

BPM7 Chapter 18/2025 SNA Chapter 39.
Informal Economy: Annotated Outline

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This annotated outline has been prepared to cover the revisions required for the revised SNA chapter and the new BPM chapter on informal activities. In the drafting stage, SNA and BPM editors will coordinate such that only those issues that are relevant from the external sector statistics perspective will be included in the BPM; likewise, SNA will include only those issues that are relevant to national accounts. This chapter represents a significant revision of 2008 SNA Chapter 25, incorporating the latest recommendations from the International Labour Organization on informal productive activities.

A. Introduction

- Informal productive activities provide employment and income to many people who might otherwise be unemployed. Informal workers and enterprises tend to be vulnerable to negative economic shocks, which has consequences for inequality and poverty. Measuring the informal economy is important for designing, implementing, monitoring, and analyzing macroeconomic and social policies. The measurement framework for the informal economy aims to ensure consistent measures of informal production and informal labor inputs. Data compiled according to this framework are designed to inform policy decisions that may decrease the vulnerability of informal workers and enterprises.
- The informal economy includes all informal productive activities carried out by workers or economic units within the general production boundary. Informal productive activities encompass informal labor inputs and informal production. The informal sector is a subset of the informal economy. The informal sector is defined as household unincorporated market enterprises and the associated labor input that are not formally recognized by government authorities because they are not registered for tax or similar purposes.
- The Introduction provides an overview of the variety of activities and motivations that constitute the informal economy and describes some of the policy interests associated with measuring informal activities. New informal economic activities are emerging, including some activities that are associated with digitalization such as informal taxi drivers, which are often associated with lower and uncertain income for workers. The quantification of the informal economy is needed for designing and implementing policies.
- The 2008 SNA recognized the importance of informal activities and that they should be integrated in the national accounts, both to provide a complete view of the economy that is comparable over time and across economies and to measure the part of the economy that reflects the labor and economic activity of people without formal jobs. However, neither the 2008 SNA nor the ILO resolutions at that time provided statistical recommendations or a comprehensive framework for

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the informal economy. Since 2018, the ILO has developed a comprehensive and improved framework, which is summarized in this chapter.²

- The non-observed economy is a concept that is conceptually distinct and different from the informal economy. The non-observed economy includes activities that, for various reasons, are not captured in regular statistical enquiries. It is a pragmatic term that is used in the context of achieving exhaustive statistics. Because informal activities tend to be difficult to measure and are sometimes omitted from statistical surveys or administrative data sources, there tend to be certain overlaps between the informal economy and the non-observed economy. Nevertheless, the concepts serve different purposes, and each includes elements that are not included in the other. The principal focus of this chapter is on the informal economy, but a section at the end of the chapter discusses the non-observed economy and its relation to the informal economy.
- The Introduction concludes with a summary of the structure of the rest of the chapter.

B. Framework for the Informal Economy

- The overarching concept of the informal economy is all informal productive activities carried out by workers or economic units within the general production boundary.
- Informal productive activities are defined as all productive activities carried out by persons or economic units that are—in law or in practice—not covered by formal arrangements. This can be viewed as an underlying concept that contributes to a comprehensive framework recognizing the two highly linked but also slightly different perspectives of informality (i.e., the perspective of workers and the perspective of economic units).
- Informal productive activities carried out by informal household unincorporated market enterprises are known as the “informal sector”. Although the word “sector” is used in the context of the informal economy framework, the word is used with a different meaning from the SNA sense of a grouping of institutional units. However, the term *informal sector*, comprising all informal enterprises, is well established, and therefore will not be replaced with an alternative terminology.
- Informal productive activities carried out by persons are known as “informal work”. If these activities are carried out with the intention to generate pay or profit, it is “informal employment”.
- The rest of this section deals mainly with the informal productive activities carried out by economic units. Informal work is covered in Section D.
- The framework for the informal economy first assigns all economic units to either the formal sector, the informal sector, or the household own-use production sector depending on the intended destination of the production and the formal status of the economic unit.

² See “Statistics on the informal economy”, Report for discussion at the Tripartite Meeting of Experts in Labour Statistics on the Revision of the Standards for Statistics on Informality, (Geneva, 7–10 February 2023, https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/meetingdocument/wcms_865498.pdf). These proposed new standards are scheduled to be discussed and adopted at the 21st International Conference of Labour Statisticians in October 2023.

- All non-household economic units (corporations, general government, and NPISHs) are assigned to the formal sector, as those economic units are formally recognized as producers of goods or services.
- Households are assigned to the formal sector if they undertake production through a household unincorporated market enterprise (defined below) that is registered for tax or similar purposes and is therefore formally recognized as a producer of goods and services.
- Households are assigned to the informal sector if they undertake production mainly intended for the market through a household unincorporated market enterprise that is not formally recognized by government authorities by not being registered for tax or similar purposes. It is noted that the ILO's criterion that the informal sector comprises production is mainly intended for the market is close to the SNA requirement that all or most of the output be sold.
- Households producing goods and services mainly intended for own final use are assigned to the household own-use production sector, which is included in the informal economy but not part of the informal sector.
- Household unincorporated market enterprises do not have a complete set of accounts and it may not be possible to separate all assets into those that belong to the household in its capacity as a consumer from those belonging to the household in its capacity as a producer. In a second step, the framework identifies the productive activities (production and labor inputs) that are informal.
- Production/international trade carried out by economic units in the formal sector, including undeclared and underdeclared production/international trade, is not part of the informal economy (but may be accounted for as non-observed production activity / international trade). Formal economic units can, however, use informal labor inputs for production. These labor inputs are part of the informal economy. Data on informal labor inputs in the formal sector are compiled from a labor statistics perspective.
- Informal household unincorporated market enterprises can also be called informal enterprises for brevity. All production within the informal sector is part of the informal economy.
 - The informal sector includes agricultural production of informal enterprises.
 - The size of an enterprise should not be considered as a criterion to classify household unincorporated market enterprises as informal.
 - A single household can carry out more than one type of production activity intended mainly for the market that is not registered, which are to be identified as separate informal enterprises if feasible and relevant.
 - All labor inputs in the informal sector are informal.
- The household own-use production sector includes all households producing goods and services that are mainly intended for own final consumption. This includes the production of informal or temporary NPISHs, as well as direct volunteer work.

- The household own-use production sector extends beyond the SNA production boundary by including production of services by households for own use, direct volunteering, and services produced by informal NPISHs.
- Production of informal or temporary NPISHs as well as direct volunteer work is always informal.
- Housing services of owner-occupiers are by convention excluded from the informal economy.
- Household own-use production—other than housing services of owner occupiers, informal or temporary NPISHs, and direct volunteering—that is undertaken using the labor of household members is mostly informal, though exceptions are possible. Examples show how the criteria are evaluated.³
- *Illegal Activities*⁴ – This subsection will cite the SNA’s general guidance regarding coverage of illegal activities and clarify that most, but not all, illegal productive activities would be part of the informal economy if the principles of informality are applied. However, the production of goods and services whose sale, distribution, or possession is forbidden by law are by convention excluded from the informal economy, and statistics on informality should be supplemented with measures of such illegal productive activities. Production that is usually legal but becomes illegal when carried out by unauthorized producers should be included in the informal economy.
- This section will incorporate Boxes 1 and 2 and Figure 1 from the IE.1 Guidance Note, which provide a tabular framework for the scope of the informal economy and a decision tree to identify informal productive activities.

C. Digitalization and Informal Cross Border Flows

- *Digitalization*⁵ has penetrated many aspects of economic activity and has led to concerns about the possible mismeasurement of economic activity. Some new types of informal economic activities make use of digital technologies. These activities have created new types of jobs that may be formal or informal in nature. Many of the jobs are dependent contractors (treated in Section D). Dependent contractors facilitated by digitalization would typically depend on formal enterprises (possibly non-resident) that provide a digital intermediation service. The household unincorporated market enterprise that is engaged in this activity should be assigned to the formal or informal sector based on the usual criteria.
- *Informal Cross Border Flows*⁶ – This subsection discusses the problems that arise in external sector statistics when transactions that are outside the scope of regular statistical inquiries and data collection systems are omitted. Some of these omissions may be related to activities in the informal economy but others may be related to activities undertaken by formal enterprises with

³ IE.1 Guidance Note, “Statistical framework for the informal economy”, Joint Informal Economy Task Team, IMF Committee on Balance of Payments Statistics and Intersecretariat Working Group on National Accounts, paragraphs 36.

⁴ IE.1 GN, paragraphs 38–41.

⁵ IE.1 GN, paragraphs 52–56.

⁶ IE.1 GN, paragraphs 57–60.

formal labor inputs. For example, merchandise trade statistics for some economies may not cover shuttle trade because these are undertaken by household unincorporated market enterprises and may not be covered by customs recording. The framework for the informal economy can be used for external transactions including informal cross border transactions in goods (including shuttle trade and smuggling of legitimate goods by informal units), informal services (including tourism services such as room rental and informal restaurants and bars), and remittances transmitted through informal channels. Households may transmit income derived from the informal economy as remittances through either formal or informal money transfer channels.

- *Illicit Financial Flows*⁷ – Illicit financial flows should be distinguished from cross-border informal economy flows. Four main types of activities can generate illicit financial flows: (i) tax and commercial activities, (ii) illegal markets, (iii) corruption, and (iv) exploitation-type activities and financing of crime and terrorism. Illicit financial flows can emerge either as illicit income generation or as illicit income management. Illicit financial flows should be distinguished from illegal transactions. The latter are treated no different from legal transactions and are included in the balance of payments statistics framework. However, not all illicit financial flows are transactions; therefore, not all the flows would be recorded in macroeconomic statistics. Flows arising from exploitation-type activities are not transactions and are therefore excluded from the balance of payments statistics.

D. Informal Work⁸

- Before introducing the concept of informal employment, the ILO definitions of several related terms will be introduced, such as a job or work activity, independent workers, dependent workers, employment for profit, and employment for pay. Then the various categories of informal employment will be defined.
- *Employers* are in informal employment if they are workers who operate and own or co-own a household unincorporated market enterprise.
- *Dependent contractors* own and operate household unincorporated market enterprises and have contractual arrangements of a commercial nature (but not a contract of employment) to provide goods or services for or through another economic unit, as well as other conditions described in IE.1 GN, paragraphs 50–51. Many new forms of dependent contractors are facilitated by digitalization. Dependent contractors are in informal employment if they
 - do not own or co-own a formal economic unit and are not registered for tax and thereby do not have a formal status, or
 - own or co-own a formal economic unit or are registered for tax, and thereby have a formal status but without effective access to formal arrangements intended to reduce the economic risk related to the job.

⁷ IE.1 GN, paragraphs 61–63.

⁸ In drafting, care will be taken to coordinate with the chapter on labour to avoid duplication of text by cross-referencing between the chapters. This section will focus solely on informal employment.

- *Employees* are in informal employment if their employment relationship is not in practice formally recognized by the employer in relation to the legal administrative framework of the country and not associated with effective access to formal arrangements such as labor legislation, social protection, income taxation, or entitlement to employment benefits. This includes domestic staff when there is no formal arrangement between the employer and employee.
- *Contributing family workers* are in informal employment if their job is not in practice formally recognized in relation to the legal administrative framework.
- Include Tables 2 and 3 from the appendix of the ILO's "Statistics for the informal economy", which show "informal productive activities by persons in the informal economy" and "informal and formal jobs by status in employment and sector".
- Include a short description of partly informal productive activities in relation to formal jobs. All labor inputs of workers in informal jobs and informal work activities are informal. However, workers in formal employment can also provide informal labor inputs to economic units in the formal sector—for example, when income and hours worked are not declared.
- The chapter also discusses informal forms of work other than employment:
 - *Direct volunteering* is always informal.
 - *Organization-based volunteer work* is informal if the work is carried out for an informal NPISH or an informal sector enterprise, or for or through a formal economic unit when the volunteer is not covered by formal arrangement that aim to protect the worker and regulate and facilitate the activities carried out.
 - *Unpaid trainee work* is informal if it is not effectively covered by formal arrangements aiming to protect the worker and facilitate and regulate the work carried out by the worker.
 - *Own-use production work* is informal if it is not effectively covered by formal arrangements that aim to promote or facilitate the work and protect and regulate the actions and functions of the worker.

E. The Non-Observed Economy

- The extent of economic activity missing from statistical data collections and from administrative sources, including some illegal activities, is known as the non-observed economy. The non-observed economy overlaps with, but is not the same as, the informal economy.
- International transactions (and possibly positions) missing from statistical data collection and administrative sources constitute non-observed elements of the international accounts. Some of these omissions may be related to activities in the informal economy but others may be related to activities outside the scope of the informal economy such as undeclared and underdeclared production and trade by formal units. Merchandise trade statistics of some economies may also not cover some items that are traded by formal enterprises.
- The process of assembling a set of national accounts, especially when the supply and use framework is used, casts light on missing information including illegal activities. While balancing supply and use tables may in effect estimate some non-observed activity, it may not be sufficient

to capture all of it. Techniques described in the manual *Measurement of the Non-Observed Economy: A Handbook* are useful for measuring both the non-observed economy and some aspects of informal enterprises.

F. Guidelines, Studies, and Handbooks on the Informal Economy

- This section reviews and cites various guidelines, studies, and handbook on the informal economy that may be useful for compilers of these statistics. For example, it could cite and briefly summarize the items cited in Annex II of the Guidance Note: reports of the BOPCOM Task Force on the Informal Economy; the IMF paper, “Measuring the Informal Economy”; ILO reports and guidelines; ICLS resolutions; and *Conceptual Framework for Statistics on Informal Economy*. Other guidelines or studies could be cited as well if their contents are especially relevant to measuring the informal economy—for example, proceedings and papers of the Delhi Group on Informal Sector Statistics.

Schematic Overview

A	<p>Introduction</p> <p>Purpose of measuring the informal activities in terms informing policy decisions</p> <p>Brief introduction of key concepts</p> <p>Emergence of new types of informal activity</p> <p>Development of a new framework for measuring the informal economy</p> <p>Distinction between the informal economy and the non-observed economy</p> <p>Structure of the Chapter</p>
B	<p>Framework for the Informal Economy</p> <p>Definitions referring to informal units (informal sector), informal workers, and the informal economy incorporating new guidance per GN IE.1</p> <p>Set out the formal sector, the informal sector, and the household own-use production sector and their links to informal activities</p> <p>Provide guidance on measurement of informal production and labor inputs in each sector</p> <p>Per GN IE.1, clarify that unlike the SNA, the informal economy generally excludes the production of goods and services whose sale, distribution or possession is forbidden by law</p> <p>Incorporate Boxes 1 and 2 and Figure 1 from GN IE.1 providing a tabular framework and a decision tree to identify informal productive activities</p>
C	<p>Digitalization and Informal Cross Border Flows</p> <p>Discuss the role of digitalization in the emergence of new types of informal activities</p> <p>Discuss informal trade and cross-border flows,</p> <p>Discuss illicit cross-border financial flows</p>
D	<p>Informal Work</p> <p>Introduction to ILO concepts of work and employment</p> <p>Categories of informal employment (including a discussion of dependent contractors and partly informal productive activities in relation to formal employment)</p> <p>Incorporate Tables 2 and 3 from the Appendix of “Statistics for the informal economy”.</p> <p>Categories of informal forms of work other than employment</p>
E	<p>The Non-Observed Economy</p> <p>Definition and background</p> <p>Relationship between the non-observed economy and the informal economy</p> <p>Discussion of non-observed transactions in the international accounts</p> <p>The role of supply and use tables and use tables in identifying some non-observed production</p>
F	<p>Guidelines, Studies, and Handbooks on the Informal Economy</p> <p>Discussion of various guidelines, studies, and handbooks that provide guidance on compiling statistics on the informal economy or on the non-observed economy</p>

References

- GNs IE.1 Guidance notes are posted at [List of Guidance Notes for the 2008 SNA Update](https://unstats.un.org) (unstats.un.org).
- ILO, “Statistics for the informal economy,” report for discussion at the Tripartite Meeting of Experts in Labour Statistics on the Revision of the Standards for Statistics on Informality, (Geneva, 7–10 February 2023), https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/meetingdocument/wcms_865498.pdf.
- ILO, “Conceptual framework for statistics on informal economy,” room document to support the discussions at the Meeting of Experts on Labour Statistics in Preparation for the 21st International Conference of Labour Statisticians (Geneva, 7–10 February 2023), https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/meetingdocument/wcms_867429.pdf.

Key Stakeholders Consulted

- System of National Account and Balance of Payments Manual editors, International Labour Organization, Joint Informal Economy Task Team, AEG, BPTT.