressed in sections D and E.

**Comment [14]:** The sentence is far away from describing the reality in developing countries.

25.14 The ILO work is pragmatic in realising that it is very difficult to establish a definition of the informal sector that is strictly comparable across countries given the difference in the structure of micro and small enterprises, the national legislation covering registration of enterprises and the labour laws. An Expert Group on Informal Sector Statistics (known as the Delhi Group) was set up in 1997 to address both the conceptual and operational aspects of the ILO definition. Work of the Delhi Group is reported in section F.

**Comment [15]:** The terms of reference of the Delhi Group were broader than discussing the ILO definition. They included a range of issues.

25.15 Section G discusses the borderline of units that might be regarded as informal but not in the households sector, as well as some activities in the households sector that are not regarded as informal. It goes on to indicate how data matching the concepts of the informal sector may be derived from the SNA accounts.

**Comment [16]:** The existence of informal enterprises outside the households sector is inconsistent with the contents of para. 25.42 of the chapter. In any case, this is not the only issue addressed in Section G.

25.16 Section H complements this by discussing some approaches relating to collecting data on activities undertaken by informal unit enterprises and on informal employment.

25.17 The interest in the informal sector has led to the production of a number of handbooks and studies of current practices. It is impossible to report these in depth in this chapter but section I gives a brief description of some of these and indicates where they may be consulted.

## **B. Characteristics of units acting informally**

As noted in the introduction, it is not straightforward to define what is meant by the informal economy. Is the description one of the nature of activities, the way in which they are carried out, or the way in which they are captured in statistical enquiries? In order to try to formulate a precise delineation of what is the subject of interest, a number of potential characteristics can be listed of what the informal economy might encompass. Although different commentators place more emphasis on some criteria and some on others, there is broad agreement that no single criterion on its own is sufficient to determine what is meant by informal; a composite of several indicators-criteria must be used.

25.18 Two criteria need to be kept in mind when considering each possible criterion:

a. is this really central to the definition of activity undertaken by an ~~unit in the~~ informal ~~economy~~ enterprise, and  
b. is it the basis for reaching a definition that will yield internationally comparable results?

**Comment [17]:** 'Unit in the informal economy' is an ambiguous term.

25.19 *Registration.* One interpretation of what is informal is whatever is not ~~required to be~~ registered formally with some arm of government. The problems with this criterion are obvious. Different countries have different practices on registration. Some may insist that all activities, however small and casual, should be registered; others may be more pragmatic and require activities to be registered only when their turnover exceeds a given amount or when the number of employees exceeds a given number. Further, whatever the official requirements for registration, the degree of compliance with the requirements will vary according to the extent to which they are enforced in practice. A definition of the informal sector based on registration is therefore not going to give international comparability or, possibly, comparability over time within a country if the requirements for registration or degree of compliance with the requirements vary.

**Comment [18]:** The requirement to register is rather unimportant. What matters is the actual registration.

25.20 *Legal incorporation.* Closely related to the characteristic of registration is one of legal incorporation. It is the case that all legally incorporated enterprises are treated in the SNA as falling into one of the corporations sectors but these sectors also include quasi-corporations. A quasi-corporation is defined in the SNA as a unit where either a full set of accounts, including the balance sheet, is available or can be drawn up. In this way some units that the owners choose not to incorporate (in many cases quite legitimately) are treated in the SNA as if they are incorporated but having a full set of accounts is a fairly stringent requirement. Some units may have very detailed information about their production activities and satisfy the notion of being formal without being treated as quasi-corporation and thus being excluded from the households sector. Moreover, laws requiring or permitting incorporation vary from country to country thus limiting international comparability.

25.21 *Covered by statistical surveys.* The coverage of statistical surveys, particularly establishment surveys, varies considerably from country to country and also from industry to industry within a country. Often small-scale enterprises are excluded because the statistical office considers the costs of collecting information from such units is too expensive considering the proportion of output they account for and the potential for inaccuracies in the reported data. However, there may be a "grossing up" procedure to allow for the non-coverage of the smaller units. In such a case, the production activities of these units are likely to appear attributed to the corporations sectors even though strict conformity with SNA guidelines would place these in the households sector.

**Comment [19]:** It is not clear how this paragraph relates to the question of how to define the informal sector.

25.22 *Size.* Faced with this variation of statistical and administrative practices, one possibility for identifying ~~units in the~~ informal ~~economy~~ enterprises might be to rely simply on

the size of the enterprise, defined either in terms of turnover or number of employees. The problem with turnover is again the potential variability across countries and over time. Using a maximum number of employees to identify informal units may result in some units with full accounts, and thus allocated to the corporations sector being identified as informal and some units in the households sector without a full set of accounts as formal.

25.23 *Borderline of activity.* In chapter 6 there is discussion of the production boundary of the SNA. As noted there, some activities that are economic in nature are excluded from the production boundary, specifically services produced by households for their own consumption other than the services provided by owner-occupied housing and services provided by paid domestic staff. While there is interest in measuring these activities for some forms of analysis, there is agreement that in measuring activity undertaken by ~~units in the informal economy enterprises~~ the boundary of production in the SNA should be taken as appropriate. However, the services from owner-occupied dwellings are excluded since there is no labour input to the activity.

25.24 *Illegal activity.* Chapter 6 makes clear that, in principle, the fact that an activity may be illegal is not a reason to exclude it from the production boundary. In some countries, the difficulties of capturing illegal activities may mean that they are either not well covered or deliberately ignored on pragmatic grounds. However, for some countries ignoring the production of drugs, for instance, would seriously underestimate the overall level of economic activity. In general, as discussed further in section C, some illegal activity may be included in the SNA, if only indirectly, and so complete exclusion is impracticable in any case.

25.25 *Location.* Some analysts may be interested mainly in the development of the informal economy in urban areas, particularly in so-called shanty towns on the outskirts of large conurbations. While the policy implications of such an approach can be appreciated, the role of the informal economy in areas outside the main urban areas is also important and for international comparability, and for comparison over time when internal migration is significant, restricting coverage by location is undesirable.

25.26 *The terms of employment.* Some employees have terms of employment that entitle them to various benefits in addition to their wages and salaries. These benefits typically include paid annual and sick leave and pension entitlement. Even production units offering such terms to some of their workers may also employ people on less generous terms offering no benefits beyond wages and salaries. People who work on their own account (the self-employed) may do so to provide some supplementary income, may do so because they are unable to obtain a job with benefits or may simply choose to do so for a number of reasons, including the flexibility of choosing what they do, for whom and for how long. Many of the latter may work under terms that offer not employment as such but a service contract.

**Comment [110]:** It is not clear how this paragraph relates to the question of how to define the informal sector.

**Comment [111]:** Again: the informal economy associated with shanty towns!

**Comment [112]:** This paragraph departs from the principle that the SNA should be a politically impartial text. It suggests that only a privileged minority of employees ('some employees') are entitled to the employment benefits stipulated as international labour standards in ILO Conventions. It goes on in considering terms of employment, which include ('offer') such benefits, as being 'generous'.

**Comment [113]:** It is not clear how this paragraph relates to the question of how to define the informal sector.

### C. The non-observed economy

25.27 At the time the 1993 revision of the SNA started, it was assumed that identifying an informal sector was mainly a problem for developing countries. However, even by the time that revision was complete, it was obvious that the problem affected all economies, whatever their state of development. Within the EU, the need to ensure strict comparability of coverage of the national accounts among member states led to a series of initiatives to ensure the accounts were "exhaustive" (that is, fully comprehensive). Also in the early 1990's as countries in Central and Eastern Europe made the transition to market economies, the need to cover activities outside the scope of previous reporting methods, whether undertaken within formal units or in informal units, became pressing.

25.28 The extent of economic activity missing from statistical data collections and from administrative sources became known as the "non-observed economy". In some countries, the emphasis has been placed not on identifying the nonobserved economy as such but simply ensuring that the accounts are fully comprehensive ("exhaustive"), but it is easiest to describe factors affecting exhaustiveness through the notion of the non-observed economy.

25.29 As explained in the introduction, the non-observed economy overlaps with, but is not the same as, the informal sector. As well as attempting to cover activities slipping under the net of statistical collection (sometimes called the "underground" or "hidden" economy), attention was paid to ensuring that reported information was both complete and accurate.

25.30 As noted in chapter 6, the fact that some activities are illegal in themselves or may be carried out illegally does not exclude them from the production boundary. Exercises to measure the non-observed economy should also, in principle, cover such illegal activity. How far this is pursued in practice will depend on assessments of the importance of illegal activities, how it might be done and the resources available.

25.31 Trying to assess the additions to be made to the national accounts for the non-observed economy is not just a question of examining the comprehensiveness and accuracy of statistical enquiries. The process of assembling a set of national accounts, especially when the supply and use framework is used, already casts light on missing information and helps improve the estimates overall. Consider the case of some types of illegal activities. Because avoiding taxes is illegal and tax collection may be pursued more vigorously than statistical reporting, a prostitute may report her (or his) earnings more or less accurately but describe her activity as modelling, acting or any number of other ways. Similarly, while smugglers of cigarettes may not report their activities, the fact that households purchase the cigarettes may be much better documented and thus implicitly the illegal imports are captured in the accounts.

25.32 It has been argued that a completely balanced set of supply and use tables is unlikely to omit any significant activity. While it is possible that something may be omitted, if the tables are to balance, there must be exactly matching omissions in other aspects of the accounts, which is not very likely. However, while the act of balancing the tables may in effect estimate some non-observed activity, it may not be sufficient to capture all of it.

25.33 It should be noted that, again as pointed out in the introduction, concern about the non-observed economy does not lead to a separable measure of it. The example of using the balancing of supply and use tables as a means of ensuring exhaustiveness is an illustration of why this may not be possible.

25.34 Measures of the non-observed economy will overlap with activities undertaken informally but not exactly match them. Elements not observed will include corrections to measures of informal unitenterprises that are adequately captured in statistical enquiries. Nevertheless, many of the techniques used to estimate aspects of the non-observed economy, as described in the manual Measurement of the Non-Observed Economy: a Handbook are useful for measuring the informal unitenterprises also.

**Comment [114]:** It would be useful if examples of such techniques were given.

#### **D. The informal sector as defined by the ILO**

##### **1. The ILO concept of the informal sector**

25.35 A major focus of this chapter is to present a concept of an "informal sector" as a sub-set of household unincorporated enterprises. This is the characterization of the informal sector in the Resolution of the 15th ICLS on statistics of employment in the informal sector, which described in detail the definitions used by the ILO, as follows: 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.

(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

(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.

25.36 Although the expression "informal sector" referring to a real world concept is used in the context of the ILO work, the word sector is used with a different meaning from the SNA sense of a grouping of institutional units. The ILO work focuses only on production activities and does not include the consumption and accumulation activities of the unit.

## **2. Defining the sector**

25.37 In the SNA, household enterprises do not constitute separate legal entities independently of the household members who own them. Fixed capital used in production may also be used for other purposes, for example the premises where the activity is carried out may also be the family home or a vehicle may be used to transport items produced within the household as well as for normal household transport. The items do not belong to the enterprise as such but to the household members. As a result, it may be impossible to compile a complete set of accounts for the household productive activities including the assets, both financial and non-financial, attributable to those activities. It is for this reason, the lack of complete accounts, that the activity remains within the households sector as an unincorporated enterprise rather than being treated as a quasi-corporation in one of the corporations sectors.

25.38 The ILO concept of the informal sector takes household unincorporated enterprises and further subdivides them into three; one part forming the informal sector, a second part being units treated as formal, because of the numbers of employees or registration, the third part being referred to simply as households. (A note on the different uses of terms such as sector and households follows at the end of this section.)

25.39 The subset of household enterprises treated as belonging to the informal sector have economic objectives, behaviour and a form of organization that sets them apart from other unincorporated enterprises. Specifically, the informal sector is defined according to the types of production the enterprise undertakes, still maintaining the production boundary of the SNA and not extending it to include ownuse household services, for example.

Exclusion of units producing purely for own final use

25.40 The first restriction is that at least some of the production must be sold or bartered. Thus some household enterprises that the SNA treats as producing "for own final use" because most of their production is so used are included but those that produce exclusively for own final use are excluded. It follows that the activity of dwelling services produced purely for owner-occupation is thus excluded from the informal sector.

Exclusion of units with formal characteristics

25.41 In addition, the coverage of the informal sector is restricted by using additional criteria of numbers of employees and/or registration. The minimum number of employees chosen is left to the country to decide based on national circumstances. Only those not registered under specific forms of national legislation (such as commercial laws, tax and social security laws and regulatory laws) should be treated as informal.

Figure 25.2: Identifying units in the ILO informal sector

General  
government  
Nonfinancial and  
financial  
corporations  
Households NPISHs  
Households  
that are  
registered or  
have more  
than a given  
number of  
employees  
Informal sector enterprises  
(a) without employees  
"informal own-account ~~worker~~enterprises"  
(b) with employees  
"enterprises of informal  
employers"  
Institutional  
households,  
households with  
no unincorporated  
enterprises,  
households only  
undertaking  
production for  
own final use  
(including owner  
occupation of  
dwellings)

Two categories of informal enterprises

25.42 Although the scope of the informal sector may vary from country to country, depending on the conditions for registration or the minimum number of employees chosen to determine which units are treated as formal, it is always a subset of household unincorporated enterprises operating within the production boundary of the SNA.

25.43 The remaining units are divided into the following two subsets:

a. Unincorporated enterprises without employees. The ILO term for such units is "informal own-account enterprises",

b. Unincorporated enterprises with employees. The ILO term for such units is "enterprises of informal employers".

25.44 With these additional criteria, the production unit in the informal sector is defined as a household enterprise with at least some production for sale or barter for which one or more of the criteria of a limited size of employment, the non-registration of the enterprise or its employees are met. The delineation of this set of units in terms of the SNA sectors is shown in figure 25.2.

Exclusions on grounds of activity

25.45 Apart from defining the informal sector, the 15th ICLS recommended the following additional considerations about the scope of informal sector and its statistical treatment.

a. In principle, all goods and services producing activities are within scope. These might be presented according to the alternative aggregation recommended for the analysis of the activities of the informal sector in ISIC Rev. 4. This alternative presentation takes into account that some economic activities such as public administration and defence (ISIC 84) are undertaken by units in general government and so cannot qualify as informal sector activities. However, the ICLS recommends that:

- agricultural activities (ISIC section A) are measured separately from other economic activities to ensure international comparability and to facilitate the selection and application of appropriate statistical data collection tools and sample design. (Units undertaking only subsistence activity are already excluded as they do not sell any of their output.)

- activities of households as employers of domestic personnel (ISIC 97) with households being producers for own final use are outside the scope of the informal sector.

b. Geographical coverage includes both urban and rural

areas even if preference may be given initially to measuring informal enterprises operating in urban areas.

c. Outworkers are included if the units for which they work as self-employed persons or as employees are included in the informal sector.

### 3. Clarifying the use of familiar terminology

#### Sector

25.46 The term "sector" in the expression "informal sector" does not have the same basis as the usual use of the word sector throughout the SNA. In the SNA, sectors are made up of complete institutional units; in the context of the informal sector only the productive activities are concerned. Thus, for example and importantly, households having no productive activity are simply not considered in the steps to identify those unincorporated enterprises operated by households that are to be included in the informal sector.

#### Enterprise

25.47 It follows that the use of the term "enterprise" as used in the ILO description of the informal sector is, in the SNA sense, more like an establishment since it is only the productive activity that is considered and not the existence of a complete set of accounts. For households with unincorporated enterprises, the distinction is a fine one though it is possible that a household may undertake more than one sort of activity. This would still be regarded as a single unincorporated enterprise in the SNA but would ~~may~~ be treated as more than one enterprise according to ILO guidelines.

25.48 One reason for this is that the ILO recognises ~~assumes~~ that individual members of a household ~~can~~ own the enterprise and employ workers. In the SNA, the household is not divisible into individuals.

**Comment [115]:** The ILO does not have to 'assume' this. It just follows existing legislation. It is an established fact that from a legal point of view it is the individual household members (and not the household as a whole) who own unincorporated enterprises and employ workers.

#### Sub-sectoring production

25.49 The SNA sub-divides production into market production, production for own final use and non-market production. Non-market production is not at issue here, since it is never undertaken by households. However, to meet the ILO guidelines it is necessary to sub-divide producers for own final use into those where some of the production is for sale or barter and those where the production is exclusively for own final use. In the case of unincorporated enterprises where only some of the production is sold or bartered, all of the production of the unit of the goods and services being sold or bartered is still included in production by the informal sector.

#### Formal sector, informal sector and households

25.50 The SNA does not use the expression formal sector but it is not difficult to conceive of all units in the corporations sectors, general government and NPISHs as being part of a

formal sector as far as production is concerned. Quasi-corporations are included because they are included in the corporations sectors. However, this is not the same as saying that any unit that is not informal is formal, since households with unincorporated enterprises not included in the informal sector are divided between those that are treated as formal and the rest that are not treated as informal but are left simply in a group called households.

25.51 The ILO meaning of households is thus quite different from that of the SNA since the SNA includes all the units included under ILO guidelines as informal, plus those units with unincorporated enterprises treated as formal, plus those unincorporated enterprises excluded because they produce exclusively for own final use, plus those households with no unincorporated enterprises plus institutional households.

## **E. Informal employment**

### **1. Informal employment**

25.52 Increasingly it has been realised that production alone is not the only aspect of the economy where a distinction between formal and informal is informative, it is also relevant for employment.

25.53 The ILO defines formal wage employment as employment under terms that bring associated benefits such as paid leave and pension entitlement. All other forms of employment they regard as informal unless the individual establishes a quasi-corporation (or actual corporation).

**Comment [I16]:** The sentence is incorrect. There are own-account workers and employers in formal enterprises, which are neither corporations nor quasi-corporations. These persons are considered to have formal jobs.

25.54 As noted in section B, it is possible for formal units to have informal employees and it is also possible (though less likely) that units that are classed as informal may have terms of employment for some of their workers that make them formal employees. The extent of informal

employment can be seen in the shaded right part of figure 25.3

25.55 As explained in chapter 19, there is a distinction between a job and an employee, one employee being capable of holding several jobs. There are five categories of jobs considered by the ILO. These are:

a. own-account workers (the self-employed in SNA terms),

b. heads of unincorporated enterprises with employees, treated as employers,

c. unpaid family workers contributing labour to the unincorporated enterprise,

d. employees,

e. members of producers' cooperatives.

25.56 Formal enterprises provide informal jobs only as employees or contributing family workers. Households (in the ILO sense) provide informal jobs as own-account

workers and employees and no formal jobs. Informal units may offer any of the five types of informal jobs.

**Comment [117]:** The last part of the sentence is incorrect. Households can employ domestic employees in formal jobs (i.e. on the basis of a written employment contract, with social security coverage, paid annual or sick leave, etc.).

Figure 25.3: Informal employment and employment in the informal sector

Formal jobs Informal jobs  
Formal enterprises  
Informal enterprises  
Other household  
unincorporated  
enterprises

## 2. Employment in the informal sector

25.57 As well as informal employment in total, it is useful to identify the extent of employment in informal units. This excludes informal jobs in formal units, excludes any informal jobs in other household unincorporated enterprises and includes formal jobs in informal units. The ICLS defines the population employed in the informal sector as comprising all persons who, during a given reference period, were employed in at least one informal sector unit, irrespective of their status in employment and whether it was their main or a secondary job. The coverage of employment in the informal sector is indicated by the heavy border in figure 25.3.

### F. Work of the Delhi Group

25.58 In 1997 an expert group on ~~the~~ informal sector statistics was set up by the United Nations Statistical Commission as a "city group" and is known as the Delhi Group. One of its objectives was to try to identify internationally comparable data for the informal sector or, at least, a common subset of it.

25.59 The third meeting of the Delhi Group in 1999 proposed a subset of the informal sector that could be defined uniformly across countries, though this sub-set presently covers only a relatively small part of the informal sector. These recommendations are as follows:

- a. All countries should use the criteria of legal organisation (unincorporated enterprises), of type of accounts (no complete set of accounts) and of product destination (at least some market output).
- b. Specification of the employment size limit of the enterprise in the national definition of the informal sector is left to the country's discretion. For international reporting, however, countries should provide figures separately for enterprises with less than five employees. In the case of multiple-establishment enterprises, the size limit should apply to the largest establishment.
- c. Countries using the employment size criterion should provide disaggregated figures for enterprises that are not registered, as well as for enterprises that are registered.
- d. Countries using the criterion of non-registration should provide disaggregated figures for enterprises with less than five employees as well as for enterprises with five and more employees.
- e. Countries that include agricultural activities should provide figures separately for agricultural and non-agricultural activities.
- f. Countries should include persons engaged in professional or technical activities if they meet the criteria of the informal sector definition.
- g. Countries should include paid domestic services unless these are provided by employees of the household where the services are rendered.
- h. Countries should follow paragraph 18 of the Resolution adopted by the 15th ICLS regarding the treatment of outworkers/home-workers. Countries should provide figures separately for outworkers/home-workers included in the informal sector.
- i. Countries covering urban as well as rural areas should provide figures separately for both urban and rural areas.
- j. Countries using household surveys or mixed surveys should make an effort to cover not only persons whose main job is in the informal sector, but also those whose main job is in another sector and who have a secondary activity in the informal sector.

25.60 Subsequent work of the Delhi Group examined many studies on national practices in the collection of data on the informal sector to lead up to the provision of a manual on the informal sector and informal employment to be published by the ILO.

#### **G. Deriving data on activities undertaken informally from the SNA accounts**

25.61 In trying to identify activities undertaken informally by units in the informal economy within the national accounts, three steps are necessary. The first is to identify those unincorporated enterprises within the whole of the SNA households sector that are candidates to be included. The second is to consider national practices in establishing the households sector to see if any adjustment to the first step is necessary. The third step is to provide a breakdown by type of activity so that common exclusions according to type of activity can be made.

#### 1. Candidate households

25.62 The households sector includes some institutional units that should be excluded at the outset. These are:

- a. Institutional households such as prisons, religious orders and retirement homes;
- b. Households with no production activity (that is do not include an unincorporated enterprise);
- c. Households whose only activity is the production of services from owner-occupied dwellings, the production of services by employing domestic staff, or both.

25.63 The remaining households all contain some production activity. However, it will include both market production and production for own final use. The ILO guidelines on informal sector statistics use a notion ~~categorising households include a definition~~ of market production that does not conform to the SNA category. The ILO treats an enterprise as a market producer if any of the output is sold whereas the SNA requires that most or all of the output be sold. To overcome this difference, it is recommended that a three-way split of production be made,:

- a. market production according to the SNA criterion whereby most or all output is sold,
- b. output for own final use where some is sold, and
- c. output exclusively for own final use.

The sum of the first two categories then accords with the ILO guidelines for inclusion in the informal sector.

25.64 The ILO also distinguishes households between those that do not have workers employed on a continuous basis and those that do, as follows:

- a. Unincorporated enterprises without employees on a continuing basis,



b. Unincorporated enterprises with employees on a continuing basis.

This categorization is combined with the preceding one as indicated in figure 25.4.

## **2. Adjustments for national practices**

25.65 Although the SNA recommends separating NPISHs into a sector separate from households, not all countries do this. If they are not already separated from households, they should be removed at this stage.

25.66 Production units that are not formally incorporated but have complete accounts should be treated as quasi-corporations and excluded from the households sector. If this is not national practice, a further adjustment is necessary to remove them.

25.67 The SNA also recommends that small enterprises without complete sets of accounts should be included in the households sector as unincorporated enterprises. Some countries, however, prepare production estimates by type of activity for inclusion in a supply and use framework without regard to whether a full set of accounts exists. By default, all may be included in the corporations sectors with little production remaining in the households sector apart from the imputed services of owner-occupied dwellings and the services provided by paid domestic staff. It is therefore recommended that estimates for unregistered enterprises with less than five employees be extracted from the figures for the corporations sector to set alongside the figures from the households sector. Similarly any enterprises that are unincorporated but registered should be separately identified.

25.68 Figure 25.4 demonstrates how the potential units for treatment according to the ILO definition of the informal sector relate to the institutional sectors of the SNA. The light shading under corporations indicates that in principle any enterprise that is not registered and has fewer than a given number of employees should be identified if it has been included in corporations. In practice, it may not be possible to separate those that are registered from those that are not.

## **3. Disaggregation by type of activity**

25.69 The third step is to disaggregate the production activities from households, grouped as suggested above, and those extracted from the corporations sectors for small-scale activities according to the type of activity concerned. Because the separation is initially in terms of units and not activities, there will still be some services from owneroccupied dwellings included and these should be eliminated. If a cross-classification by activity and type of unit is available, a choice can be made about whether to include or exclude an activity that is exclusively for own use even when another activity by the same unit includes sales outside the households.

25.70 Some further exclusions may also be made, for example services provided by paid domestic staff and agricultural production.

25.71 The problem remains about how to treat individuals supplying labour under a service contract. Institutionally there may be no difference in terms of legal requirements to register the activity, submission of tax returns and so on between a retired international civil servant acting as a consultant with a formal contract and a carpenter working for a household on the basis of a written estimate.

25.72 It is possible that some rules of thumb may be conceived, for example depending on the type of activity, the rates of pay or the duration of the task, but objections to any of these are easy to formulate and implementation would be extremely difficult.

**Comment [118]:** I suggest to delete the paragraph. As there is no difference between the international consultant and the carpenter, what is the problem mentioned in the first line of the paragraph?

**Comment [119]:** Idem : delete the paragraph..

Figure 25.4: Identifying units for the ILO informal sector from within the SNA institutional sectors

General  
government  
Non-financial and financial  
corporations Households NPISHs  
Those that  
are  
registered or  
with greater  
than a given  
number of  
employees  
Those that  
are  
unregistered  
or with  
fewer than a  
given  
number of  
employees  
Those that  
are  
registered or  
with greater  
than a given  
number of  
employees  
Self-employed (informal own-account  
~~worker~~ enterprises)  
Unincorporated enterprises with  
employees (enterprises of informal  
employers)  
Institutional  
households,  
households  
with no  
unincorporated  
enterprises,  
households  
only

undertaking  
| production of services for  
own final use  
(including  
owner  
occupation of  
dwellings)  
Market  
producers  
| Producers of goods for own final  
use  
Market  
producers  
| Producers of goods for own final  
use  
Selling most  
or all  
production  
Selling some  
production  
Not selling  
any  
production  
Selling most  
or all  
production  
Selling some  
production  
Not selling  
any  
production

:-----  
**Comment [120]:** Unless you make the  
above changes, columns 7 and 10 will  
overlap with column 11.

#### 4. Presenting the data on the informal sector and informal employment

25.73 The information relating to activities undertaken informally extends only as far as the production and generation of income account. It is not possible to go farther in the sequence of accounts because of the impossibility of identifying which other income flows, consumption and capital formation relate only to the activity in question rather than to the household to which they belong as a full institutional unit. Thus the informal sector, as explained previously, is not strictly a sector in the SNA sense and so the figures for it cannot be presented in terms of the full sequence of accounts. However, it is recommended that where possible two supplementary tables should be prepared, one covering production and the generation of income and one covering employment.

##### Production

25.74 It is suggested that the following type of information be provided for each of the shaded areas in table 25.4:

- a. Production
  - of which for own use
- b. Intermediate consumption
- c. Value added
- d. Compensation of employees (for unincorporated enterprises with employees only)
- e. Gross mixed income
- f. Consumption of fixed capital
- g. Net mixed income.

25.75 Further information may also be useful if available. For example, a breakdown of production by type of activity and, possibly, the proportion of the total production in the industry produced by informal unit enterprises.

25.76 In countries where some small units that might be considered part of the informal sector are covered by enterprise surveys and included in the corporations sector, there may be units of interest in the lightly shaded cell in table 25.4. If this is so, and if separate estimates for them can be identified, it would be useful to show these alongside the entries for those units clearly within the households sector.

##### Employment

25.77 Information on the number of jobs should be presented showing:

- a. Employment in the informal sector

- Formal jobs
  - Informal jobs
- b. Informal employment outside the informal sector
- In the formal sector
  - In other household unincorporated enterprises

25.78 If possible, information on the hours worked in each of these categories would be useful.

#### H. Approaches to measuring activities undertaken in the informal economy

**Comment [I21]:** In my view, Section H continues to be the weakest part of the chapter. I would only keep paragraph 25.79 and delete the rest of the section.

25.79 It is neither possible nor appropriate to give detailed information in the SNA on survey methodology and questionnaire design. However, it is useful for national accountants to be aware of some of the options that may be available to help in collecting data on production in ~~units in the informal economy~~ ~~enterprises~~. More detailed discussion is available in, for example, the manual on Measuring the Non-Observed Economy.

25.80 The choice of the appropriate method for measuring the informal sector depends upon how adequately established data collection methods cover the activities of interest. Three main measurement approaches are considered here. The choice between them will depend upon what information is missing from existing collections, the organization of statistical systems, the resources available and user needs.

#### 1. Household surveys

25.81 A household survey (or labour force survey) may provide a means to collect information on ~~production by~~ household enterprises that are not included in the sampling frames used for establishment surveys. It may also be possible to collect data on informal sector employment in household or labour force surveys. Questions seeking this sort of information could be addressed to everyone in the sampled households during the reference period of the survey, irrespective of their status in employment and in respect of their main and secondary jobs since in many countries a large number of informal sector activities are undertaken as secondary jobs. Special questions may be required ~~for~~ to identify unpaid work in small family enterprises, activities undertaken by women and children, activities undertaken away from home, undeclared activities and informal sector businesses conducted as secondary jobs. The success of

such an approach is dependent on the survey sample including representative geographical areas where household activities take place and informal sector workers live.

25.82 It should be borne in mind, though, that although employees, contributing family workers and proxy respondents may be engaged in household and informal enterprises, they may have limited knowledge of the operations of the enterprises in question and may not be able to respond to such questions.

## 2. Establishment surveys

25.83 In most cases, an establishment survey can be used to measure activity undertaken by an ~~unit in the~~ informal ~~economy~~ enterprise only when a household establishment survey is carried out just after an economic or establishment census because the sampling frame may not include information, or not up-to-date information on household enterprises.

Comment [122]: What is a 'household establishment' or a 'household establishment survey' ?

25.84 Even when an establishment survey is used to measure household production units including those of the informal sector, it should be noted that production units without a fixed location or with unrecognizable business premises are easily omitted in the collection. In addition, double counting of household production may occur if the collections for different types of economic activity are undertaken at different times rather than simultaneously in an integrated design. For example, the manufacturing activity of a household producing goods in a small workshop or at home may be included in one collection round while the retail sales activity undertaken by the same family of those produced goods is measured in another round.

## 3. Mixed household-enterprise surveys

25.85 A mixed household-enterprise survey is generally designed with enterprise modules attached to existing labour force or other household ~~modules~~ surveys. Such a survey could cover all household entrepreneurs of the sampled households including informal entrepreneurs (including units operating without fixed premises such as mobile units) and their activities, irrespective of the size of the enterprises, the kind of activity and the type of workplace used and of whether the activities are undertaken as main or secondary jobs.

25.86 When a mixed household-enterprise survey is used as the preferred method, attention should be paid to the question of whether the sample adequately reflects the geographical distribution of economic activities of household production. It is also necessary to consider how enterprises with production units in more than one location are handled and how duplication of coverage for enterprises that are operated under partnerships may be avoided if the same enterprise is reported by each of its partners who may belong to different households.

## I. Guidelines, studies and handbooks on the informal economy

25.87 Since the publication of the 1993 SNA, significant advances in methodology have taken place in fields related to the informal economy. 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. Various papers of the Expert Group on Informal Sector Statistics (Delhi Group), at [http://www.mospi.nic.in/mospi\\_informal\\_sector.htm](http://www.mospi.nic.in/mospi_informal_sector.htm).

- The United Nations handbook Household Accounting: Experience in Concepts and Compilation, Volume 1: Households 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 households sector" is of particular interest.

- The results of the work started by Eurostat in the mid1990s 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 Nonobserved 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 UNECE has carried out surveys of country practices three times and published the results. The first was in respect of 1991 and covered nine countries. The results were published as an Inventory of national practices in estimating hidden and informal activities for national accounts in 1993. The second survey was

in respect of 2001/2 and covered 29 countries, The results are summarized in the 2003 UNECE manual Non-observed Economy in National Accounts. The third survey was carried out for 2005/6 and 45 countries responded. Both the second and third surveys asked for estimates of the size of the non-observed economy as well as elaborating on the methods used. The results of the third survey were published in 2008 with the same title as the second survey, Non-observed Economy in National Accounts.

· There are many ILO documents that elaborate the concepts of informal sector and informal employment. These include the Resolution concerning statistics of employment in the informal sector, adopted by the 15th ICLS (January 1993), at <http://www.ilo.org/public/english/bureau/stat/res/index.htm>, and Guidelines concerning a statistical definition of informal employment adopted by the 17th ICLS, 2003. Other useful information can be found in Women and Men in the Informal Economy: A Statistical Picture. (ILO, 2002); Hussmanns, "Measuring the Informal Economy: From employment in the informal sector to informal employment (ILO Working Paper No. 53, December 2004). Hussmanns, "Measurement of Informal Employment: Recent International Standards," at the Commonwealth Statisticians Conference, 2005. ILO Compendium of Official Statistics on Employment in the Informal Sector, at <http://www.ilo.org/public/english/bureau/stat/papers/comp.htm>

· 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 were the OECD/UNESCAP/ADB Workshop on Assessing and Improving Statistical Quality: Measuring the Non observed Economy, held in Bangkok in May 2004 and the Workshop on Household Surveys and the Measurement of the Labour Force with focus on the Informal Economy held for SADC countries in Maseru, Lesotho in April 2008.