

# Measuring the informality in Colombia

IMF Seventh Statistical Forum  
November 2019



El futuro  
es de todos

Gobierno  
de Colombia

## Outlook

---

1. Conceptual approaches to informality
2. How measure
  1. Informality in the labor market (GEIH) and informality in firms (Micro Business Survey)
  2. Index of Business Formality
  3. Economic Census 2021

# 1. Conceptual approaches to informality



El futuro  
es de todos

Gobierno  
de Colombia

## Concept of the informal economy

### Non-statical perspective:

Informality means legal economic activity taking place below the radar of government. It takes many forms, from the unregistered small firm, to the street vendor, to the large, registered “formal” firm that employs a share of its workers without offering them written contracts with access to benefits and unemployment protection. (Oviedo, A. M., Thomas, M. R., & Karakurum-Özdemir, K. (2009). *Economic informality: causes, costs, and policies-a literature survey*. The World Bank.)

### Statical perspective:

Informal economy: refers to all economic activities by workers and economic units that are –in law or in practice- not covered or insufficiently covered by formal arrangements. (104<sup>th</sup> ILC. (2015). *Recommendation No. 204 concerning the transition from the informal to the formal economy*. International Labor Organization.)

## Schools of thought

### Dualism

Considers that the economy is made up of two distinct sectors: a formal and urban sector, with a high level of marginal labor productivity; and, a rural informal sector with low productivity and a surplus of unproductive labor

### Legalism

Informality is a consequence of the firm's rational decisions, based on the legal conditions of the economy.

### Structuralism

Believes that informality arises as a result of the structural relationship between capital and labor

### Institutionalism

Informality is the result of transaction costs and the regulatory market

↓  
Index of business formality

## 2. How we measure



El futuro  
es de todos

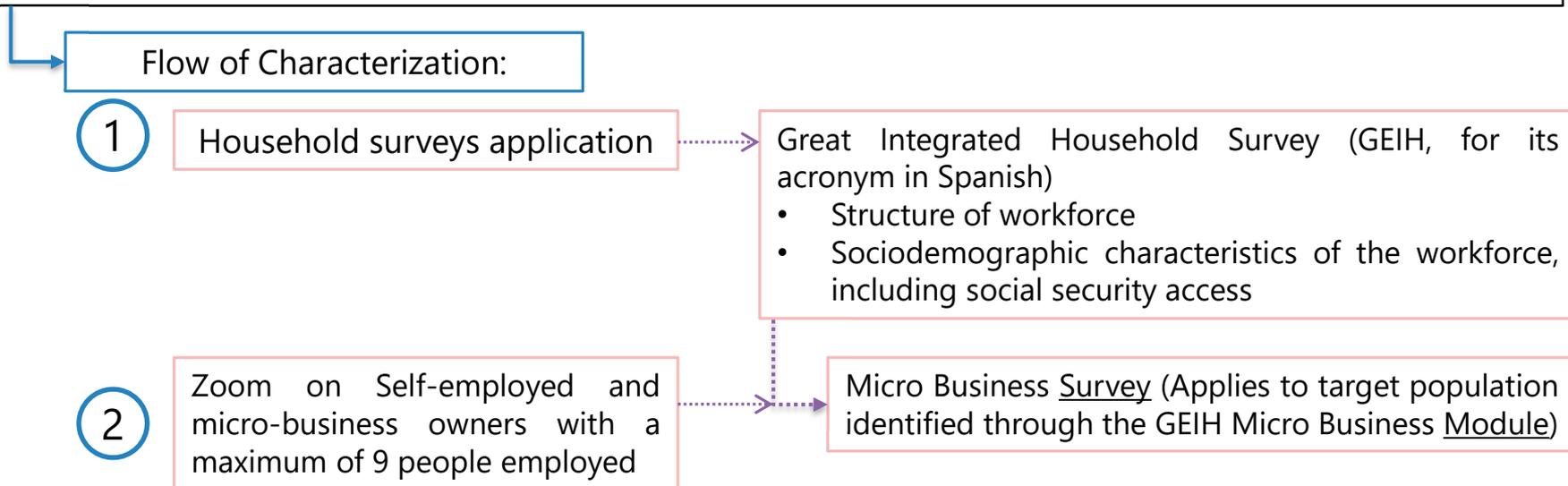
Gobierno  
de Colombia

## **2.1. Informality in the labor market (GEIH) and informality in firms (Micro Business Survey)**



## Informality metrics in Colombia: How we currently track the phenomenon

Currently the definition adopted by DANE for the measurement of informal employment refers to the 15th ICLS resolution of 1993 and to the recommendations of the DELHI group: A worker is considered informal if he works in an establishment of up to **five workers**, excluding the independent ones who are dedicated to their profession and to government employees. On the other hand, it is considered that social security is also an important approximation to the degree of formality of employment.



# Study of small businesses

## 2002 – 2008

- Evolution and structure
- 14 metropolitan areas

## 2005 - 2011

- 24 metropolitan areas

**2012:** Pilot test of the micro-business module (Employment Survey)

**2013 - actuality:** Starts continuous collection of the Micro-business module

Microbusiness module

Micro establishments

## 1990

- National Economic Census
- Start micro-establishments survey

## 2012 - 2016

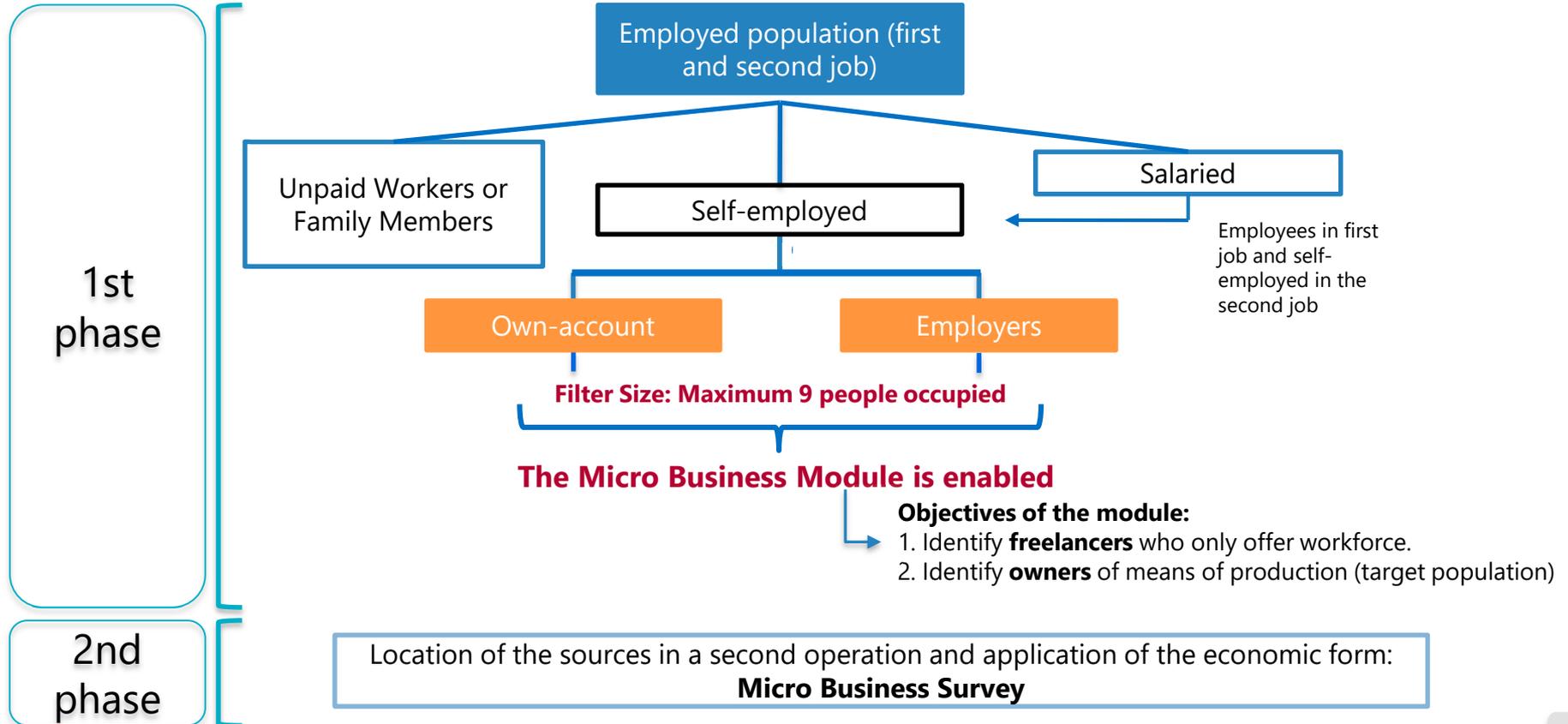
- Start of the establishments panel

## 2019: 28/5000

### Micro Business Survey

- Two-stage mixed survey application
- First phase: Identification of micro businesses
- Second phase: Economic form widely applied

## How we currently track the phenomenon



## How we currently track the phenomenon (ii)

### Micro business survey methodology

Concept	Description
Target population	Self-employed workers and micro-business owners with a maximum of 9 employed persons who develop activities defined in the thematic scope of the research.
Statical unit	Micro-business: Economic unit with a maximum of 9 people employed that develops a productive activity of goods or services, with the purpose of obtaining an income, acting as owner or lessee of the means of production.
Thematic coverage	Disaggregation of the variables of income, sales, intermediate consumption and employed personnel for the sections: agriculture, livestock, forestry, fishing, mining and quarrying, manufacturing, construction, wholesale and retail trade; repair of motor vehicles and motorcycles, transportation and storage, accommodation and food services, real estate activities, other services (M-S sections of ISIC)
Geographic coverage	National, Municipalities, Rural areas
Reference period	Previous month, same month last year, previous year
Collection period	Twelve months: start of operations March 1st (ask for January and February)
Sample size	Approx. 90,000 micro businesses in the 12 months of operations

## Employment Matrix: Job offer by economic activity and occupational category 2018<sup>p</sup>

Sections ISIC Rev. 4 A.C. 12 clusters	Economic Activity	Labour Supply		Total
		Primary and secondary work and unpaid work		
		Salaried	Self employed	
A	Agriculture, forestry and fishing	1.113.974	2.461.417	3.575.391
B	Mining and quarrying	111.011	75.485	186.496
C	Manufacturing	1.308.322	945.591	2.253.913
D + E	Electricity, gas, steam and air conditioning supply; Water supply; sewerage, waste management and remediation activities	119.278	25.419	144.697
F	Construction	727.655	723.150	1.450.805
G + H + I	Wholesale and retail trade; repair of motor vehicles and motorcycles; Transportation and storage; Accommodation and food service activities	2.774.621	4.061.915	6.836.536
J	Information and communication	184.563	105.950	290.513
K	Financial and insurance activities	215.194	24.704	239.898
L	Real estate activities	232.835	42.892	275.727
M + N	Professional, scientific and technical activities; Administrative and support service activities	1.143.979	548.667	1.692.646
O + P + Q	Public administration and defence; compulsory social security; Education; Human health and social work activities	1.456.338	500.941	1.957.279
R + S + T	Arts, entertainment and recreation; Other service activities; Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	873.801	756.751	1.630.552
<b>Total</b>		<b>10.261.571</b>	<b>10.272.882</b>	<b>20.534.453</b>

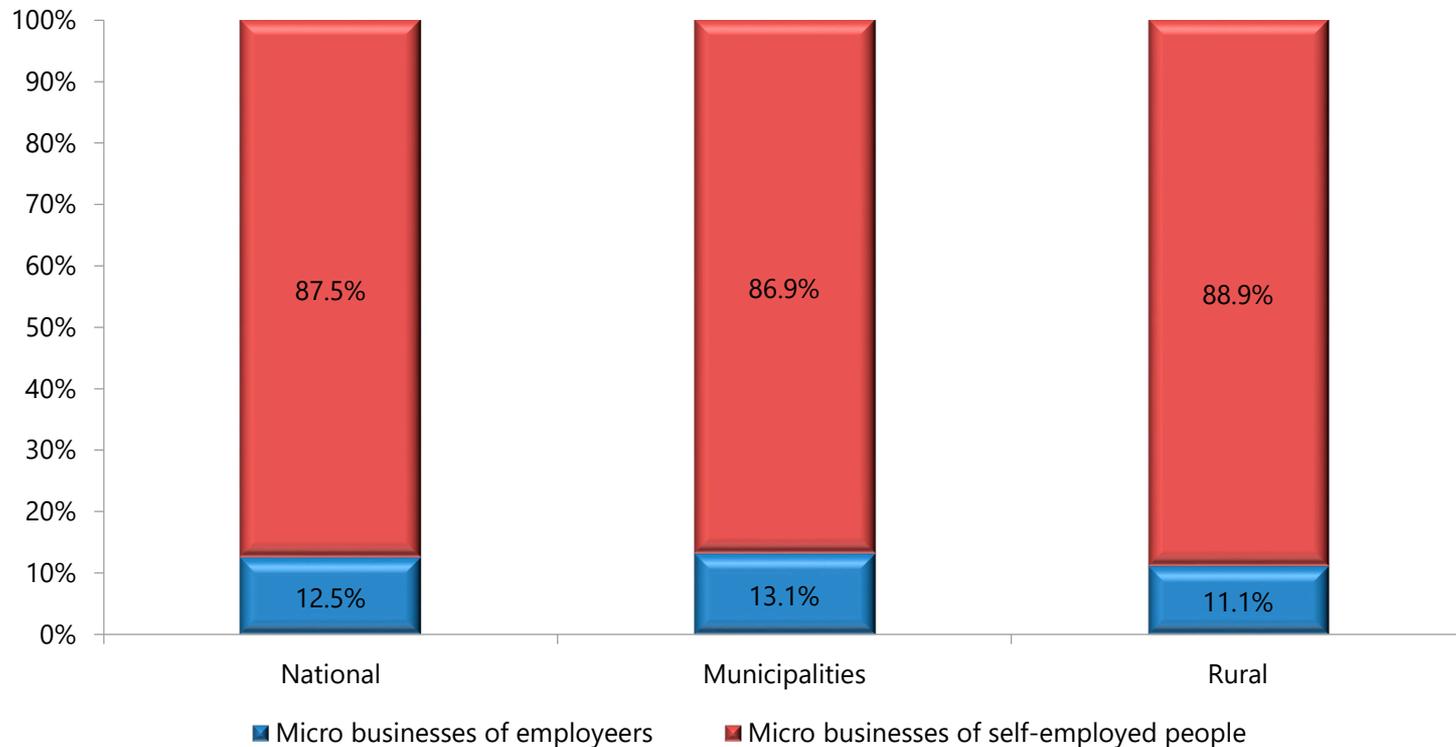
Source: DANE, National Accounts

Note. Totals differ from 12 to 25 groups due to rounding effect in figures

Last update: June 14, 2019

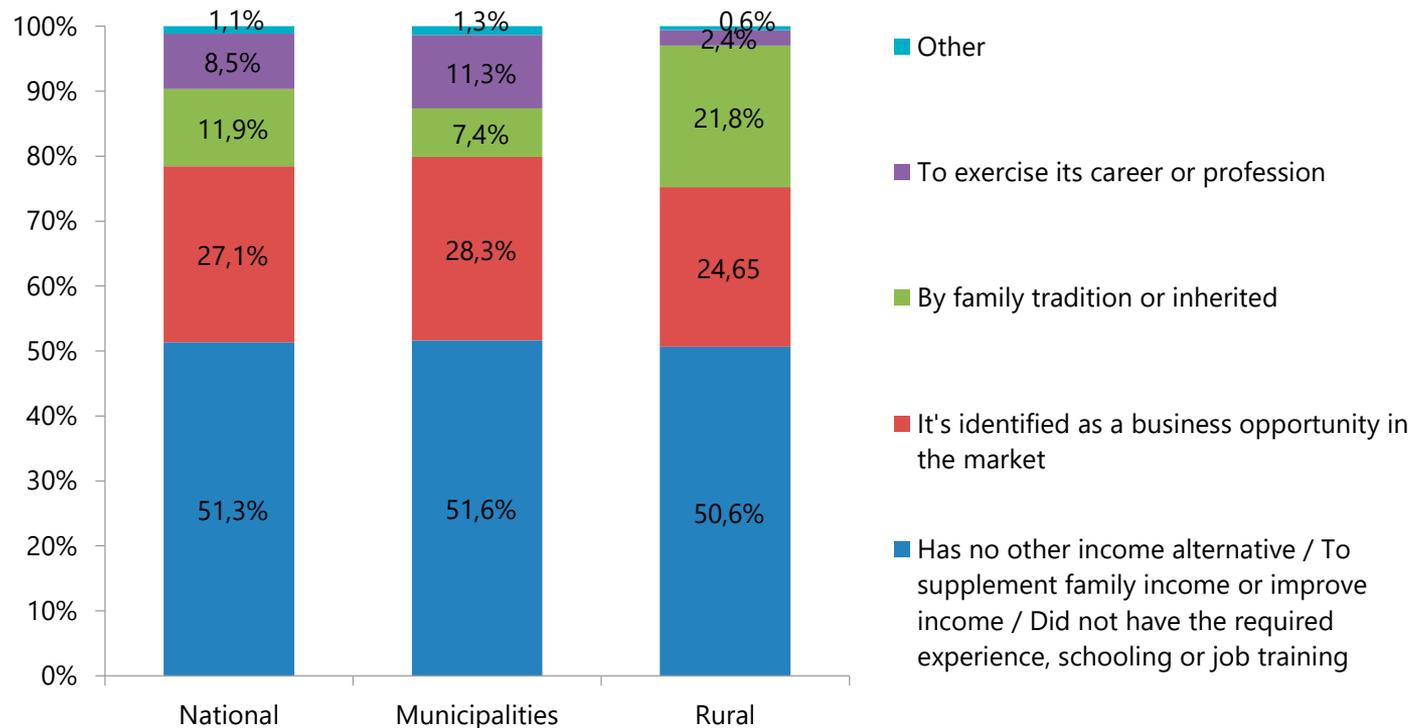
## Cost of the formalization process

Number of micro businesses according to the owner's employment situation



## Cost of the formalization process

Participation of micro businesses according to the main reason for the creation or constitution of the business or economic activity



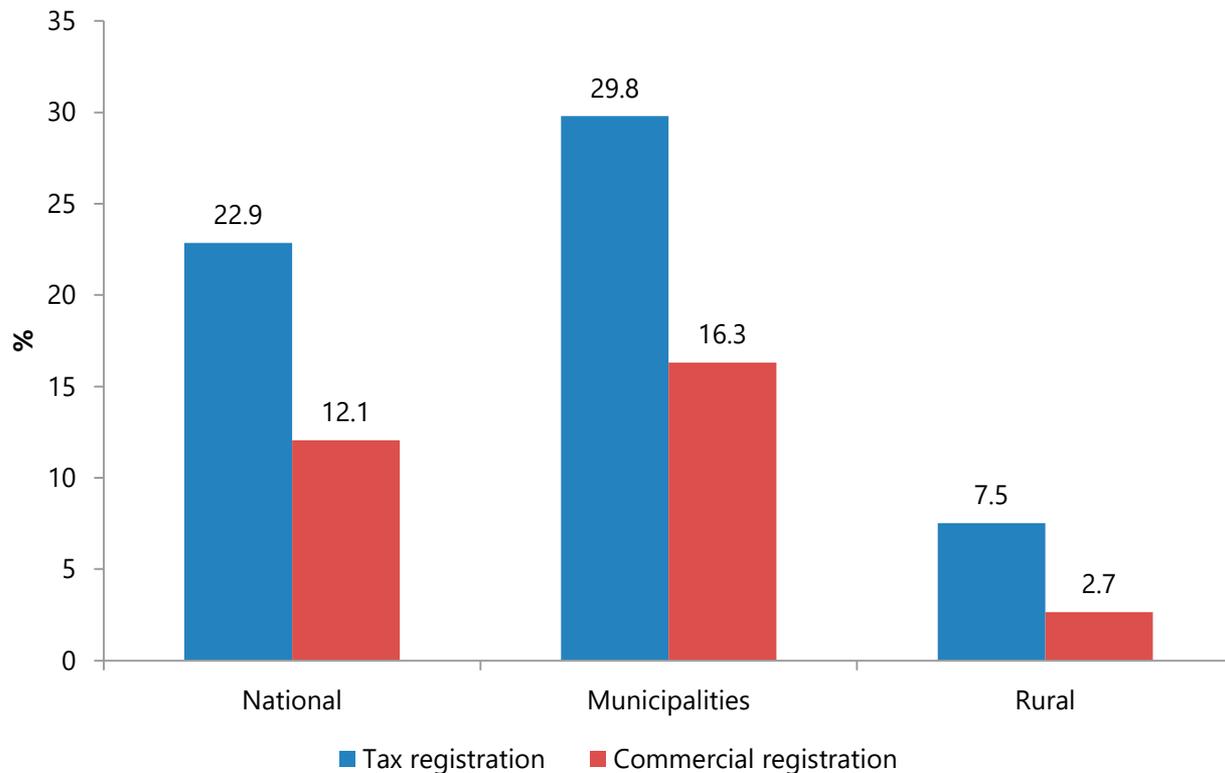
## Cost of the formalization process

Participation of micro businesses according to operating time



## Cost of the formalization process

Participation of the Micro-businesses for holding records (commercial and tax registration)



## 2.2. Index of Business Formality



El futuro  
es de todos

Gobierno  
de Colombia

## Source of the Index of Business Formality

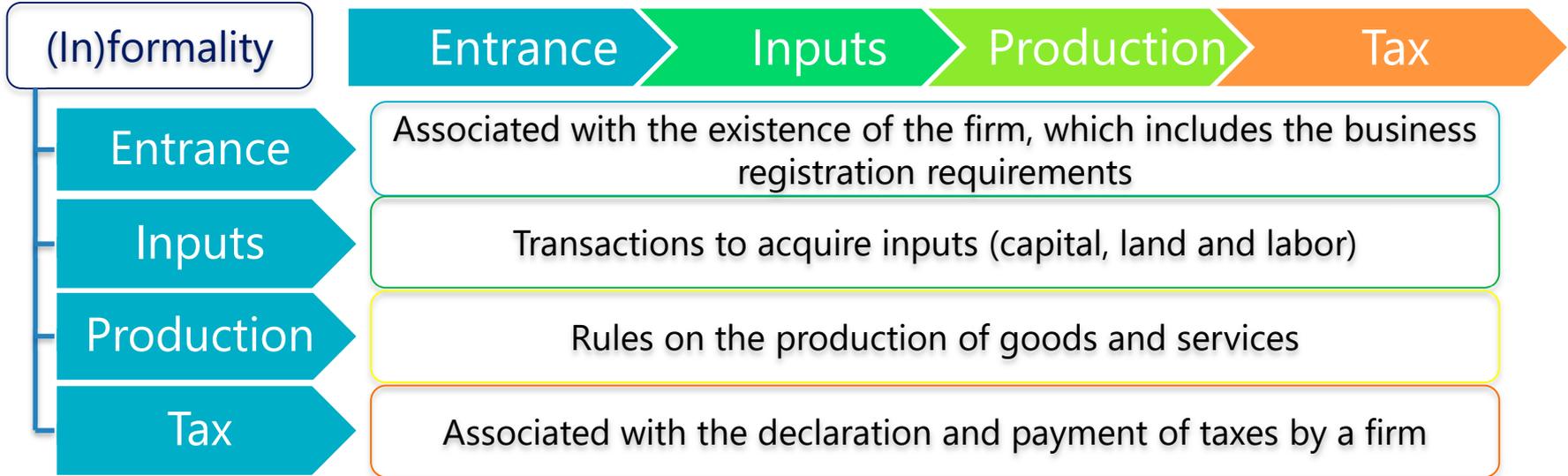
### Business Formalization Policy

DANE was commissioned by the *Consejo Nacional de Política Económica y Social - CONPES*, in its document 3956 named *Política de Formalización Empresarial* (Business Formalization Policy) to build an index of business formality.

### About this document

1. This document incorporates a multidimensional view of the informality phenomenon (or the formalization process).
2. Moreover, it proposes a sequential approach to the informality of the firm, at different times of its life cycle.
3. Its unit of analysis is the company (in general) or microenterprise (specifically).
4. Additionally, it highlights that there is little information on the universe of microenterprises, their level of formality and the impact that state efforts have had on the matter.

## Index dimensions



To study the formalization process one can use the sequential analysis: starting from the entrance and ending in the tax dimension. This reflects the transit that a firm makes since entering the market to be completely formal. However, you can also go to the interpretation of each dimension individually to identify the main source of informality between firms and where the transit process is more difficult.

## Indicators by dimension (Colombian case)

### Entrance

Law 590/2000  
Law 1801/2016

1. Commercial and tax registration (Source: Economic establishments surveys and administrative records)
2. Letter to the district planning office and the police announcing the opening of the firm (No reliable source)

### Inputs

Decree 410/1971  
Law 232/1995

3. Legal hiring and remuneration (No reliable source)
4. Compliance of health, pension, occupational risks and social benefits laws (Source: Direct informant through the household survey)
5. legal occupation and use of land (Administrative records in some municipalities)

### Production

Law 1111/2006

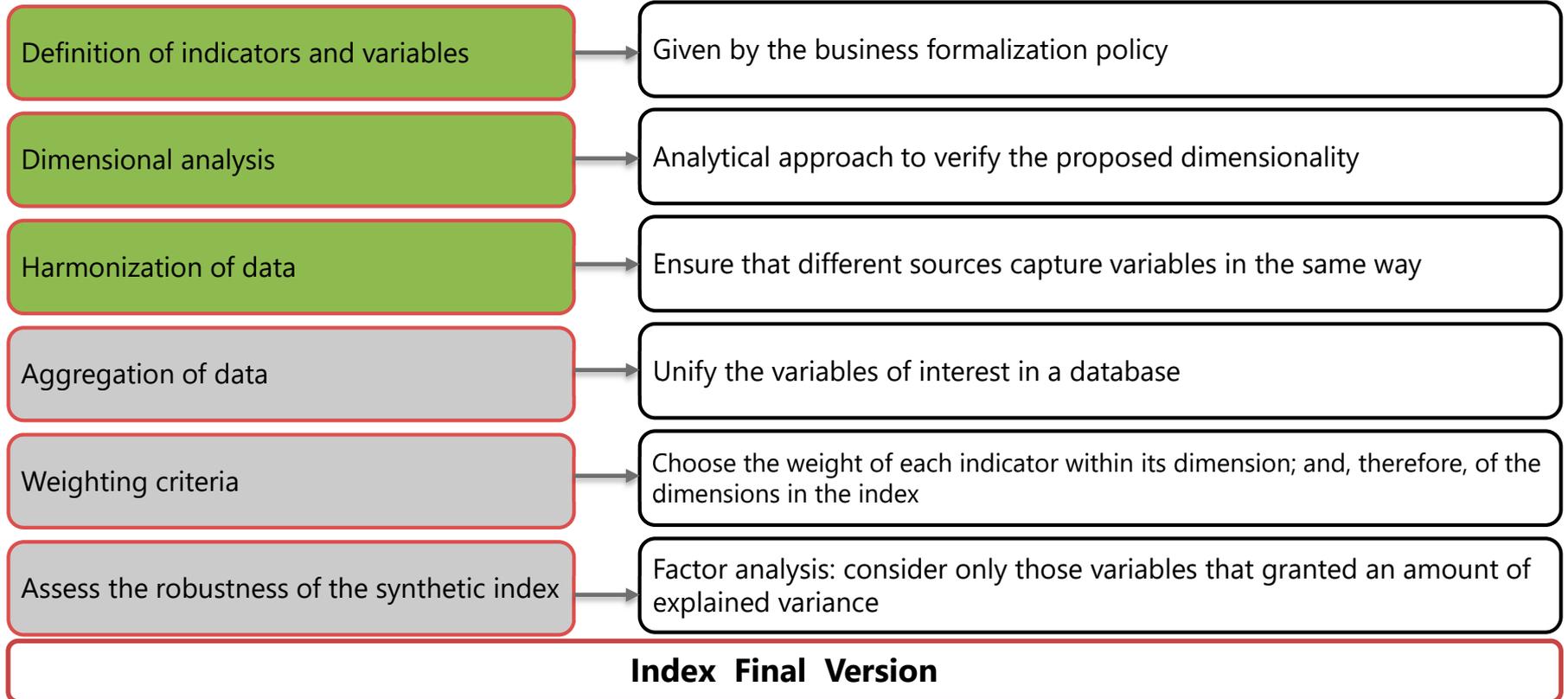
6. Firm compliance with sanitary, technical and environmental regulations (Source: Economic establishments surveys and administrative records)

### Tax

Decree 390/2016

7. Declare taxes (Source: Economic establishments surveys and administrative records)
8. Pay taxes (Source: Administrative records)
9. Have formal accounting (Source: Economic establishments surveys and administrative records)

**Index construction** *Top-down* approach: constructing a conceptual framework of some sort describing formalization process, including its constituents and determinants.



# Economic Census 2021



El futuro  
es de todos

Gobierno  
de Colombia

## Economics census key characteristics

### Objective

Obtain updated statistical information of the main economic variables of the establishments of industry, commerce, services, construction and transport, located in the national territory in the year 2021.

### Questions to solve

- What is produced?
- How is produced?
- How much is produced?

### Variables

- Economic activity
- Production, sales and income
- Number and characteristics of employees
- Cost, expenses and assets
- Degree of formality

The economic census is being structured according to the logic of the **Generic Statistical Business Process Model – GSBPM**, produced by UN, OECD and Eurostat.

## Economics census benefits

1

Know the characteristics of the **formal** and **informal** economic units, in order to facilitate and guide the design of public policies for the improvement of the economic and social conditions of the country.

2

Knowledge of **employment** by economic activity, institutional sector and regions

3

Decrease in indirect calculations - "**Not observed economy**" (23% of estimated production)

4

Economic layer of the **Multipurpose Cadastre**



5

Know the framework of companies in the informal sector and provide inputs to establish an index of business formality.  
In Colombia, informality is high:  
- 73.2% of microenterprises did not have a commercial register and RUT in 2015 (\*)  
- The proportion of informal workers in the 13 cities and AM was 46.8% for the second quarter of 2019 (\*\*)

6

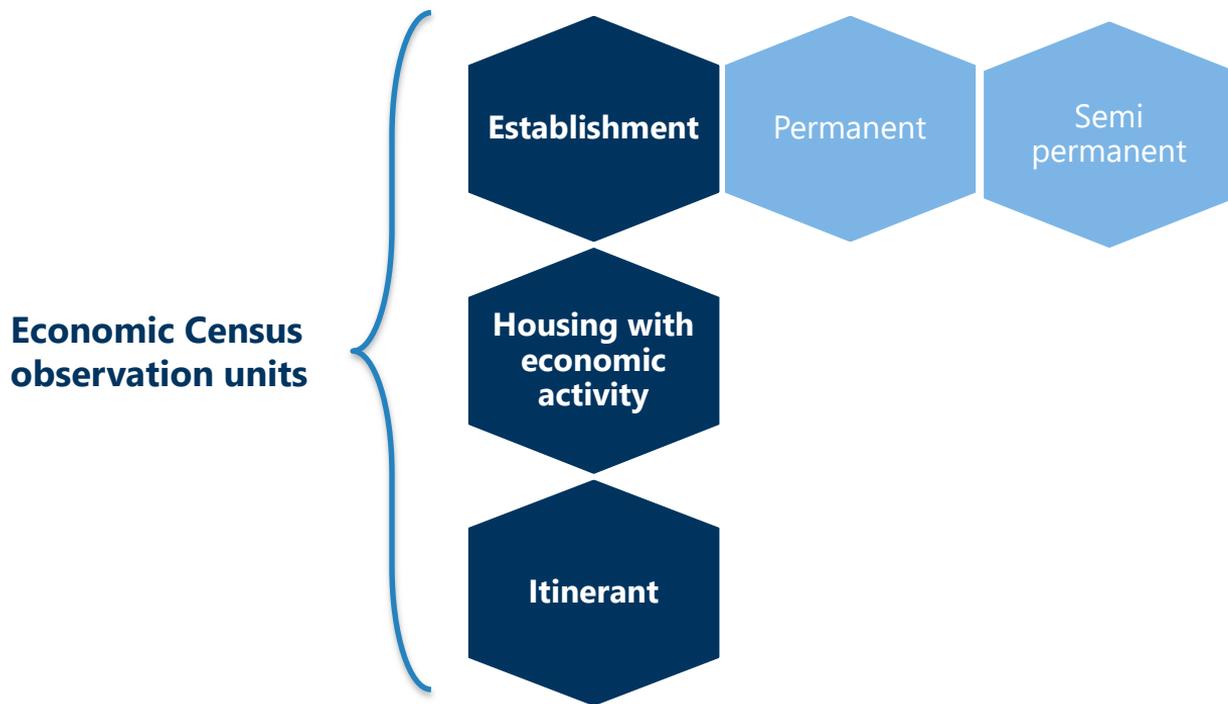
Have inputs for the calculation of macroeconomic variables used in the national and regional accounts of the country.

7

Updated and complete business directory

## Economics census key characteristics: Economic unit

It is an institutional unit with the capacity, in its own right, to own assets, incur liabilities, make decisions and carry out economic activities and transactions with other units.



For each of the information units, the dimensions associated with informality will be investigated.

Project  
**EC**

**1. Specify Needs**      **2. Design**      **3. Build**      **4. Collect**      **5. Process**      **6. Analyse**      **7. Disseminate**      **8. Evaluate**

2019



- General plan
- Public consultation
- Budget
- Production function

- Marketing strategy
- Operational strategy
- Census Frame
- Forms
- Experimental Census
- Test system



- Forms (Web, door by door)

2020



- Acquisitions of admin. data



- Census Frame
- Test system
- Experimental Census



- Count Economic units

2021



- Field operation
- Operation Tracking



- Processing
- Classification, edition and imputation



- Partial base analysis



- First results

2022



- Base Integration
- Full Base Processing



- Final database



- Final results
- Post Census Studies



- Expert Committee
- Evaluation Document

# Measuring the informality in Colombia

IMF Seventh Statistical Forum  
November 2019



El futuro  
es de todos

Gobierno  
de Colombia