

Seventh IMF Statistical Forum

Measuring the Informal Economy

SESSION I. DEFINITION AND SCOPE OF THE INFORMAL ECONOMY

November 14, 2019

Chair: Mr. Louis Marc Ducharme (Statistics Department, IMF)

Presenters: Mr. Friedrich Schneider (Johannes Kepler University, Austria) and
Mr. Leandro Medina (Strategy, Policy, and Review Department, IMF)
Mr. Ibrahima Tall (National Agency of Statistics and Demography, Senegal)
and Mr. Ahmadou Aly Mbaye (Cheikh Anta Diop University, Senegal/
Brookings)
Mr. Michael Frosch (International Labor Organisation)
Ms. Jennifer Ribarsky (Statistics Department, IMF)

SUMMARY OF PRESENTATIONS

1. *Shedding Light on the Shadow Economy: A Global Database* (Friedrich Schneider and Leandro Medina)

Mr. Friedrich Schneider (Austria, Johannes Kepler University) and Mr. Leandro Medina (IMF) review the direct and indirect approaches to estimate the shadow economy and summarize the pros and cons of each approach. Neither is perfect, and which one to use depends on the goal of the researcher, the data availability, and how the researcher chooses to define informality. The authors use the Multiple Indicators Multiple Causes (MIMIC) method to provide new results on the shadow economy for 158 countries over 1991 to 2015 and find that their estimates come close to others produced by statistical offices or based on surveys. While the authors estimate the average size of the shadow economy at 31.9 percent of GDP over the 1991–2015 period, they also identify patterns and trends over this period. First, the shadow economy is largest in Sub Saharan Africa and Latin America, and smallest in OECD countries. Second, informality has decreased over time across all regional and income country groups. Lastly, there is a large heterogeneity within each regional group. They estimate Georgia, Bolivia, and Zimbabwe to have the three largest shadow economies, and Switzerland, the United States of America, and Austria to have the smallest.

2. *Conceptualizing the Informal Sector: Analysis and Application to Francophone Africa* (Ibrahima Tall and Ahmadou Aly Mbaye)

Mr. Ibrahima Tall and Mr. Ahmadou Mbaye note that “informality means different things to different people” and propose to view informality as a continuum from fully formal to fully

informal enterprises, rather than a binary status. They use a seven-part definition of informality that is relevant for Western and Central Francophone Africa (WCFA) and may not necessarily apply to other countries: firm size, registration status (with public authorities), tax status (non-payment of tax or presumptive taxation regime), access to formal finance (bank credit), honesty of accounts, social security coverage, and permanence of the workplace. They stratify their sample in roughly equal numbers of formal, large informal, and small informal firms. The coexistence of small and large informal enterprises is one of the defining characteristics of the informal sector in WCFA. The survey was administered to firms in seven major cities in WCFA.

The survey results indicate that small informal enterprises suffer from various forms of social exclusion and from an adverse business environment to a greater extent than formal enterprises and large informal enterprises. The socio-demographic characteristics of the three groups of enterprises differ considerably. Women are more present in the small informal sector than in the formal sector. The average level of educational attainment is higher in the formal sector than in the small informal sector. Furthermore, the survey shows that enterprises meeting three to four informality criteria still have a significantly higher productivity than those that are much more informal. Thus, the dichotomy of informal enterprises having lower productivity versus formal enterprises having industry-average productivity does not necessarily apply when informality is broken down in its defining characteristics.

3. *Revision of the Standards for Statistics on Informality (Michael Frosch)*

Mr. Michael Frosch (International Labor Organization—ILO) explains that while authors have used various definitions of the informal *economy*, there are international standards for informal *employment*. The ILO is tasked with setting international standards for labor statistics, including informal employment. Already in 1993, the International Council of Labor Statistician (ICLS) adopted a *Resolution Concerning Statistics of Employment in the Informal Sector* and the *Guidelines Concerning Statistical Definition of Informal Employment* (2003). More recently, the ILO issued *A Statistical Manual on the Informal Sector and Informal Employment*. Within this framework, the ILO refers to an umbrella definition of informal economy that encompasses different concepts of informality. It defines the informal economy as all the economic activities by workers and economic units that are—in law or in practice—not covered or insufficiently covered by formal arrangements. However, countries need to adapt the operational definitions of informal enterprises and employment to the national context. Thus, international comparisons are still difficult.

These standards are currently being revised to clarify and strengthen their statistical definitions. The ILO has established a working group with broad stakeholder coverage with the objective to present new proposals for ICLS consideration in 2023. Among the objectives of the revisions are increasing harmonization, clarifying the boundaries of informal economic units, better reflecting that formality/informality is a continuum and that it needs to be contextualized to the country's specifics, and increasing the global coverage.

4. *State of Play: Importance, Conceptual Fragmentation, and Weak Data Sources*
(Jennifer Ribarsky, Thomas Alexander, and Gabriel Quirós-Romero)

Mrs. Ribarsky (IMF) noted that non-observed activities can be grouped into informal, underground, and illegal activities. However, there is considerable overlap among these activities. The Forum is an attempt to revisit the perimeter of what constitutes the informal economy. The informal economy broadly defined should comprise both domestic activities *and* related cross-border transactions of households producing goods and market services (excluding services for own-final use) and transactions resulting from activities performed by non-registered firms or by registered firms that may be concealed from the authorities to avoid the payment of taxes or are simply illegal. Official statistical agencies generally do not publish specific estimates of the informal economy and focus instead on developing exhaustive estimates of all economic activities—and apply different techniques to account for informal activities. Mrs. Ribarsky reviews data collection and compilation methods used by statistical agencies. A survey of practices of 108 developing economies covered by the IMF's technical assistance centers show that countries (i) use no common, comparable definition of the informal economy; (ii) find it difficult to delineate formal from informal activities; (iii) use very different compilation methods, largely determined by data sources, resources, and capacity; and (iv) often ignore illegal activities. Limited resources and statistical capacity are clear impediments to measuring the informal economy (surveys and supply and use table are costly endeavors, particularly for developing countries) and often statistical agencies focus only on domestic informality, rather than cross border transactions. The Forum will hopefully provide an opportunity to agree on best—or at least good—estimation practices for statistical agencies. On its side, the IMF is already proposing the measurement of the informal economy as fourth top priority for the coming update of the *2008 SNA* and *BPM6*. The Forum will be an opportunity to identify key takeaways concerning the conceptual and compilation issues that might be reflected in the revised manuals.

SUMMARY OF COMMENTS, QUESTIONS, AND ANSWERS

Questions focused on (i) distinguishing among the different components of informality; (ii) standardization of concepts and methodologies; (iii) incentives to formalize.

The definition of informal activities and associated estimation methods proposed in the fourth paper may obfuscate the distinction between underground and illegal activities. However, these distinctions are important, because labor protection and social outcomes are quite different under the various types of informality. With the weight of the various components (household production for transaction; informal business; and illegal business) varying with the level of economic development, it may be important to estimate these components separately to be able to fine-tune social protection and economic development policies.

Some statisticians (Canada, U.K.) made a strong call to harmonize standards. Lacking these, estimates by different statistical offices cannot be compared and, in some cases, could be biased to reflect country-specific conditions. Statisticians should also influence governments to generate legislation and regulations that would help statistical offices estimate the informal economy. The IMF has a role to play in providing advice on national legislation on statistics and access to administrative and business data, particularly in developing countries.

Laws and regulations may not suffice. Incentives to formalize may be more important than registration requirements and enforcement. And, it is doubtful that sticks would work to formalize illegal activities. Besides, registration is not a sufficient condition to formalize. In fact, the paper on West Africa has shown that many informal activities are performed by registered enterprises. Further, we may want to limit the extent to which we push the formalization because, particularly in developing countries, the informal economy acts as an important social safety net. While we should advise policy makers to adopt legislations that would allow statisticians to generate better estimates of the informal economy, we should be mindful of not engendering legislation that aimed to eliminate informality.