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Chapter 25: Informal aspects of the economy

A. Introduction

- 25.1 Mention of the informal part of an economy regularly attracts attention because of its importance in understanding how the economy is functioning. Different observers, though, may be interested in different aspects of this importance.
- Does the measurement of the entirety of economic activity in the SNA reliably cover all activities including those that may be “hidden” or “underground”?
 - What can a measure of production in the informal economy show about the extent to which the market economy is extending to areas outside the formal economy?
 - How does the employment in the informal economy differ from informal employment?
 - What is the extent of the economy still outside the formal economy?
- 25.2 Because each of these questions has a different focus, the notion of what is meant by the informal economy underlying each is different. A first objective of this chapter is to identify the characteristics that may be relevant for identifying various aspects of the economy that have informal connotations and to then select those characteristics that answer the four different sorts of questions posed above. This topic is addressed in section B.
- 25.3 The answer to the first question above, and the one that national accountants themselves most readily associate with the word informal, is not simply a question of identifying a set of units considered to be informal but includes all aspects of what has become known as the “non-observed economy”. This topic is addressed in section C.
- 25.4 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 household sector that are particularly relevant for policy analysis and formulation, especially in many developing countries and countries in transition. This work addresses the second and third questions above in showing how the market economy is penetrating areas outside the formal parts of the economy. This topic is addressed in sections D and E.
- 25.5 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.
- 25.6 Section G discusses the borderline of units that might be regarded as informal but not in the household sector, as well as some activities in the household sector that are not

regarded as informal. It goes on to indicate how data matching the concepts of the informal sector of both the ILO and Delhi group may be derived from the SNA accounts.

25.7 Section H complements this by discussing some approaches relating to collecting data on informal activities and informal employment.

25.8 The interest in the informal sector has led to the production of a number of handbooks and studied of current practices, especially over the last few years. 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.

1. The ILO concept of the informal sector

25.9 A major focus of this chapter is to present a concept of an “informal sector” that is 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, subsequently adopted by the ILO, as follows:

(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.

25.10 Although the expression “informal sector” is used in the context of the ILO work, the word sector is used in a different sense from the SNA sense of a grouping of institutional units. The ILO work focuses only on production activities and not the whole of the unit within which they are undertaken.

2. Informal employment

25.11 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. Some formal enterprises employ labour on an informal basis and some units described as informal may have a contractual relationship with their employees that is formal.

3. The policy interest in measuring activity undertaken in the informal economy

25.12 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 unit

including household enterprises with different forms of operation. These units may operate without a fixed location, 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 self-employed entrepreneur, or with the help of unpaid family members, while other informal micro-entrepreneurs may engage paid workers.

- 25.13 The size and significance of production undertaken informally 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 previously operating below thresholds of it. 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.

B. Characteristics of units in the informal economy

- 25.14 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. Two criteria need to be kept in mind when considering each of them:

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

- 25.15 *Registration.* One interpretation of what is informal is whatever is not supposed 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 economy 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.

- 25.16 *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 one where either a full set of accounts, including the balance sheet, is available or can be drawn up. In this way some activities 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 activities may have very detailed information about production and satisfy the notion of being formal without being treated as quasi-corporation and thus being excluded from the household sector. Moreover, laws requiring or permitting incorporation vary from country to country thus limiting international comparability

- 25.17 *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 corporate sectors even though strict conformity with SNA guidelines would place these in the household sector.
- 25.18 *Size.* Faced with this variation of statistical and administrative practices, one possibility for identifying units in the informal economy 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 household sector without a full set of accounts as formal.
- 25.19 *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 the boundary of production in the SNA should be taken as appropriate, excluding the services from owner-occupied dwellings since there is no labour input to the activity. The SNA production boundary carries over even more strongly to the question of informal employment as discussed in section E.
- 25.20 *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.
- 25.21 *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 restricting coverage by location is undesirable.
- 25.22 *The existence of an employment contract.* Some activities carried out in a household unincorporated enterprise are done so under a formal contract of employment. For

example a retired civil servant offering consultancy services to a developing country under the auspices of an international organisation has a formal employment relationship with the international organisation. For some purposes it may be useful to separate such a type of activity from others carried out by households.

25.23 *Nature of the activity.* As well as the foregoing characteristics, some exclusions from activity undertaken by a unit in the informal economy may be made according to the nature of the activity itself.

- a. *Modern or traditional.* Increasingly the power of electronic communications gives individuals the option to work from home on their own behalf. Examples are graphic designers and software writers. Increasingly, too, there are professionals who work on their own account but go to the person requiring a service rather than have the person come to them. Examples are specialist teachers of music or languages, those tutoring individual students for difficult examinations and real estate agents. A decision has to be made about the range of activities that can be considered informal and often this may come down to a choice between “modern” and “traditional” occupations. A possible criterion for distinguishing between these two concepts, and one that might be carried over to distinguish between units treated as formal or informal, is the extent to which the activity is dependent on fixed capital.
- b. *Domestic staff.* For pragmatic reasons, individuals providing domestic services to a household are often excluded from measures of the informal economy.
- c. *Agricultural activity.* Although small-scale agricultural and, in particular subsistence agriculture, may seem to be archetypal informal units, largely for pragmatic reasons, these may be excluded from measures of the informal economy.

C. The non-observed economy

25.24 At the time the 1993 revision of the SNA started, it was assumed that identifying the informal economy 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 previous scope of previous reporting methods, whether undertaken within formal units or in informal units, became pressing.

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

25.26 The non-observed economy overlaps with, but is not the same as, the informal economy. 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 the reported data was both complete and accurate.

25.27 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.

- 25.28 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.
- 25.29 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.
- 25.30 Measures of the non-observed economy will overlap with the informal economy but not exactly match it. They will include corrections to measures of formal activities and may omit some informal activities that are adequately captured in statistical enquiries. Nevertheless, many of the practices of estimating 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 economy also.

D. The informal sector as defined by the ILO

1. Defining the sector

- 25.31 In the SNA, household enterprises do not constitute separate legal entities independently of the household members who own them. Fixed and other capital used in production may also be used for consumption, 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 activities. 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 household sector as an unincorporated enterprise rather than being treated as a quasi-corporation in one of the corporations sectors.
- 25.32 As explained in the introduction, the ILO adopts a concept of the informal sector endorsed by the ICLS. This concept takes household unincorporated enterprises and further subdivides them into three; one part forming the informal sector, a second part being units treated as formal, perhaps 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.)

- 25.33 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 own-use household services, for example.
- 25.34 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 by owner-occupied dwellings is thus excluded from the informal sector.
- 25.35 In addition, countries may further restrict the coverage of the informal sector using additional criteria of numbers of employees and registration. However, although the scope of the informal sector may vary from country to country, for the purposes of the ILO work it is always a subset of household unincorporated enterprises operating within the production boundary of the SNA.
- 25.36 Apart from restricting household enterprises included in the informal sector to units producing at least some goods and services for sale or barter, the ICLS definition of informal sector contains additional enterprise-based criteria about the size of employment, the non-registration of the enterprise or of its employees which may be applied depending on national considerations and circumstances. These additional criteria are applied to restrict the scope of household enterprises to the following two subsets of enterprises in the informal sector:
- a. *Own-account enterprises*: either all own-account enterprises may be considered informal, or only those not registered under specific forms of national legislation (such as commercial laws, tax and social security laws and regulatory laws).
 - b. *Enterprises of employers*: enterprises may be considered informal if they meet one or more of the following: (1) small size of the enterprise in terms of employment, (2) non-registration of the enterprise, and (3) non-registration of its employees.
- 25.37 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.
- 25.38 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 the International Standard Industrial Classification (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 the selection and application of appropriate statistical data collection tools and sample design.
 - 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 informal enterprises operating in urban areas.
- c. Outworkers are included if they operate as self-employed persons or if the unit for which they work as employees is included in the informal sector.

2. Clarifying the use of familiar terminology

Sector

- 25.39 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 household unincorporated enterprises that are to be included in the informal sector.

Enterprise

- 25.40 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 to be included in the informal sector. This would still be regarded as a single unincorporated enterprise in the SNA but would be treated as more than one enterprise according to ILO guidelines.

Sub-sectoring production

- 25.41 The SNA sub-sectors 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

- 25.42 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. 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 not treated as formal but are left simply in a group called households. 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 not included in the informal sector, plus those households with no unincorporated enterprises and institutional households.

E. Informal employment

25.43 As noted in the objectives of the Resolution of the 15th ICLS, measuring informal employment was seen as complementary to, and as important as, measuring informal sector production. 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.

25.44 In a 2002 publication on *Decent Work and the Informal Economy*, the ILO introduced a table to explain the coverage of informal employment. Production units are divided into the three types described in the Resolution. Formal sector enterprises are taken to be all those outside the household sector plus household enterprises that have above a given number of employees or are formally registered. Informal sector enterprises are those unincorporated household enterprises undertaking activities within the scope of the informal sector definition. All other household unincorporated enterprises are described simply as households. (Note the difference between this usage of households from the normal SNA usage described in the previous section.) A slightly modified form of this table is shown in table 24.1

Table 24.1: Informal employment: A conceptual framework

Production units by type	Jobs by status in employment								
	Own-account workers		Employers		Contri- buting family workers	Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal
Formal sector enterprises					4	6			
Informal sector enterprises	1		3		5	7	x	9	
Households	2					8			

25.45 Five types of employees are considered; own-account workers, heads of unincorporated enterprises with employees, treated as employers, family workers contributing labour to the unincorporated enterprise, employees and members of producers' co-operatives.

25.46 The dark cells show where there is no employment by definition. Mid-tone cells show employment outside the scope of informal employment as defined here. Most of the entries are in the row for formal enterprises but there may be formal employees in both informal sector enterprises and in other household unincorporated enterprises. This case is marked by x and indicates where one of these types of enterprises, despite not being considered formal, offers a formal contract of employment to its employees.

25.47 Informal employment consists of the white, numbered cells. Cells 1 and 2 cover individuals working on their own account, whether they are in the formal sector or not. (Subsistence farmers, for example, would fall in cell 2.) Cell 3 covers the owners of unincorporated enterprises with employees. Cells 4 and 5 cover family members contributing labour to an enterprise without a formal contract of employment. If they have a formal contract they would appear in cells for formal employees. Cells 6 to 9 show informal employees in all types of production units.

25.48 The extent of employment offered by the informal sector is shown in cells 1, 3, 5, 7, x and 9. The extent of informal employment excludes cell x, the formal employees of informal sector enterprises but includes cells 4 and 6, the informal employees of formal sector enterprises and cells 2 and 8 that are informal workers outside both the formal and informal sectors.

F. Work of the Delhi Group

25.49 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 reach an agreement that would lead to internationally comparable figures for the informal sector or, at least, a common subset of it.

25.50 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, which 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.
- 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.

25.51 Subsequent work of the Delhi Group examined many case studies 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 the informal economy from the SNA accounts

25.52 In trying to identify activities undertaken by units in the informal economy from the national accounts, three steps are necessary. The first is to identify those unincorporated enterprises within the household sector that are candidates to be included. The second is to consider national practices in establishing the household 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

25.53 The household 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 enterprises);
- c. Households whose only activity is the production of services from owner-occupied dwellings, the production of services by employing domestic staff, or both.

25.54 The remaining households all contain some production activity that may be considered informal. However, it will include both market production and production for own use. The ILO guidelines on categorising households include a definition of market production that does not exactly 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, (i) market production according to the SNA criterion whereby most or all output is sold, (ii) output for own use where some is sold, and (iii) output exclusively for own use. The sum of the first two categories then accords with the ILO guidelines for inclusion in the informal sector.

25.55 The ILO also suggests that households be distinguished according to whether or not they have workers employed on a continuous basis. Thus a full disaggregation of household units, after the initial exclusions, is:

A: Households with employees

1. Market producers (SNA basis)
2. Production primarily for own final use but with some sales or barter
3. Production exclusively for own final use

B: Households without employees

1. Market producers (SNA basis)
2. Production primarily for own final use but with some sales or barter
3. Production exclusively for own final use.

25.56 The ILO category of enterprises of informal employers then consists of A1 and A2 and the category of informal own-account enterprises consists of B1 and B2. It may be useful, though, to keep track of the categories A3 and B3 also, to answer questions of

the third type mentioned in the introduction, relating to all activities outside the formal economy.

2. Adjustments for national practices

25.57 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.

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

25.59 The SNA also recommends that small enterprises without complete sets of accounts should be included in the household 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 household 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 all enterprises with less than five employees be extracted from the figures for the corporations sector to set alongside the figures from the household sector. Similarly any enterprises that are unincorporated but registered should be separately identified.

3. Disaggregation by type of activity

25.60 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 owner-occupied 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.

25.61 Some further exclusions may also be made, for example services provided by paid domestic staff and agricultural production. A choice may also be made between whether to include modern activities as well as traditional ones and it may be possible to identify those activities, such as the consultant, who operate from an unincorporated enterprise but have a formal contract of employment.

H. Approaches to measuring activities undertaken in the informal economy

25.62 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. More detailed discussion is available in, for example, the OECD manual on measuring the non-observed economy.

25.63 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 and the resources available.

1. Household surveys

25.64 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 all employed persons 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 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.

25.65 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

25.66 In most cases, an establishment survey can be used to measure activity undertaken by a unit in the informal economy 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.

25.67 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

25.68 A mixed household-enterprise survey is generally designed with enterprise modules attached to existing labour force or other household modules. 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.

25.69 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. Studies and handbooks on the informal sector

25.70 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. Various papers of the Expert Group on Informal Sector Statistics (Delhi Group), at http://www.mospi.nic.in/mospi_informal_sector.htm.
- 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 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 nonobserved 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 concept 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 the document from which table 25.1 is drawn, *Decent Work and the Informal Economy* Report VI, International Labour

Conference, 90th Session, (Geneva 2002). Other useful information can be found in *Women and Men in the Informal Economy: A Statistical Picture*. (ILO, 2002); Husmanns, “*Measuring the Informal Economy: From employment in the informal sector to informal employment.*” (ILO Working Paper No. 53, December 2004). Husmanns, “*Measurement of Informal Employment: Recent International Standards,*” at Commonwealth Statisticians, 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 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.