

Group of Experts on National Accounts

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**Organizer: Intersecretariat Working Group on
National Accounts**

JOINT TASK TEAM ON INFORMAL ECONOMY:

TERMS OF REFERENCE

(DRAFT VERSION AS OF SEPTEMBER 2020)

Joint Task Team on Informal Economy: Terms of Reference

I. INTRODUCTION

1. Statistical enquiries are not able to perfectly capture all economic activity in any country. Unregulated activity and survey imperfections need to be captured through special exercises. There are two approaches that, although they share a lot of common ground, are directed towards two rather different goals. The first is to ensure that all activities including those that may be described as “hidden” or “underground” are encompassed in measures of total activity. The second is to define what is meant by the subset of economic units that can be considered “informal” and to measure their firm dynamics and their contribution to jobs and income of informal workers in the agriculture, rural and non-agriculture sectors.

2. The informal economy broadly comprises the contribution of informal sector production activities and informal employment and activities that may be described as “illegal,” “hidden” or “underground.” Informal sector production activities and informal employment are defined in respectively the resolution concerning statistics of employment in the informal sector¹ adopted at the 15th International Conference of Labour Statisticians (ICLS) and the 17th ICLS Guidelines concerning a statistical definition of the informal employment.² Activities described as “illegal,” “hidden” or “underground” may overlap with the productive activities in the informal sector but are conceptually different. The informal economy includes not only the relevant domestic activities, but also the relevant cross-border transactions of resident units. In the past, guidance has already been developed on *Measuring the Non-Observed Economy*³ and *Illegal Economic Activities in National Accounts and Balance of Payments*⁴ as well as a technical manual to assist in compiling statistics on informal production activities and informal employment.⁵

3. An important contribution of the *System of National Accounts 2008 (2008 SNA)* was establishing the connection between the work on the informal sector, informal economy and their integration in the national accounts. Interest in this area continues to attract considerable attention especially in developing countries, where a large proportion of people work in the traditional economic activities of the informal sector. However, increasingly, in both developed and developing countries, new informal types of economic activities are also emerging that make use of digital technologies. These activities create new types of jobs and employment that could be characterized as being less formal or even informal in nature. With the blend of traditional

¹ ILO 1993.

² ILO 2003.

³ The OECD, the IMF, ILO, and the Interstate Statistical Committee of the Commonwealth of Independent States published a *Handbook on Measuring the Non-Observed Economy* in 2002.

⁴ *The Eurostat Handbook on Compilation of Illegal Economic Activities in National Accounts and Balance of Payments, 2018 edition.*

⁵ ILO and Delhi group handbook *Measuring informality: A statistical manual on the informal sector and informal employment.*

and non-traditional perspective on the informality, an exhaustive measurement of the size of the informal economy, the contribution of informal economy activities and informal employment to GDP, the integration of micro and small firms of the informal economy in regional and domestic and international value chains, and the informal economy cross-border transactions remains a shared interest. The quantification of the informal economy and data on its characteristics are needed for designing, implementing, monitoring and analysing macro-economic policies and to assess their impact.

4. Statistics on the size of the informal economy, its composition, inputs of labour and capital, and outputs are necessary to generate exhaustive estimates for the purposes of national accounts, such as the estimation of gross domestic product (GDP); the construction of supply and use tables; the estimation of the contribution of the informal economy activities to GDP; and the growth and productivity of firms and the labour market dynamics in the informal economy. Moreover, robust statistical measures of the informal economy will also be useful in assessing changes in disparities in the distribution of income, consumption, saving and wealth. Such measures are particularly important given the lack of social protection for workers in the expanding gig economy,

5. In countries with a high share of informality in agriculture and non-agriculture sector and/or emerging business dynamics and labour market trends of informality in their digital economy, statistics on informal employment and on employment in the informal economy are fundamental to understand the size, structure and dynamics of the labour market and the economic and personal risks and vulnerabilities that workers are exposed to. Employment, including labour underutilization, therefore needs to be supplemented with the dimension of whether the employment is informal or formal in order to create a more complete picture of the characteristics of the jobs in the labour market as well as of the risk and vulnerability profiles for the workers.

6. Further, a leading cause of imperfections in international trade statistics is the omission of cross-border transactions and/or positions that are outside the scope of the regular statistical inquiries and data collection systems. Consequently, also here, there is a need to explore issues related to the magnitude of informal, hidden or illegal as well as e-commerce cross-border transactions in international trade statistics. Such gaps impact not only the current account of the balance of payments, but also its financial account with corresponding implications for the measurement of international investment positions.

7. In respect of the above, the UNODC and UNCTAD have recently established a programme of coordinated actions to develop, review and test a statistical methodology to measure inward and outward illicit financial flows,⁶ whereas the BOPCOM Task Force on the Informal Economy (TFIE) in external sector statistics (ESS) took stock of country practices for

⁶ <https://unctad.org/en/pages/MeetingDetails.aspx?meetingid=2218>.

estimating the informal economy in ESS.⁷ The 7th IMF Statistical Forum concluded that there is need for a coherent macroeconomic statistics framework for the informal economy cross-border transactions of resident units. The International Labour Organization (ILO) has also established a working group on the revision of the standards for statistics on informality.⁸ This was based on a strong mandate from the 20th ICLS and the objective of the working group is to present a revised set of coherent statistical standards based on current definitions and country practices, aligned to the most recent market standards and that contributes to an increased global coverage and harmonization. The revised set of standards will be presented and discussed at the 21st ICLS in 2023. In addition, at its 51st session the Statistical Commission called for practical guidance on the informal economy.

8. The Inter-secretariat Working Group on National Accounts (ISWGNA) and IMF's Committee on Balance of Payments Statistics (BOPCOM) agreed that aligning the update of the *2008 SNA* and the *Balance of Payments and International Investment Position Manual (BPM6)* with other manuals of the system of economic statistics such as in the area of classifications and business and trade statistics and labour is a crucial task in the overall process to update international statistical standards. Effective networking of statistical groups regarding work on overlapping issues may help to avoid substantive discrepancies and support the use of consistent terminologies across manuals. It was therefore agreed that for overlapping issues in the research agendas of the SNA, BPM and other manuals on economics statistics, joint task teams should be established, that relevant subject-matter experts would join existing task teams, and that the joint task teams would submit consolidated and agreed guidance to the governing bodies of the respective economic statistics topics.

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II. MANDATE AND OPERATIONS

2.1 Mandate

9. Given the need for a coherent macroeconomic statistics framework for the informal economy, the UN Committee on national accounts consisting of the AEG and the ISWGNA and BOPCOM—in the context of updating the *2008 SNA* and the *BPM6*, the ILO, UNCTAD, and the FAO (to be confirmed) – in the context the revision of the standards for statistics on informality - have agreed to establish a joint task team. This joint informal economy task team (IETT) will prepare guidance notes for a coherent set of statistical standards which will conceptually and operationally define the different concepts necessary for measurement of work and economic activity, including cross-border transactions, in the informal economy. The guidance should be based on country practices and contribute to increased global coverage and harmonization of statistics on the informal economy across countries. It is expected that these guidance notes would contribute not only to the work related to the updates of 2008 SNA and BPM6, but also the ILO's revision of the standards for statistics on informality.

⁷ The final report of the TFIE can be found here: <https://www.imf.org/external/pubs/ft/bop/2019/32.htm>. The TFIE took stock of country practices for estimating the IE in ESS, as shown in a web platform with metadata of 24 economies, covering almost 57 compilation practices (available at <https://www.imf.org/en/Data/Statistics/informal-economy-data>).

⁸ <https://www.ilo.org/ilostat-files/Documents/Informality%20WG%20meeting%201%20-%20Discussion%20paper.pdf>.

10. The *BPM6* and *2008 SNA* update processes have a five-year timeline—split into two phases—ending in March 2025. The IETT’s mandate spans mostly Phase I of the update process—March 2020 to March 2022. Within that time frame, the IETT is expected to undertake thorough research on informal economy issues, discuss and reach conclusions, with proposals to be presented to the AEG, BOPCOM and the ILO Working Group for the Revision of the standards for statistics on informality. The IETT may also be consulted during Phase II on an as-needed basis, should any significant issues arise during the worldwide consultation process.

2.2 Operational Framework

11. **Composition:** The joint task team will be co-chaired by the IMF and a country chair (selected by the ISWGNA). The IMF and UNSD will provide the secretariat. Membership of the IETT would comprise representatives from the UN Committee on national accounts consisting of the AEG and the ISWGNA, BOPCOM, ILO Working Group and UN Committee on Business and Trade Statistics and possibly the FAO Committee on agriculture and rural statistics, as well as compilers and users of the international and national accounts, business, trade and labour statistics. The selection considers both the depth of expertise and background required to address the issues identified, as well as a geographical balance, which represents the views of countries across varying degrees of statistical capacity. Members of the IETT will work on a voluntary basis.

12. **Communication:** The working language of the joint task team is English, without any translation of documents or interpretation at meetings and videoconferences. The IETT will work primarily through electronic means, while the co-chairs may convene one or more physical meetings to come to conclusions. To facilitate electronic communication among the joint task team members, the IMF will provide the requisite support by facilitating virtual meetings and using appropriate technologies for document flow and management. An [IMF-hosted dedicated webpage](#) will accommodate relevant postings, including the TORs, the issues to be covered, as well as the ensuing guidance notes. The IETT secretariat will be responsible for managing the webpage content.

13. **Overall Coordination.** To ensure overall consistency and to avoid duplication of work, UNSD (on behalf of the SNA community) and IMF (on behalf of the BPM community) are responsible for the overall coordination between the IETT and other task teams working on the updates of the *2008 SNA* and *BPM6*. The aim is to facilitate the exchange of information between the task teams and to align the work plans as appropriate.

III. GUIDANCE NOTES, WORKING PROCEDURES, AND REPORTING

14. The joint task team may consider, as appropriate, other informal economy issues raised by its members, which can be relevant for the SNA, BPM and ILO updates, and where the

issues are accepted within the research agenda for these updates. However, the intention is not to consider new issues after June 2022. This cut-off date is necessary to accommodate the broad process of review and consultation that will take place before the new manuals are finalized by the end of 2024.

3.1 Guidance Notes

15. To foster focused and efficient discussions and for a consistent and complete coverage of the review items, IETT's key documentation will be in the form of a "Guidance Note" for each item/concept. Guidance Notes comprise two sections—the first detailing the issue, and the second explaining the recommendations—presented according to a standard format as described in Annex I. Additional background documentation may also be considered/attached. Guidance Notes will be discussed by written consultations or videoconferencing.

16. The IETT will undertake detailed investigations, whose outcomes will be documented in the form of "Guidance Notes" on:

- The statistical concepts on informality i.e., informal sector, employment in the informal sector and informal employment; and
- A macroeconomic statistics framework for measuring the informal cross-border transactions.

The key working procedures and review processes for Guidance Notes are outlined in Figure 1 and detailed in Table 1 (third column titled "Joint TT Guidance Notes" applicable for IETT).

3.2 Working Procedures

17. The IETT will strive to reach a consensus on its outcomes. Should there be different opinions on a subject matter, the minority dissenting opinions will be properly documented in the Guidance Notes.

3.3 Reporting

18. While submission of the guidance notes may take place as soon as any recommendations are ready, through its co-chairs, the joint task team will submit periodic reports to the UN Committee on national accounts consisting of the AEG and the ISWGNA, BOPCOM and the ILO Working Group and other participating Committees. Key among these are progress reports to the annual meetings of the UN Committee on national accounts consisting of the AEG and the ISWGNA and BOPCOM (usually in October), the ILO Working Group and inputs to the report of the UN Committee on national accounts consisting of the AEG and the ISWGNA to the United Nations Statistical Commission's Meeting (usually in March). Reporting to these bodies will include the outcomes and recommendations on the issues considered through the guidance notes.

Figure 1. Life Cycle /Governance of IETT Guidance Notes

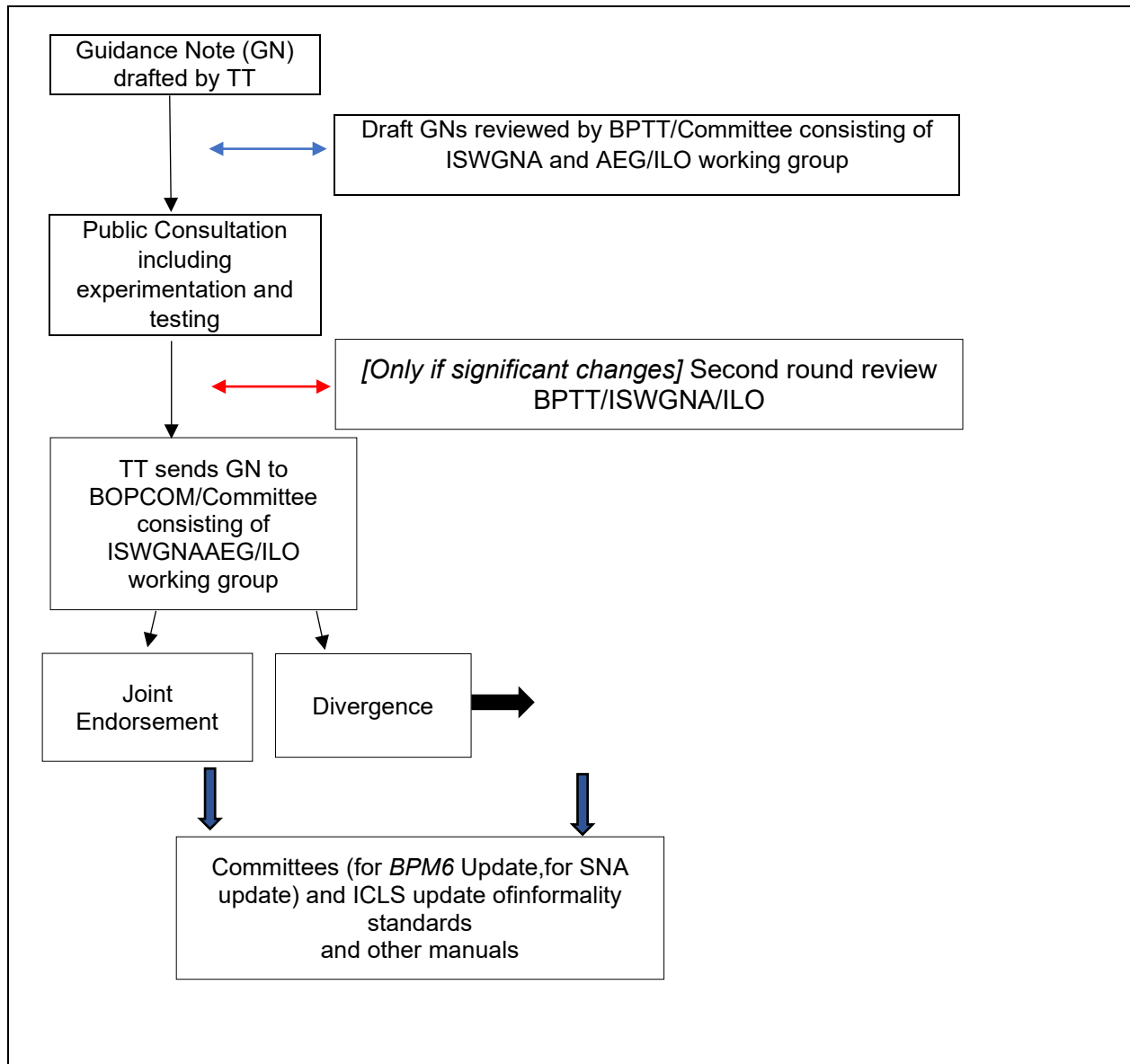


Table 1. Approval Process for Guidance Notes by IETT

Both sections of Guidance Note (GN) are drafted and discussed and agreed by joint TT	
Draft GN is sent to Committee consisting of ISWGNA/AEG, BPTT, ILO and other participating Committees	
GN is posted for public comment, experimenting and testing	
TT finalizes GN taking account of public comments. If changes are significant, the following second round review step below applies.	
Revised GN is sent to BPTT, Committee consisting on AEG and ISWGNA, ILO and other Committees	
GN being considered by BOPCOM, Committee consisting on AEG and ISWGNA, ILO and other Committees	
Agreement	Divergence of views
Endorsement of TT recommendations reside with the BOBCOM, Committee consisting of AEG and ISWGNA and ILO working group (using their respective procedures).	If divergent views emerge, an arbitration mechanism is to be set-up and agreed. In this regard, careful consider of retaining the status quo should be considered (i.e., no change) and placing the issue on a future research agenda.
Final adoption of recommendations resides with: BOPCOM on the <i>BPM6</i> update UNSC on the <i>2008 SNA</i> update; and 20 th ICLS on the updated standards on informality Other manuals (to be determined) by other Committees	
If decision is to change/update the guidance is incorporated in updated <i>BPM</i> , <i>SNA</i> and <i>ICLS</i> resolutions and issue is closed.	

ANNEX I. STANDARD FRAMEWORK OF GUIDANCE NOTES

Title/name of the topic to be addressed

SECTION I: THE ISSUE

Background (not exceeding two pages)

- A clear statement of the issue (problem statement); and a quantitative size of the issue if known
- Current international standards for the treatment of the issue, including specific references to the manuals and paragraph or page numbers
- Concerns/shortcomings of the current treatment, if any (on practical as well as methodological grounds)

Issues for Discussion (not exceeding two pages, excluding annexes)

- Possible alternative treatments/options (clearly distinguishing between those which would require a change in the core framework/concepts from those which would be developed outside the framework)
- Questions/points for discussion

Supplementary Information (in annexes)

- Including references to other documentation

SECTION II: OUTCOMES (not exceeding two pages)

- Recommendation: either
 - (a) to revise: describe the proposed revision, rationale, and practical feasibility; or
 - (b) not to revise: provide arguments in support of the position
- Rejected alternatives, setting out reasons for rejection
- Identify changes required to the current statistical standards
- If relevant, identify in an annex all chapters/paragraphs in the current statistical standards which would need to be updated (with suggested text) to introduce/retain/ensure consistency across statistical domains