

**Comments on draft SNA chapter:
Chapter 25: Informal aspects of the economy**

**Deadline for comments: 30 September 2008
Send comments to: sna@un.org**

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Submission date:	03.10.08

This template allows you to record your comments on draft SNA chapter 25 “Informal aspects of the economy” and, at the same time, makes it easy for us to use your comments in considering revisions to the draft chapter. You may complete any or all parts of the template.

There is no file comparing existing text with draft text for this chapter because there is no equivalent chapter in the 1993 SNA.

Save this template and send it as an attachment to the following e-mail address:
sna@un.org

Part I: General comments

In the space below, please provide any general comments. This may cover e.g. the structure of the chapter, issues missing and (lack of) consistency with other chapters of the 2008 SNA.

General comments:

General comments	<p>1. The chapter is a revised draft of a text that was presented to the Delhi Group at its 10th meeting (Geneva, October 2007). The Delhi Group is the relevant international expert group to be consulted on the chapter. Any revision of the chapter, which does not take account of the suggestions of the Delhi Group, or goes beyond them, would be problematic.</p> <p>2. As was already the case with the previous draft, I have no problems with most of the text as such. I do not know, however, if guidance on definitional issues is the main sort of technical guidance on the topic that national accountants need to obtain from the 2008 SNA in order to be able to compile production and income accounts for the informal sector as requested by data users especially in developing and transition countries.</p> <p>3. <u>Terminology</u>: The way, in which the draft chapter uses the term ‘informal economy’, requires clarification. The term is commonly used to describe the sum of the informal sector and of informal employment</p>
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	<p>outside the informal sector. The ICLS did not endorse the use of the term ‘informal economy’ for statistical purposes; it felt that due to the different observation units involved (enterprises in the case of the informal sector vs. jobs in the case of informal employment), the concepts of informal sector and informal employment should be treated separately rather than be lumped together. The term ‘units in the informal economy’, which is used throughout the draft chapter, is ambiguous as it may refer to enterprises or jobs, and it is often not clear in the chapter which ones are meant. It would be more accurate to replace the term by either ‘informal sector enterprises’ or ‘informal jobs’ as the case may be.</p>
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Part II: Comments on specific draft paragraphs and sections

All comments on specific draft paragraphs are welcome. They can be about e.g. scope, content and clarity. Proposing a concrete alternative text or table is also possible. For the paragraphs in separate sections, separate forms are used for providing and collecting comments (see below).

A. Introduction (paragraphs 25.1-25.13)

General comments	<p>1. <u>Paragraphs 25.9-25.10 (The ILO concept of the informal sector)</u>: It is not helpful to separate the 15th ICLS informal sector concept from the 15th ICLS informal sector definition (described in paragraphs 25.31-25.38 and summarized in paragraph 25.37 of the draft). As concept and definition of the informal sector form an integrated whole, paragraph 25.9 of the draft should be incorporated in Section D (The informal sector as defined by the ILO).</p> <p>2. <u>Paragraphs 25.12-25.13 (The policy interest in ...)</u>: A substantial part of the sub-section describes characteristics of informal sector enterprises rather than policy issues relating to the informal economy (or merely the informal sector). Over the last 35 years, several thousands of documents have been written by the ILO and others on the various forms of policy interest in the informal economy (mainly in respect of the informal sector of developing countries). It is difficult to summarize these in one or two paragraphs. However, a synthesis effort has been made in draft Chapter 1 of the ILO manual on surveys of informal employment and informal sector currently under preparation, which might be used as basis for amending this sub-section of the draft SNA chapter.</p>
25.1	<p>Question c: The only difference between employment in the informal economy and informal employment is that the former includes formal jobs in the informal sector while the latter does not. A more interesting question is: How does employment in the informal sector (i.e. in informal enterprises) differ from informal employment?</p> <p>Question d: The question is difficult to understand unless further explanation is provided.</p>
25.4	The second-last sentence should be amended to reflect the reality in developing countries, where an informal market economy has always existed.
25.5	The second-last sentence is misleading: The terms of reference, which the Delhi Group formulated at its first meeting, were broader than addressing the conceptual and operational aspects of the ILO informal sector definition.
25.6	The last sentence gives the wrong impression that there are two informal sector concepts: one used by the ILO and the other used by the Delhi Group. The ILO and the Delhi Group use the same informal sector concept.
25.8	First sentence: It is not true that ‘especially over the last years’ handbooks on measurement of the informal sector have been produced and practices studied. In India, work on the topic started in the 1950s and in Latin America in the

	early 1980s.
25.9	1. The word ‘subsequently’ does not make sense. The ICLS is a statutory conference of the ILO that is convened by the tripartite Governing Body of the ILO. 2. The paragraph of the 15 th ICLS Resolution, from where text is quoted, should be indicated. It is paragraph 5.
25.10	How does the first sentence of paragraph 25.10 relate to the first sentence of paragraph 25.33?
25.12	Last sentence: The internationally agreed statistical term for ‘self-employed entrepreneur’ is ‘own-account worker’.

* Insert rows in this Word table for each paragraph on which you wish to comment.

B. Characteristics of units in the informal economy (paragraphs 25.14-25.23)

General comment	This section of the chapter is new. However, its value is doubtful. As it stands now, the section is likely to add confusion on the topic rather than provide clarification on it. In several respects, the section takes us back to the early ages of the discussion on the statistical measurement of the informal sector (roughly the period from the early 1970s to the early 1980s). Most of the issues addressed in the section have meanwhile been settled by the ICLS and others. However, a very important conclusion resulting from the debates of the past is missing from the section: Recognition of the fact that the informal sector (and even more so the informal economy) is such a complex phenomenon that statistical definitions of it cannot be based on a single criterion. Unless the need for a definition based on multiple criteria is indicated, the section is not useful (and is potentially harmful). Let’s move forward on the issue rather than go backwards.
25.15	First sentence: The words ‘supposed to be’ should be deleted. Last sentence: The same argument applies to legal incorporation and accounting practices as mentioned in paragraph 25.16.
25.18	The paragraph is a good example for showing the crux of using a single-criterion definition of the informal sector.
25.19	I fail to understand the last sentence.
25.20	It is unclear how paragraph 25.20 relates to the other paragraphs of the section. In Section 2.3.5 of <i>Measuring the informal economy: From employment in the informal sector to informal employment</i> , I made an effort to try to point out the relation.
25.22	1. The existence of a formal employment contract is not the criterion which determines that a job is formal. What matters is access to the employment benefits to which such a contract entitles, i.e. the enforcement of labour regulations.

	<p>2. According to the definitions used in labour legislation and labour statistics, in a given job a consultant cannot work as head of his/her own unincorporated enterprise and as the employee of an international organization. He/she can only be one or the other.</p> <p>3. Labour lawyers will tend to disagree with the statement made in the second sentence. Consultants usually do not have a formal employment relationship with the international organization for which they work, and their contracts tend to be service contracts rather than employment contracts.</p>
25.23	<p>a. 20-30 years ago, there was a political debate about the possible exclusion from the scope of the informal sector of ‘modern’ (for which no internationally agreed definition exists) and professional activities. Nowadays, because of the rapid growth and dynamic nature of the informal economy, it is widely accepted that such exclusions are neither useful nor justified. This is reflected in paragraphs 6 (3) and 17 of the 15th ICLS Resolution.</p> <p>b. There seem to be three errors in the text. A corrected text would read: ‘<i>Domestic staff</i>. For analytical reasons, employees providing domestic services to a household are often excluded from measures of the informal sector’.</p> <p>c. The sentence as such is okay. However, after having read paragraph 25.23a, why would small-scale agriculture and subsistence agriculture seem to be archetypal informal units (sic)? They require access to land which most poor people do not have.</p>

* Insert rows in this Word table for each paragraph on which you wish to comment.

C. The non-observed economy (paragraphs 25.24-25.30)

General comment	<p>Exhaustive measurement of the GDP is an objective that is well taken. Regarding the informal sector, however, policy-makers and other users of the statistics want something more: data on the contribution to GDP of the informal sector (and perhaps informal employment). The link between Sections C and G of the draft chapter is not pointed out sufficiently well. The NOE Handbook does so more explicitly.</p>
25.24	<p>The first sentence might be interpreted by some readers as an attempt to explain why the 1993 SNA paid little attention to the informal sector. I am not sure that this is the intended purpose of the sentence.</p>
25.30	<p>1. The word ‘exactly’ should be deleted. Measures of the non-observed economy will not match measures of the informal economy.</p> <p>2. It would be useful to give examples of practices of NOE estimation that are useful for IE measurement, too. The NOE handbook suggests that the approaches for estimating illegal and underground production on the one hand, and informal sector production and household production for own final use on the other, tend to be quite different.</p>

* Insert rows in this Word table for each paragraph on which you wish to comment.

D. The informal sector as defined by the ILO (paragraphs 25.31-25.42)

General comment	<p><u>Paragraphs 25.39-25.42 (Clarifying the use of familiar terminology):</u> There are valid reasons for differences in the use of terminology by the SNA and the ICLS. The approach taken in the new draft to describe such differences is much better than the approach taken in the previous draft. The importance attached to the differences is thereby reduced to a dimension that is more adequate. It is pointed out more clearly than before that most of the building blocks used are exactly the same, although the building blocks may have to be put together differently to construct definitions considered useful to meet the respective needs for information).</p>
25.32	<ol style="list-style-type: none"> 1. First sentence: See comment on paragraph 25.9. The ICLS adopts resolutions and guidelines which become international labour statistics standards once they have been approved by the tripartite Governing Body of the ILO (governments, employers, workers). 2. Second sentence: The word ‘perhaps’ should be deleted, and the following words should be added after ‘treated as formal’: along with corporations, quasi-corporations, general government and NPISHs. 3. ‘Referred to simply as households’ is an inadequate formulation. The text of the 17th ICLS Guidelines, where the term was first introduced, explains in detail – and in using SNA terminology – what is meant by ‘households’.
25.35 & 25.36	<p>The text gives the impression that according to the international definition of the informal sector use of the criteria of employment size and registration of the enterprise were optional. This is wrong in the case of enterprises of informal employers.</p>
25.36	<p>‘Goods and services’ should be corrected to ‘goods or services’, ‘own-account enterprises’ to ‘informal own-account enterprises’, and ‘enterprises of employers’ to ‘enterprises of informal employers’.</p>
25.38	<p>Point c. should read: ‘Outworkers are included if the unit which they operate as self-employed persons or for which they work as employees is included in the informal sector.’</p>
25.39	<p>Last sentence: From an ILO perspective, why should households without any productive activity have been considered? We do not identify the informal sector in steps. We use a set of criteria to define it.</p>
25.40	<p>Paragraphs 12 and 13 of the 15th ICLS Resolution provide guidance on the distinction of unincorporated enterprises within households. For us, an important consideration is that the individual household members (rather than the household as a whole) are the legal entities which may own enterprises and, possibly, employ other workers.</p>
25.42	<p>The third sentence is not entirely correct, and its wording seems unnecessarily complicated. Our classification scheme for household unincorporated enterprises was designed to be fairly simple and still highly policy-relevant: (i) household unincorporated market enterprises (ILO terms) that are quasi-corporations (= formal sector, along with corporations, general government and NPISHs); (ii) household unincorporated market enterprises (ILO terms) that are</p>

	not quasi-corporations but registered and/or not small (= formal sector); (iii) household unincorporated market enterprises (ILO terms) that are not quasi-corporations and not registered and/or small (= informal sector); (iv) household unincorporated enterprises producing for own final use (ILO terms) (= households).
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E. Informal employment (paragraphs 25.43-25.48)

General comments	<p>1. The purpose of including Section E in the chapter is not clear. Is it to give follow up to the suggestion made by the Delhi Group in its 9th meeting to include the measurement of informal employment in the national accounts as a satellite framework?</p> <p>2. It is unfortunate that paragraphs. 25.43 and 25.44 mix up the definitions of employment in the informal sector and of informal employment, as well as the 15th ICLS (1993) Resolution on the former and the 17th ICLS (2003) Guidelines on the latter. Unless these distinctions are properly introduced, paragraphs 25.43 and 25.44 are likely to confuse readers.</p>
25.43	First sentence: The term ‘informal employment’ should be changed to ‘informal sector employment’.
25.44	<p>1. Why does the text make reference to a 2002 ILO report (<i>Decent work and the informal economy</i>) when an amended version of the conceptual framework presented in the report was adopted in 2003 by the 17th ICLS as an international statistical standard (<i>Guidelines concerning a statistical definition of informal employment</i>)? This should be corrected. Incidentally, this is not the first time that this comment was made.</p> <p>2. If the issue relating to the use of the term ‘households’ is considered so important that it warrants to be mentioned three times in the draft chapter, why is the footnote explaining the term missing from Table 24.1?</p>
Table 24.1	<ol style="list-style-type: none"> 1. Like any other international standard adopted by the ILO, Table 24.1 is an intellectual property of the ILO and as such protected. We do not agree to modifications of the table. 2. We expect the SNA to indicate the source of the table as ‘ILO: Guidelines concerning a statistical definition of informal employment (17th ICLS, 2003)’, and to change the table heading to ‘Conceptual framework: Informal employment’. 3. We do not believe that the omission of the footnotes (which are an integral part of the table) was a good idea. 4. What is the reason for using a different cell-numbering system? Is the new cell-numbering system any better than the original one? Labour statisticians have come to refer to the cells in the original table as ‘cell 1, 2, etc.-type jobs’. A renumbering of the cells in the SNA will only make it more difficult for labour

	<p>statisticians and national accountants to communicate with each other.</p> <p>5. There is a mistake concerning the second-last cell in the last row of the table. The shading should be dark rather than mid-tone.</p>
25.45	<p>The chapter uses the term ‘employee’ more generously than is supported by the reality of the world of work. Paragraph 25.45 speaks about five types of ‘employees’ when actually five types of ‘jobs’ (of whom only one is ‘employees’) are meant. For the other four types of jobs the internationally agreed statistical standard terms should be respected: own-account workers, employers, contributing family workers, and members of producers’ cooperatives. Expressions like ‘treated as employers’ should be avoided.</p>
25.46	<p>1. Third sentence: The term ‘other household unincorporated enterprises’ is confusing unless it is explained that it refers to households as employers of domestic personnel.</p> <p>2. Last sentence: The mere existence of a formal contract of employment is not a sufficient criterion for determining formal employment. See the comment on paragraph 25.22.</p>
25.47	<p>1. Second sentence: ‘Formal sector’ needs to be changed to ‘informal sector’.</p> <p>2. Fifth sentence: ‘Without a formal contract of employment’ should be changed to ‘outside of an employment relationship’.</p> <p>3. Sixth sentence: Should be deleted.</p> <p>4. Last sentence: ‘Cells 6 to 9’ should be corrected to ‘cells 6 to 8’. This is because persons in cell 9 cannot be considered employees.</p>
25.48	<p>Second sentence: The term ‘the informal employees of formal sector enterprises’ needs to be corrected to ‘the contributing family workers and employees of formal sector enterprises’. Employees have an employment relationship with an employer, which is normally covered by labour legislation. Contributing family workers have no such employment relationship.</p>

* Insert rows in this Word table for each paragraph on which you wish to comment.

F. Work of the Delhi Group (paragraphs 25.49-25.51)

General comment	None
25.49	Second sentence: The terms of reference adopted by the Delhi Group were less ambitious. They mention improving the international comparability of informal sector data, rather than reaching an agreement that would lead to internationally comparable figures.
25.51	'Case studies' is an understatement. The Delhi Group examines national practices in the collection of official statistics on the informal sector and informal employment.

* Insert rows in this Word table for each paragraph on which you wish to comment.

G. Deriving data on the informal economy from the SNA accounts (paragraphs 25.52-25.61)

General comments	<ol style="list-style-type: none"> 1. For labour statisticians, an expanded Section G would represent the most important contribution made by the chapter. 2. The text of the 15th ICLS Resolution makes it impossible for the ILO to support any statement in the SNA that seeks to equate the informal sector with household unincorporated market enterprises (in ILO terms). Household unincorporated market enterprises (with or without employees) is too broad for being a meaningful category in the analysis of the issues discussed in respect of the informal economy.
25.55	First sentence: 1. This is not a 'suggestion' by the ILO; it was a formal decision by the ICLS. 2. In relation to the informal sector, the ICLS did not make any recommendation on distinctions among households (in SNA terms); it only dealt with distinctions among household unincorporated market enterprises (in ILO terms). 3. The term 'worker' should be corrected to 'employees'.
25.56	The first sentence of paragraph 25.56 is a problem. The sentence misrepresents the 15 th ICLS definitions of enterprises of informal employers and informal own-account enterprises, and is in contradiction with paragraph 25.37 of the draft SNA chapter. The sentence should be amended as follows: 'The ILO category of enterprises of informal employers is then a subgroup of A1 and A2 and the category of informal own-account enterprises consists of all or parts of B1 and B2.'
25.59	Second-last sentence: Does 'all enterprises with less than five employees' include legally incorporated enterprises with less than five employees? According to data that we analysed some time ago for a sample of developing countries, up to 25% of small enterprises were legally incorporated (i.e. clearly part of the formal sector).
25.61	The last sentence should be deleted. See comments on paragraphs 25.22 and 25.23.

* Insert rows in this Word table for each paragraph on which you wish to comment.

H. Approaches to measuring activities undertaken in the informal economy (paragraphs 25.62-25.69)

General comment	Paragraphs 25.64-25.69 should be shortened and revised. It is impossible in a few paragraphs to address the range and complexity of the methodological issues involved in measuring informal activities. In any case, the SNA is unlikely to be the appropriate place to address issues that are primarily relevant to survey statisticians. It would be more important: to show that various methods exist for surveying persons employed in the informal sector/informal jobs and/or for surveying informal sector enterprises; to describe how these methods are related and complement each other; to explain why the data obtained from such surveys should be used in the national accounts compilation; and to describe how this can be done.
25.62	Last sentence: The manual on measuring the non-observed economy is actually called a handbook, and it is a joint publication of the OECD, IMF, ILO and CIS STAT. It should perhaps also be mentioned that the ILO in cooperation with the Delhi Group is preparing a manual on surveys of informal employment and informal sector.
25.63	Last sentence: The information needs of statistics users should be mentioned as an important factor.

* Insert rows in this Word table for each paragraph on which you wish to comment.

I. Studies and handbooks on the informal sector (paragraph 25.70)

General comment	The standard-setting work of the ILO on the topic is not fully reflected in the title of the section as it stands now. 'Guidelines, studies and handbooks on the informal sector' would be a better title.
25.70	1. Sixth bullet: The reference to <i>Decent Work and the Informal Economy</i> should be replaced by a reference to <i>Guidelines concerning a statistical definition of informal employment adopted by the 17th ICLS (November-December 2003)</i> . 2. Last bullet: To my knowledge, the most recent workshop on the topic was the <i>Workshop on Household Surveys and Measurement of Labour Force with Focus on Informal Economy</i> for SADC countries (Maseru/Lesotho, 14-18 April 2008).

Part III. Other specific comments

You are welcome to make other specific comments. To assist you in doing so, the following points are provided as a guide to the types of points on which you might wish to comment. Note, though, that you are not restricted to commenting on only these points.

1. Is the description of the non-observed economy (NOE) and “exhaustiveness” sufficient given the existence of manuals devoted to the subject?
2. Is the concept of the “informal sector” as defined by the ILO clear?
3. Is the definition of informal employment clear and sufficient?
4. Are the suggestions in section G to identify the units of interest sufficiently clear?
5. Do you have any comments on the data collections descriptions in section H?
6. Are there any other references you think should be added to the last section?

Specific comments:

Specific comments	The formulation of points 2 and 3 above is somewhat misleading. The ILO definitions of informal sector and informal employment have been adopted as international statistical standards by the International Conference of Labour Statisticians. Thus, whether or not these definitions are clear and sufficient is not really the issue for the drafting of SNA Chapter 25. The issue is whether or not the Chapter describes the definitions clearly and sufficiently.
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You are also welcome to comment directly on the PDF file of the draft chapter. Please do so by using Adobe Acrobat Version 6 or 7.

If you don't have Adobe Acrobat Version 6 or 7 and would like to make detailed comments, please send a message to sna@un.org requesting a version of the draft chapter that permits you to comment. To optimize your commenting tools, please download Adobe Reader 7.0 for free from <http://www.adobe.com/products/acrobat/readstep2.html>