



The informal sector and the 2008 SNA framework

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Outline of presentation

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- Measurement objectives
- Non-observed economy versus informal sector
- Concept of informal sector
- Differences in terminology
- Delhi Group
- Deriving data on activities of informal enterprises within SNA accounts
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- References



Measurement objectives

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- Comprehensive statistics on the informal sector will improve labour statistics and national accounts as an information base for:
 - Macroeconomic analysis, planning, policy formulation and evaluation and integration of informal sector into the development process and its institutionalization
 - Formulation and implementation of policies for economic and social development
 - Design, implementation and monitoring of specific support policies and assistance programmes



Non-observed economy versus informal sector

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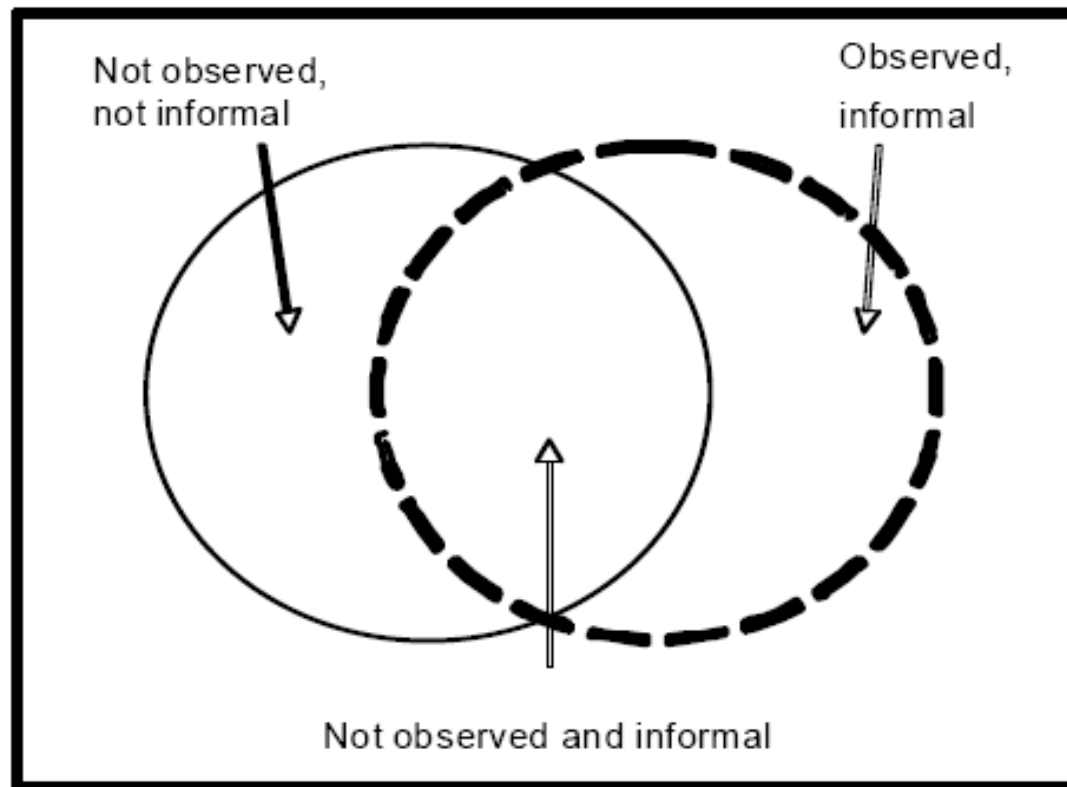
- The extent of economic activity missing from statistical data collections and from administrative sources is known as the “non-observed economy” or NOE
- Non-observed activities are likely to include those that are
 - Underground
 - Illegal
 - Informal
 - Undertaken by households for own final use
 - Missed due to deficiencies in basic statistical data collection programme
- Collectively, they are known as the five problem areas



Non-observed economy versus informal sector

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- There is a large overlap between the NOE and informal sector





Concept of informal sector

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Broad characteristics

- Consists of units engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons involved
 - Units operate at low levels of organization with little or no division between capital and labour as factors of production and on a small scale
 - Labour relations are mostly based on
 - Casual employment
 - Kinship
 - Personal or social relations



Concept of informal sector

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Broad characteristics

- Production units have features of household enterprises
 - Fixed and other assets used do not belong to the production units but to their owners
 - Expenditure for production is often indistinguishable from household expenditure
 - Capital goods may be used indistinguishably for business and household purposes



Concept of informal sector

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Defining the sector

- Household unincorporated enterprises are divided into
 - Informal sector enterprises which are divided into
 - Unincorporated enterprises without employees
 - Unincorporated enterprises with employees
 - Units treated as formal because of number of employees or registration
 - Households



Defining the sector - exclusions

- Units producing purely for own final use
 - Example: Dwelling services produced purely for owner-occupation
- Units with formal characteristics
 - Exclude units which
 - Have more than a given number of employees or
 - Are registered under specific forms of national legislation
 - The minimum number of employees is left to the country to decide



Concept of informal sector

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Defining the sector - summary

- The production unit in the informal sector is defined as a household enterprise
 - With at least some production for sale or barter
 - Which satisfies one or more of following criteria
 - Limited size of employment
 - Non-registration of enterprise



Concept of informal sector

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Defining the sector - summary

Households		
Households containing an unincorporated enterprise that is registered or has more than a given number of employees	Informal sector enterprises (a) without employees "informal own-account enterprises" (b) with employees "enterprises of informal employers"	Institutional households Households with no unincorporated enterprises Households only undertaking production for own final use



Defining the sector – additional considerations

- Agricultural activities (ISIC section A)
 - To exclude for practical data collection purposes
 - Many developing countries have a large agricultural sector comprising small, unregistered household unincorporated enterprises
 - Including them in informal sector surveys would increase survey operations and costs
 - Many NSOs already have established system of agricultural surveys which include (or can be extended to include) household unincorporated enterprises engaged in agricultural activities
 - It may not be possible to distinguish between market production and production for own final use



Defining the sector – additional considerations

- Rural areas
 - Geographical coverage should include both rural and urban areas
 - Countries conducting their first informal sector surveys are given the option to cover urban areas first



Concept of informal sector

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Defining the sector – additional considerations

- Households as employers of domestic personnel (ISIC 97)
 - To exclude from informal sector surveys
 - Data on paid domestic workers and their remuneration are often available from other sources such as labour force or household income-expenditure surveys



Defining the sector – additional considerations

- Outworkers (homeworkers)
 - To include self-employed outworkers among informal sector enterprises if their enterprises meet the criteria of informal sector definition
 - Criteria for distinguishing self-employed outworkers from employee outworkers include
 - Basis of remuneration
 - Employment of paid workers by the outworker
 - Non-existence of employment contract with the enterprise
 - Decision-making on markets, scale of operations and finance
 - Ownership of machinery and equipment



Differences in terminology

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Term	2008 SNA	Informal sector
Sector	Complete institutional units	Only productive activities
Enterprise	Unincorporated enterprise means totality of all unincorporated activity	Unincorporated enterprise means each unincorporated activity separately
Production	Subdivides production into market production, production into own final use and non-market production	Subdivides production for own final use into those where some of production is for sale/barter and those exclusively for own final use
Households	Unincorporated enterprises plus households with no unincorporated enterprises plus institutional households	Those that belong to informal sector



- Expert group on informal sector statistics which was set up by Statistical Commission to identify internationally comparable data for the informal sector
- Proposed a subset of informal sector that could be defined uniformly across countries
- Recommendations were incorporated in the
 - 2008 SNA
 - Measuring informality: A statistical manual on the informal sector and informal employment



Recommendations

- All countries should use the criteria of legal organization (unincorporated enterprises), of type of accounts (no complete set of accounts) and of product destination (at least some market output)
- 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
- Countries using the employment size criterion should provide disaggregated figures for enterprises that are not registered, as well as for enterprises that are registered



Recommendations

- 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
- Countries that include agricultural activities should provide figures separately for agricultural and non-agricultural activities
- Countries should include persons engaged in professional or technical activities if they meet the criteria of the informal sector definition
- Countries should include paid domestic services unless these are provided by employees of the household where the services are rendered



Recommendations

- 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
- Countries covering urban as well as rural areas should provide figures separately for both urban and rural areas
- 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



Deriving data on activities of informal enterprises from SNA accounts

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Three steps

- Identify those unincorporated enterprises within SNA households sector that are candidates to be included
- Consider national practices in establishing households sector to see if further adjustments are needed
- Provide breakdown by type of activity



Identify candidate households

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



Identify candidate households

- Remaining households have
 - Market production according to the SNA criterion whereby most or all output is sold
 - Output of goods for own final use where some is sold
 - Output of goods exclusively for own final use
- Enterprises in informal sector can be split into
 - Unincorporated enterprises without employees on a continuing basis
 - Unincorporated enterprises with employees on a continuing basis

} Informal sector



Deriving data on activities of informal enterprises from SNA accounts

United Nations Statistics Division

Adjustments for national practices

- Remove non-profit institutions serving households (NPISHs) if they are combined with households
- Add unregistered enterprises which have fewer than a given number of employees
 - They may have been allocated to the corporations sector by type of activity in supply and use framework



Deriving data on activities of informal enterprises from SNA accounts

United Nations Statistics Division

Disaggregation by type of activity

- Disaggregation by activity helps to
 - Remove remaining services from owner-occupied dwellings
 - Remove output from any activity which is exclusively for own final use
 - Identify doctors and other professionals as a subset



Presenting data on informal sector

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- Information on activities undertaken informally extends only to production and generation of income account
- Not possible to go farther in the sequence of accounts because not possible to identify which other 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
- Two supplementary tables are recommended
 - Production and generation of income
 - Employment



Production and generation of income

- Production
 - of which goods for own final use
- Intermediate consumption
- Value added
- Compensation of employees (for unincorporated enterprises with employees only)
- Gross mixed income
- Consumption of fixed capital
- Net mixed income



Presenting data on informal sector

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Employment

- Employment in informal sector
 - Formal jobs
 - Informal jobs
- Informal employment outside the informal sector
 - In the formal sector
 - In other household unincorporated enterprises
- Provide information on hours worked if possible



References

- Chapter 25, 2008 SNA
- 15th ICLS
- 17th ICLS
- Chapter 2 of Measuring informality: A statistical manual on the informal sector and informal employment (http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_222979.pdf)
- Handbook on Measuring the Non-Observed Economy (<http://www.oecd.org/std/na/1963116.pdf>)



The informal sector is everywhere



In which country is this fruit seller located?



Thank you