



Thirty-First Meeting of the IMF Committee on Balance of Payments Statistics

Washington, D.C.
October 24–26, 2018

BOPCOM—18/10
For discussion

Preliminary Report of the Task Force on Informal Economy

TABLE OF CONTENTS

ACRONYMS	5
EXECUTIVE SUMMARY	6
I. INTRODUCTION	10
II. CAPTURING THE INFORMAL ECONOMY IN THE INTERNATIONAL ACCOUNTS	11
A. The Case	11
B. Recent and Ongoing Work	11
III. ECONOMY PRACTICES: SURVEY RESULTS AND INDIVIDUAL ECONOMY REPORTS	13
A. Findings on the Survey on Cross-Border Transactions and Positions Data related to Informal, Underground, and Illegal Activities	13
B. Individual Reports	23
IV. CHALLENGES IN COLLECTING IE DATA	28
A. Data Sources	28
B. Enterprise Registration	29
C. Double Counting	29
D. Coverage	29
E. Methodology	29
F. Compilation	30
G. Overlapping	30
H. Coordination	30
I. Other	30
V. DEVELOPING AN APPROPRIATE STRATEGY TO ADDRESS DATA GAPS ON IE	31
A. Data Compilation Strategy: Way Forward	31
B. Proposed Phase 2 Work Program	31
BOXES	
Box 1— Main Indirect statistical compilation/estimation approaches	17
FIGURES	
Figure 1—Informal Economy Survey Responses	14
Figure 2—Balance of Payments Compilation Practices by Region	15
Figure 3—Estimated Size of IE by BOP Main Components (as % of Relevant Component in the Balance of Payments)	21
Figure 4—Challenges in the Production of IE Data	22

TABLES

Table 1—Summary of the topics identified in the research work	19
Table 2—IE Time Series	20
Table 3—Future Plans for Compiling or Improving IE Data	22
Table 4—Individual Reports	23

ANNEXES

ANNEX I—TASK FORCE ON THE INFORMAL ECONOMY: TERMS OF REFERENCE	32
ANNEX II—MEMBERSHIP OF THE TASK FORCE ON INFORMAL ECONOMY	34

ACRONYMS

<i>BPM6</i>	<i>Balance of Payments and International Investment Position Manual, sixth edition</i>
COMESA	Common Market for Eastern and Southern Africa
ESS	External Sector Statistics
<i>ESA 2010</i>	<i>2010 European System of Accounts</i>
EU	European Union
GDP	Gross Domestic Product
GNI	Gross National Income
HIES	Household Income and Expenditure Survey
IE	Informal Economy
IIP	International Investment Position
ILO	International Labour Organization
IMF	International Monetary Fund
IR	Individual Report
NA	National Accounts
NOE	Non-Observed Economy
OECD	Organisation for Economic Co-operation and Development
RTAC	Regional Technical Assistance Center
<i>2008 SNA</i>	<i>System of National Accounts, 2008</i>
STA	IMF's Statistics Department
TFIE	Task Force on Informal Economy
UEMOA	Union Economique et Monetaire Ouest Africaine

EXECUTIVE SUMMARY

At its 2017 meeting, the IMF Committee on Balance of Payments Statistics (Committee) endorsed the creation of a Task Force on the Informal Economy (TFIE) with the primary objective of taking stock of country practices with the aim of identifying data collection methods and compilation techniques that are feasible for addressing the coverage and consistency of informal economy (IE) transactions and positions in the international accounts.¹ This first Preliminary Report, prepared under the joint responsibility of the TFIE, covers the work program and deliverables of the first of the TFIE's two-year mandate. It reports on the findings of the global survey-based inventory exercise, and outlines proposals for the second -year work program.

INTRODUCTION

A leading cause of gaps in the coverage of the international accounts (balance of payments and international investment position (IIP)) is the omission of activities outside the scope of current data collection and compilation systems. Such activities may be conducted in the informal sector; exist underground; and/or be illegal in nature, with the boundaries between these categories usually overlapping. This poses many challenges for balance of payments and IIP compilation, including the lack of a consistent measurement framework across economies and the cost of data collection.

International and national statistical efforts to cover informal, underground, and illegal activities in macroeconomic statistics have traditionally focused on output and employment indicators. International organizations have undertaken several initiatives. *Measuring the Non-Observed Economy: A Handbook* was published by the Organisation for Economic Co-operation and Development (OECD) in 2002;² and the *System of National Accounts, 2008 (2008 SNA)* addresses some aspects of the IE in a dedicated chapter. The International Labor Organization (ILO), in collaboration with the Delhi Group, has developed a technical manual to assist in compiling statistics on the informal sector and informal employment.³ More recently, Eurostat has developed the *Handbook on Compilation of Illegal Economic Activities in National Accounts and Balance of Payments, 2018 edition*. With a view to stocktaking, the IMF conducted in 2017 a survey of 108 economies covered by its Regional Technical Assistance Centers (RTACs) to gauge how these economies measure the non-observed economy (NOE) in gross domestic product (GDP). The establishment of the TFIE by the IMF Committee on Balance of Payments Statistics builds on these initiatives, focusing greater attention on the balance of payments and IIP. To orient its output towards operational as opposed to methodological issues, the TFIE (and by extension: this report) uses the concept of “informal economy” to cover cross-border

¹ The TFIE's Terms of Reference and membership are presented in Annex I and II, respectively.

² Jointly with the IMF, ILO and the Interstate Statistical Committee of the Commonwealth of Independent States.

³ ILO, *Measuring Informality: A Statistical Manual on the Informal Sector and Informal Employment* (Geneva, 2013)

transactions and positions that arise from informal, underground, and/or illegal activities. This implies that the concept of “informal economy” as used here is broader and different in scope than those associated with statistical definitions of the informal sector.

In line with its agreed first year work program (Phase 1), the TFIE work focused on producing an inventory of economies’ experiences in collecting, compiling, and disseminating IE data. This inventory was implemented by surveying compilers of balance of payments and IIP, and national accounts (NA). The survey requested from 185 economies, information on the institutional and legal frameworks, methodology, collection, compilation, and dissemination practices of IE data. Economies’ current challenges and work plans for IE data were also enumerated. The survey was supplemented with individual reports (IRs) on selected topics by TFIE members, and with the findings of the IMF’s (2017) NA survey of RTAC economies. Fourteen IRs were prepared highlighting scope, data sources, statistical techniques, and current challenges of compiling IE data.

KEY FINDINGS

The TFIE survey was conducted during June-August 2018 and targeted 185 economies. The survey achieved a 51 percent response rate. Almost 70 percent of the economies that responded to the survey indicated that IE data, to some extent, are included in their international accounts and/or NA (rest of world) compilation program—a result similar to the IMF’s RTAC NA survey. The key survey findings are as follows.

- **Balance of payments compilation practices for IE activities center on the current account, especially on goods.** This is followed by personal transfers and workers’ remittances in the secondary income account; and travel, transport, prostitution, gambling and smuggling of migrants’ services in the services account. A few economies have started compiling some components in the capital and financial accounts; and even fewer are undertaking such work for their IIP statistics.
- **Expectedly, most of the economies identified data sources as the main constraint.** In general, economies use a combination of direct and indirect sources available to estimate the size of these activities. Some economies have developed direct (data-specific) surveys for some components of IE activities (e.g., informal trade survey); or draw on micro studies or surveys designed for other purposes (e.g., use of illegal drugs) as inputs for estimations. The challenges of capturing data on the “sharing economy” was also cited by at least one economy—suggesting the potential that “big data” could help in covering informal activities.
- **Economies use indirect estimation methods that are generally aligned to either NA compilation, or to economic modelling (for example, currency demand).** To measure IE activities for balance of payments, European Union (EU) economies mainly use approaches identified in coordination with Eurostat. For goods, several

other countries adjust their recorded import/export data drawing on the results of informal trade surveys, commodity flows analysis, and/or partner country data.

- **The availability of separately-identifiable data on IE activities remains limited.** Eight economies report disseminating IE data separately, and 25 economies indicate that the data are indistinguishably included in the published balance of payments and NA statistics. Thirteen countries reported extended time series (exceeding ten years) inclusive of IE activities, with Sweden’s as far back as 1980.
- **On the prevalence and extent to which IE transactions impact the balance of payments, the estimates concentrated on goods, and to a lesser extent on services show a limited impact.** Of the 40 economies that provided estimates, 17 indicated that less than 1 percent of exports and imports of goods represent those originating in the IE. Eleven economies noted the same percentage for imports of services and eight economies for exports of services. Only six economies indicated that IE-related transactions exceed five percent of imports of goods.
- **Data sources, enterprise registration, and methodology are the major challenges reported by compilers.** Additional challenges included coverage, overlapping, and double counting. Fifty-two economies reported detailed information about the challenges. A primary issue raised under the “other” category is the lack of resources to support such work. A limited number of economies prepare plans for improving the compilation of IE data.

The TFIE concluded this first preliminary report and made preliminary recommendations, for which it is seeking endorsement by the Committee at its 2018 meeting.

PRELIMINARY RECOMMENDATIONS

The key preliminary recommendations, reached at the mid-term of the TFIE’s mandate, are as follows:

- Select, document, and disseminate best collection, compilation, and dissemination practices used in economies currently compiling IE activities data to assist other compilers in improving the quality of the international accounts.
- Encourage coordination between international accounts and NA compilers in moving towards a more integrated approach in addressing coverage of the IE data in the balance of payments and rest of world (ROW) accounts.
- Highlight IE data issues specific to the financial account and the IIP with a view to encouraging national compilers to extend initiatives beyond the current account, where applicable.

- Due to the broad range of activities included in the IE and the limited resources available for its compilation, support a more comprehensive approach to compiling IE estimates. Delineation of the “typologies” (informal, underground, or illegal breakdowns) should assume secondary importance. Specific components of the balance of payments and IIP may be targeted based on cost-benefit analysis.

PROPOSED PHASE 2 WORK PROGRAM

As part of its work program during the Phase 2 of its mandate, the TFIE will:

- Review the IE data collection and compilation practices as reported in the survey, IRs and other supporting materials;
- Identify the best collection, compilation, and dissemination practices of IE data; and advise and support the IMF Statistics Department (STA)’s work on developing appropriate modes of publicizing these practices (follow up with survey respondents required); and
- Provide broad (non-country specific) recommendations for the improving current compilation methods.

Questions for the Committee:

- 1. Do Committee members have any preliminary views on the survey outcomes and tentative recommendations of the TFIE?*
- 2. Do Committee members agree to the proposed work program for the TFIE in its Phase 2?*

Preliminary Report of the Task Force on Informal Economy⁴

I. INTRODUCTION

1. At its 2017 meeting, the International Monetary Fund (IMF) Committee on Balance of Payment Statistics (Committee) supported the establishment of a Task Force on the Informal Economy (TFIE) **to work on developing an appropriate strategy for addressing existing gaps in the coverage of informal, underground, and illegal activities aimed at promoting more comprehensive coverage of transactions and positions in the external sector statistics (ESS)**. The TFIE work is centered on identifying best practices in collection, compilation, and dissemination of these activities' data, building on the conceptual framework and estimation methods already defined by different international organizations.⁵

2. **The TFIE was constituted with a two-year mandate (two phases):**

Phase 1 was focused on producing an inventory of economy experiences in compiling informal economy (IE) data. This inventory exercise was implemented by surveying compilers of balance of payments and international investment position (IIP), and National Accounts (NA); and by TFIE members' documentation of practices in selected areas, through Individual Reports (IRs). Phase 1 took place during January–October 2018.

Phase 2 will focus on highlighting the best collection, compilation, and dissemination practices of IE data. Also, during this phase, discussions may take place with a view to providing recommendations for improving current collection and compilation methods aimed at improving balance of payments and IIP statistics in economies facing IE data coverage challenges. Phase 2 will take place during November 2018–October 2019, and its work plan will be based on the outcomes of Phase 1.

3. This first Preliminary Report, prepared under the joint responsibility of the TFIE, covers the work program and deliverables of the first of the TFIE's two-year mandate. It reports on the findings of the global survey-based inventory exercise, and outlines proposals for the second-year work program.

⁴ The preparation of this report was undertaken by Mr. Thomas Alexander, Mr. Malik Bani Hani, and Ms. Rita Mesias (TFIE Secretariat), who coordinated the contributions of TFIE members. The work was supervised by Mr. Paul Austin (TFIE Chair) and benefitted from comments by Mr. Carlos Sánchez-Muñoz.

⁵ The main conceptual frameworks are presented in the sixth edition of the *Balance of Payments and International Investment Positions Manual (BPM6)*, the *System of National Accounts, 2008 (2008 SNA)*, and *Measuring the Non-Observed Economy-Handbook* (Organisation for Economic Co-operation and Development (OECD), 2002).

II. CAPTURING THE INFORMAL ECONOMY IN THE INTERNATIONAL ACCOUNTS

A. The Case

4. **Estimating the value of IE cross border activities is of interest to policymakers for several reasons.** Gaps in data coverage distort the current and financial account balances, impairing the reliability of balance of payments statistics and their policy use to detect and address external risks and vulnerabilities, including in particular cross-border spillovers and development issues such as food sustainability. Identifying and measuring the value of goods that escape customs detection facilitates impact analysis of fiscal and trade policies and regulations. Gauging the level of unrecorded income, remittances and investments is also important for understanding household consumption and saving trends, and for informing better assessments of tax and financial regulatory policies. However, international and national statistical efforts to cover informal, underground, and illegal activities in macroeconomic statistics have traditionally focused on output and employment indicators, within the broad framework of the non-observed economy (NOE); and few countries integrate NOE estimates into the international accounts.

5. As noted in [BOPCOM Paper 17/08](#), a leading cause of gaps in cross-border transactions and positions statistics is the omission of activities that are outside the scope of the regular statistical inquiries and data collection systems (i.e., surveys of enterprise accounts, international transactions reporting systems, and merchandise trade statistics). These statistical inquiries are predicated on the existence of a structured system where businesses adhere to government regulations regarding the payment of taxes, the registration and operation of a business entity, and the provision of certain benefits to their workers (ILO 2013).

6. The scope of the TFIE focuses on the three broad activities that *Measuring the Non-Observed Economy: A Handbook*⁶ identifies as NOE activities—informal activities, illegal activities, and underground activities. Thus, some activities may be non-observed because they are undertaken by households—and not business units—that are not required to adhere to the regulations applied to businesses. Also, some activities may be non-observed because they are hidden from the authorities—to avoid the payment of taxes, to circumvent government regulations, or because they are illegal—and are therefore difficult to capture. There may be considerable overlap among the various NOE activities and clear delineation is not always possible.

B. Recent and Ongoing Work

7. Developing estimates of NOE activities—and informal activities, in particular—is particularly challenging and the estimates vary widely, depending on the measurement

⁶ OECD, 2002, *Measuring the Non-Observed Economy: A Handbook*, by a team of the IMF, ILO, OECD, and CIS STAT.

techniques used. Macroeconomic statisticians generally avoid deriving specific estimates of the IE, preferring instead to derive comprehensive (exhaustive) estimates of the economic entity under consideration—typically using a supply and use framework.

8. Over the past decade, international organizations have undertaken several initiatives to improve the measurement and coverage of NOE activities, predominantly in the areas of NA and employment statistics. The Expert Group on Informal Sector Statistics (commonly known as the Delhi Group), which was established by the United Nations Statistical Commission in 1997, has brought together economy representatives to exchange views on the measurement of the informal sector; document data-collection practices, including definitions and survey methodologies followed by member economies; and recommend measures for improving the quality and comparability of the statistics.

9. The International Labour Organization (ILO), in collaboration with the Delhi Group, has developed a technical manual to assist in compiling statistics on the informal sector and informal employment.⁷ The purpose of the manual is to assist economies planning to produce statistics on the informal sector and informal employment to undertake a review and analysis of their options. It provides practical guidance on the technical issues relating to data collection on informal activities, as well as compiling and disseminating the results.

10. In addition, Eurostat has developed the *Handbook on Compilation of Illegal Economic Activities in National Accounts and Balance of Payments, 2018 Edition*. The Handbook provides a consistent definition of illegal activities and guidance for compiling the statistics in EU member economies. In the light of the 2030 Agenda for Sustainable Development, especially related to target 16.4 of the Sustainable Development Goals (SDGs) that calls for countries to “significantly reduce illicit financial flows and arms flow, strengthen the recovery and return of stolen assets and combat all forms of organized crime”, UNCTAD and UNODC—in collaboration with ECA and ECLAC—have launched coordinated actions to develop, review, and test the possible concepts and methods to measure illicit financial flows.

11. In 2017, the IMF conducted a survey of 108 economies covered by its Regional Technical Assistance Centers (RTAC), to get an overview of how these economies measure the NOE in gross domestic product (GDP). The survey provided basic information on the measurement, size, prevalence, and gender differences in employment in informal activities in these economies. The survey identified some key challenges including the overlap between informal and formal activities, the lack of general guidelines on measurement, and the cost of collecting source data on NOE activities. One key finding of the survey is that, of the economies that compile estimates of NOE activities for GDP, only a few reconcile or integrate the estimates with the balance of payments data.

⁷ ILO, *Measuring Informality: A Statistical Manual on the Informal Sector and Informal Employment* (Geneva, 2013)

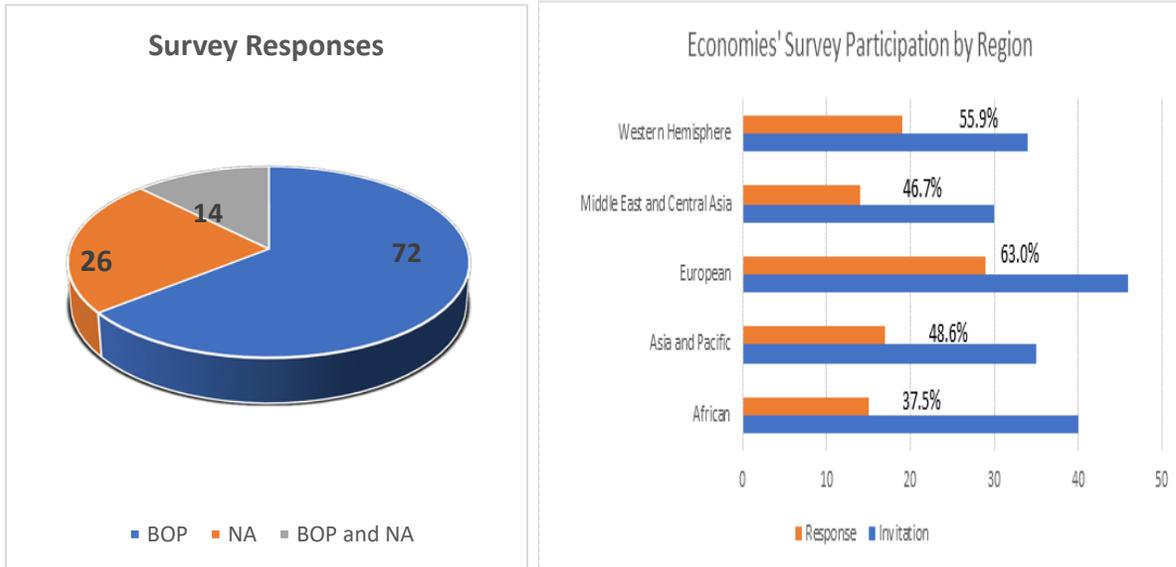
III. ECONOMY PRACTICES: SURVEY RESULTS AND INDIVIDUAL ECONOMY REPORTS

12. This section summarizes the results of the **Survey on Cross-Border Transactions and Positions Data related to Informal, Underground, and Illegal Activities**, and the contributions of TFIE members through their IRs on different issues in compiling IE data.

A. Findings on the Survey on Cross-Border Transactions and Positions Data Related to Informal, Underground, and Illegal Activities

13. **The survey was designed benefitting from inputs provided by the TFIE members and conducted during June–August 2018.** The survey inquired information on the institutional and legal frameworks, methodology, and data collection, compilation, and dissemination practices specific to informal, underground, and illegal activities. Moreover, information about current challenges and future work plans was also surveyed. The target groups of the survey were balance of payments/IIP and NA data compilers. The invitation was sent to 185 economies, covering almost all IMF members. Ninety-four economies submitted 112 responses (a 51 percent response rate).

14. Of 112 responses, 70 responses (64 economies) indicated that data on informal, underground, and illegal activities are compiled, while 42 responses (38 economies) indicated that these data are not compiled. Sixty-four percent of the responses covered only the balance of payments, and 13 percent reported joint responses (balance of payments and NA). Geographically, the survey response rate was highest in Europe (63 percent) and lowest in Africa (38 percent). See Figure 1.

Figure 1. Informal Economy Survey Responses

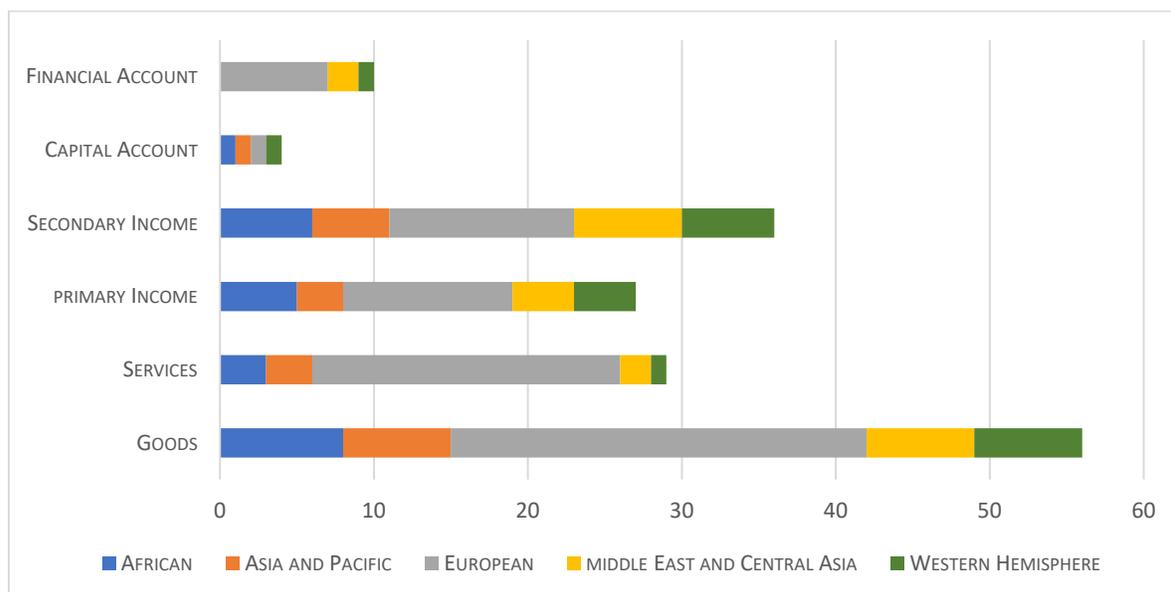
Source: IMF IE Survey, 2018

Compilation Practices for Covering Informal Economy Transactions

15. **Compilation practices are concentrated on the current account of the balance of payments, especially on goods.** A few economies have started compiling some components in the financial account, but progress still requires extensive efforts and guidelines. Fewer countries are pursuing work related to the IIP—for example, Russia’s compilation of data on residents’ acquisition of real estate abroad. Figure 2 summarizes the main components compiled in the balance of payments by region. Shuttle trade, smuggling of goods (including fuel, alcohol, tobacco, medicine, and clothes products), illegal drugs, trafficking of arms, digital trade, online purchases, and goods below the reporting threshold are the main components compiled within the goods account.

16. **In European Union (EU) countries, progress is driven by a specific regulation by Eurostat requiring all members data production of illegal economic activities covering as a minimum smuggling of tobacco and alcohol, illicit drugs, and prostitution.**

Advances in the compilation of trade data are also gaining pace in other regions such as in Southern and Eastern Africa, through data initiatives on small scale cross border trade by Common Market for Eastern and Southern Africa (COMESA) and in the East African Community (EAC) which has regulations that aim to achieve harmonization in macroeconomic statistics.

Figure 2. Balance of Payments Compilation Practices by Region

Source: IMF IE Survey, 2018

17. In *services*, travel, transport, prostitution, gambling, smuggling of migrants, and services below reporting thresholds are the main components compiled while, in *primary income*, compensation of employees for informal and illegal labor, and prostitutes, income below the reporting threshold, and profits from underground activities are the main components. Personal transfers/workers' remittances of informal, illegal workers and prostitutes, flight tickets received as a gift from abroad and rental for property are the main components compiled within the *secondary income*. For the *capital account*, acquisition of nonfinancial assets/land and transactions below the reporting threshold are included. Within the *financial account*, loans and deposits for households, acquisition of real estate by households, estimation of non-repatriated export earnings, payments for non-supplied imports, payments against fictitious transactions with equity securities, portfolio and other investment, other investment related to money laundering activities, cash transactions in national and foreign currencies are compiled.

Methods and Sources⁸

18. **Most economies identified data sources as the main constraint.** Complete data coverage of informal, underground, and/or illegal activities is difficult to achieve because the nature of such activities involves concealment. National compilers use a range of direct and indirect methods (sources) to measure cross-border transactions related to informal,

⁸ Methods for measuring the underground economy can be classified in several ways, including (i) micro versus macroeconomic; (ii) yielding information on composite detail versus yielding only a single aggregate; (iii) yielding information for one or a few points versus yielding in time series; and (iv) direct versus indirect. See Carol S. Carson (1984) "The Underground Economy: An Introduction" in Survey of Current Business.

underground, and illegal activities. Surveys, administrative data, partner economy data, international studies and reports and expert’s views and opinions are the among the key direct sources cited by respondents. The indirect methods used are aligned to national accounting methods, or to monetary—or other economic or demographic—variables. The key findings of the survey on both the direct and indirect methods are discussed below.

Surveys

19. **Surveys typically used by economies to provide general data are also used to estimate IE activities.** Those cited in the survey responses include: household income and expenditure survey (HIES), trade surveys, money transfer surveys, establishment/enterprise census and surveys, household labor surveys, social and economic surveys, travel surveys, and population census and surveys.

20. **However, some economies have made extensive efforts to compile data on IE-specific activities by using specific surveys for some components.** Some examples are: tobacco, alcohol and drugs survey (Canada), international tobacco surveys (Serbia), drug trafficking survey (Italy and Germany), opinion survey of households about consumption and trade of illegal alcohol and tobacco products and envelope salaries (Estonia), informal cross border trade survey (Benin, Nepal, Rwanda, and Uganda) household survey on drug abuse (Spain), smuggling of goods survey (Albania), crime survey (United Kingdom), and border surveys of workers remittances (Albania, Armenia, Nepal, Russia, and Rwanda).

Administrative data

21. **Due to the broad range of IE activities, the main administrative data sources used by economies for the preparation of IE are diverse.** These include data produced by tax authorities, health departments, customs, government bodies, migration offices, law enforcing bodies, business registers, and anti- money laundering units. Data from international organizations reports (United Nations and Bank of International Settlements), field and corporate studies and research, expert opinions, and input-output tables are also used by economies to derive estimates of such activities.

Statistical Techniques (Indirect Methods)

22. **The survey results also point to the prominence of national accounting and macroeconomic models.** Estimates derived from these indirect methods draw on several NA techniques, including the supply- and demand side-based approaches, income-based approaches and commodity flow techniques (see Box 1). Such methods are also supported by balancing techniques, domestic and global indicators, and other indicators or “yielding” methods that rely on studies and/or interviews. These approaches yield composite information; and compilers generally apply several methods or combinations of methods depending on the characteristics of their economy. Where used in the balance of payments, NA-derived estimates foster closer symmetries between the two data sets.

Box 1. Main Indirect Statistical Compilation/Estimation Approaches

The following compilation procedures are among those commonly used as a basis for deriving indicators of IE.

Supply-based approach: this relies on data on the supply of inputs (number of primary raw materials, one major raw material, labor, land, fixed capital stock, etc.) that are used to produce goods and services. Input/output and input/value added ratios are needed to calculate output and value-added estimates from the input data.

Demand-based approach: this assesses production using indicator data on specific uses of goods and services that sufficiently describe their production: household final consumption expenditures on a certain commodity (e.g., health and personal services); uses of raw materials (e.g., processing of agricultural products, major export commodities, administrative data indicating demand for a product (e.g., motor vehicle registrations, building permits)).

Income-based approach: this is based on available data from administrative sources on some categories of income, which can be used to obtain an indication of production covered by the administrative system (e.g., income taxes, social security contributions paid by self-employed persons or private entrepreneurs).

Commodity flow approach: this involves balancing total supplies and uses of individual products using accounting equations. One specific application is calculating the output of the retail trade from supply of commodities.

Source: OECD, Measuring the Non-Observed Economy: A Handbook, 2002

23. **The selection of the statistical techniques by national compilers depend on several factors.** These factors include (i) the availability of reliable sources, (ii) measurement problems, (iii) suitable compilation practices that among others, reduce the risk of double counting of production when adding explicit estimates of such activities, and (iv) best estimation methods and accuracy of the estimates.
24. **These statistical techniques—when applied to the GDP—do not generally result in similar adjustments to the balance of payments.** In most cases, the GDP-compiling (national statistics office) and balance of payments-compiling (central bank) agencies lack formal statistical interagency coordination mechanisms to address IE data coverage issues. However, some survey respondents noted that harmonized approaches have been adopted for adjusting goods in both datasets.

Institutional and Legal Frameworks

25. **Few economies reported information on the legal frameworks for compiling IE data.** Almost 60 percent of the survey respondents reported having no legal frameworks to support IE data collection (32 percent provide no answer). National existing statistical laws for compiling balance of payments and/or NA statistics were cited in a few cases.

Availability of Studies on Measurement Methods and Results

26. **Reports, studies, or articles concerning the measurement of cross-border informal, underground, and illegal activities are produced mainly by public agencies including the central banks.** Other research has been produced by international organizations. Public agencies include those with interests in criminal activities such as money laundering (e.g., Finland), and contraband and currency smuggling (e.g., Iran). Twenty-four economies shared information about research work in IE. A summary of the topics identified in the research work presented in Table 1.

27. European economies include data and methodology to produce illegal drugs, smuggling of tobacco and alcohol, and prostitution in their respective Gross National Income (GNI) Inventory Reports.⁹ GNI inventory reports are publicly available for 12 economies.¹⁰

⁹ The inventory refers to annual NA data. The structure of the inventory is based on Eurostat's guidelines as published in 2014, Eurostat/C3/GNIC/271. See at <https://circabc.europa.eu/sd/a/e75703a3-4b7b-41f2-a061-ef4d2bb274ec/280%20Rev2%20-%20en%20-%20ESA%202010%20GNI%20Inventory%20Guide.doc>

¹⁰ For the other 19 EU/EFTA economies only first chapters (general overviews) are published.

Table 1. Summary of the Topics Identified in the Research Work

Topics	Economies
Prostitution	Belgium, Luxembourg, Sweden
International Tax	Canada
Illicit drugs	Colombia, Hungary, Luxembourg, Netherlands, Sweden, USA
Cross-border transactions/business (including informal)	Denmark, Nigeria, Uganda, UEOMA countries (Burkina Faso)
Organized crime activities	Several EU countries
Money laundering	Finland
Usage of Cash/Currency Smuggling	Finland, Iran
Illicit cigarette/tobacco market	Ireland, Moldova, and several EU countries
Illegal financial flows	Italy
Undeclared assets abroad	Italy
Informal economy/Illegal Economy	Moldova, Paraguay, Romania, Slovakia, Thailand, GNI Reports*
Migration	Moldova
Remittances	Moldova
Underground Economy	Paraguay, USA
Smuggling of goods	Peru
Gambling	Sweden
Informal Employment	Thailand
* Publicly available for Austria, Belgium, Estonia, Finland, France, Germany, Malta, Netherlands, Norway, Romania, Sweden, and Switzerland.	

Source: IMF IE Survey, 2018

Data Dissemination Practices

28. **Eight economies¹¹ reported dissemination of separate IE data, while 25 disseminate IE data embedded in their balance of payments and/or NA statistics.** The internet is the preferred location for dissemination for those economies who publish their data. As noted earlier, data on illegal drugs, smuggling of tobacco and alcohol, and prostitution are reported in the GNI Inventory Report for EU economies.

29. **Times series that incorporate IE transactions/positions vary across economies.** Thirteen countries reported extended time series (exceeding 10 years) inclusive of IE activities. The longest time series are reported by Sweden, with underground and illegal activities captured in their balance of payments and goods and services (GDP by expenditure) data dating back to 1980.

¹¹ Ghana, Iran, Israel, Malawi, Mongolia, Netherlands, Slovakia, and the United Kingdom.

Table 2. IE Time Series

Time Series	Informal	Underground	Illegal	Unable to Separate
Balance of payments	1982 (USA)	1980 (Sweden)	1980 (Sweden)	1993 (Thailand, Russia, and Estonia)
IIP	2004 (Benin)			1996 (Estonia)
NA (G&S)	1990 (Suriname)	1980 (Sweden)	1980 (Sweden)	1990 (Finland)
NA/ROW	2002 (Uganda)	2007 (Peru and Romania)	1995 (Belgium and Slovakia)	1990 (Finland)

Source: IMF IE Survey, 2018

30. **In most of the responses, economies indicate that metadata and revision policy follow the guidelines for the compilation of balance of payments and NA statistics.**

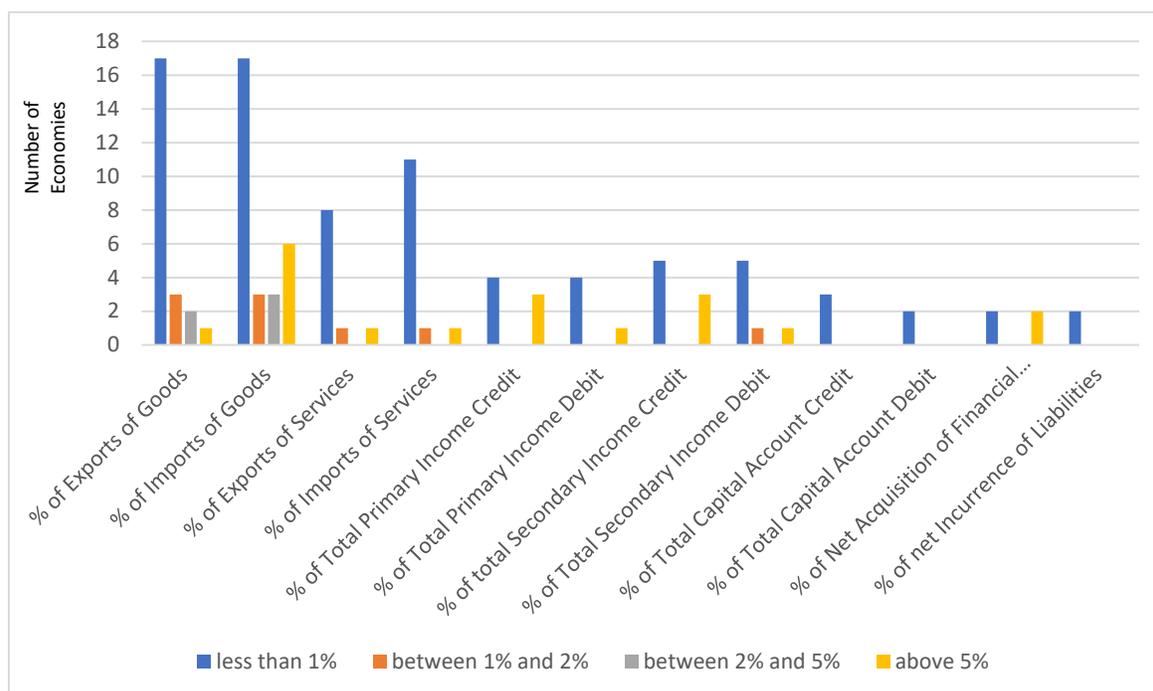
Germany, Italy, and Romania presented additional information regarding metadata of IE. Canada, Colombia and Germany cited revision policies specific to illegal data.

Relevance and Consistency

31. **There is a concentration on the current account—especially on goods—among the 40 economies that provided information on the estimated size of IE transactions.**

Seventeen economies indicated that less than one percent of total exports and imports are accounted for by IE estimates; 11 economies noted the same percentage for imports of services, and eight economies for exports of services. Six economies indicated that over five percent of imports of goods are accounted for by IE estimates.

Figure 3. Estimated Size of IE by BOP Main Components as Percent of Relevant Component in the Balance of Payments

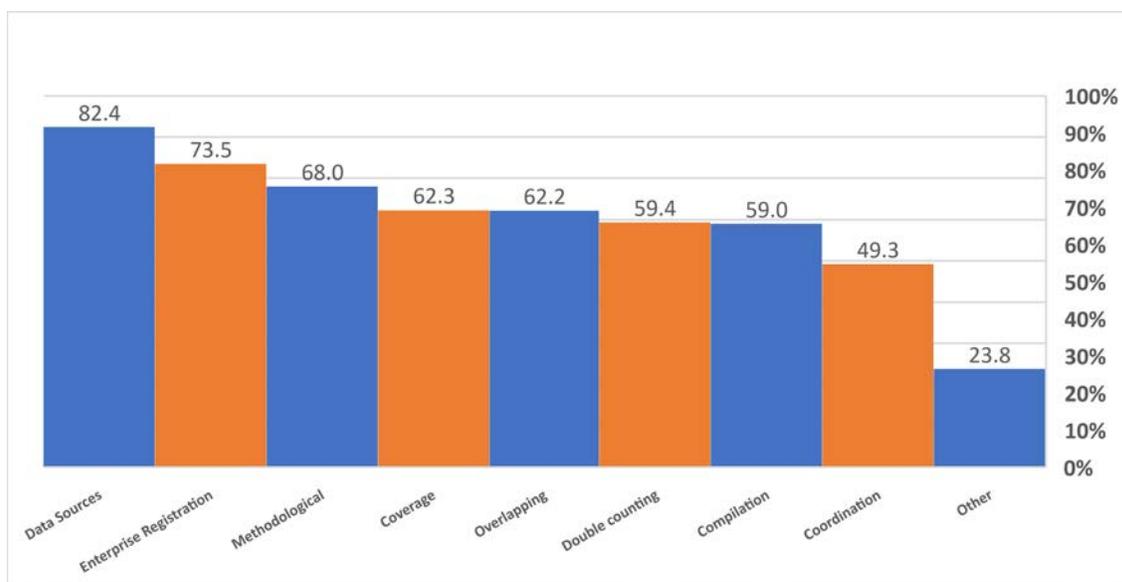


Source: IMF IE Survey, 2018

32. Thirty-seven economies report aiming for consistency in IE data coverage between their balance of payments and NA statistics. Four economies (Burkina Faso, Colombia, Moldova, and Peru) provided explanations for data inconsistency such as different source data and methodologies used to produce IE data, lack of institutional coordination, and different coverage (balance of payments data do not include some illegal transactions included in NA). At a national level, the comprehensiveness of IE estimates in the balance of payments may be gauged by corresponding GDP-based estimates, taking account of the level of “openness” of the IE (i.e., its relationship with the rest of the world).

Challenges and Future Plans

33. Data sources, enterprise registration, and methodology are the major challenges reported by compilers. Additional challenges included coverage, overlapping, and double counting, as shown in Figure 4. Under the “other” category, key challenges focused on resource availability. These challenges are discussed in greater detail in the next section of this report.

Figure 4. Challenges in the Production of IE Data

Source: IMF IE Survey, 2018

34. **A limited number of economies has prepared plans for improving the compilation of IE.** Table 3 presents this information.

Table 3. Future Plans for Compiling or Improving IE Data

	Coordination		Cross-economy Collaboration		Data sources and compilation		Improve legal frame		Other	
	ST	LT	ST	LT	ST	LT	ST	LT	ST	LT
Economies	16	26	5	9	11	18	4	5	3	5

ST = Short term; LT = Long term

Source: IMF IE Survey, 2018

B. Individual Reports

35. Table 4 summarizes the IRs prepared by TFIE members based on their experiences in compiling IE data.

Table 4. Individual Reports

Colombia: Illegal drugs in the International Accounts – The Case of Colombia
<p><i>Statistical Techniques:</i> The “enclave approach” is used for preparation and recording of data of the production and industrialization of illegal drugs (base of cocaine and cocaine hydrochloride, respectively). The enclave is a separate dataset that records transactions with the legal sector (national economy) and the ROW. Value added techniques and data sources used for the compilation of these data are provided.</p> <p><i>Challenge:</i> to improve the wholesaler prices of the illicit drugs sold in the international markets.</p>
European Central Bank (ECB): Prostitution Services in Europe
<p><i>Compilation Practices:</i> These services should be classified as personal, cultural, and recreational services except in those cases when clients purchase such services abroad while on holidays or business trips.</p> <p><i>Statistical Techniques:</i> Most of EU economies estimate prostitution services following the supply approach.</p> <p><i>Data Sources:</i> Several variables are derived from ad hoc research. There are generic references to use data from police reports, welfare and health organizations, and NGOs. Information on prices has been obtained from website and ad hoc studies.</p> <p><i>Challenges:</i> Difficulties in estimating the shares of non-resident prostitutes in the compiling economy and non-resident clients contributing to total sales. Additionally, the exports of prostitution services purchased by clients while traveling in the reporting economy may already be at least partially covered in the travel account (double counting issues). Other challenges include: prostitution is linked to human rights’ violation and crimes; surveys on these services are expensive and can imply some degree of personal risk to those running the inquiries; male prostitution is irrelevant or, otherwise, not addressed; and this activity is treated differently across jurisdictions, from prohibition to partial or total decriminalization.</p>
Egypt: Informal Sector in Egypt and Its Effects on the External Sector
<p><i>Definition of IE:</i> The Central Agency for Public Mobilization and Statistics (CAPMAS) in Egypt defines it as a legal organization of an enterprise or household ownership with absence of complete set of accounts and registration. Also, it is the unorganized private economy such as retail trading activities that include 4 workers or less, manufacturing repair activities that include 9 workers or less, mainly small and micro enterprises. Moreover, they consider all agriculture activities to be informal except for the ones owned by firms and government authorities.</p> <p><i>Statistical Techniques:</i> CAPMAS uses different methods to estimate the size of the IE such as: labor force survey, the commodity flow approach, economic census, other economic surveys and economic models (static input-output models). About models, the monetary approach is used with some customized adjustments to produce IE estimates.</p>

<p>Coverage: The presence of informal cross-border economic activities creates underestimation of exports and imports in goods and services in Egypt. Cross-border illegal activities for goods: cigarettes and narcotics (as a transit point from Africa to Europe); for services: tourism (all those individuals and business that engage with tourists and the tourism industry but are not members of any form of association or trade organization); remittances (informal): All types of money transfer services that do not involve formal contracts (they include cash transfers using informal channels). Finally, this IR includes brief discussions about informal cross-border capital (financial) flows such as transfer pricing and e-commerce transactions.</p>
<p>Eurostat: Smuggling of Migrants</p>
<p>Definition: This IR presents the EU definition for assisting illegal immigration and the differences between human trafficking and smuggling of migrants. Two main types of smuggling of migrants are included: Under the pay-as-you-go agreement (dominant mode) and full package agreement.</p> <p>Statistical Techniques: From EU perspective, models on smuggling of migrants could be reduced to estimating effects of border-crossing services (provided mainly by non-EU residents) and transiting-through (provided by mainly by EU residents). These transiting-through services should be recorded as transportation and travel services.</p> <p>Data Sources: For smugglers' fees and number of smuggled, data sources are provided.</p> <p>Challenges: Smuggling of migrants is related to other illegal activities and "transactions" of this activity are not always on a voluntary basis. The overlapping of different concepts and categories in this activity presents potential source for double counting. Transit time and concept of residency is unclear in the case of irregular migrants".</p>
<p>Eurostat: Trafficking of Arms</p>
<p>Coverage: Illegal fire arms, their parts and components, and ammunitions are those not authorize by one of the state (economies) involved in the transaction and fire arms trafficker could be defined as a person who deals or trades in illegal fire arms. This trafficker is a self-employed in the "other retail sale not in stores, stalls, or markets.</p> <p>Data Sources: Presents potential data sources (with limitations)</p> <p>Statistical Techniques: Supply-side models would be better fitted to estimate illegal firearms trade.</p> <p>Challenges: Similar issues as other smuggled products (misclassification and double recording).</p>

<p>Italy: Smuggling of Goods in the International Accounts</p>
<p><i>Scope:</i> Drugs trafficking and smuggling and counterfeit of cigarettes have impact in ESS. 11.3% of illegal imports in 2015 (0.05% on the total of imports) is smuggling and counterfeit of cigarettes. No export estimation is included. NA and balance of payments adopt the same standards concerning the inclusion of illegal activities. Smuggling activity goes often along with the counterfeit of cigarettes (which is the production of not authentic tobacco products using a trademark without the authorization of the owner). Three types of cigarettes considered illegal in Italy: Original brands, cheap white (produced outside of EU), and counterfeit cigarettes.</p> <p><i>Data Sources:</i> data on seizures provided by the Italian Finance Police.</p> <p><i>Statistical Techniques:</i> supply-side approach. The basic model is presented in the IRs.</p> <p><i>Challenges:</i> Other goods such optical, clothing, footwear, and leather articles seem to have relevance in the counterfeiting and pirate imports in Italy. There may be issues about double counting.</p>
<p>Italy: Estimation of Households Holding of Securities: The Case of Italy</p>
<p><i>Scope:</i> The estimate of undeclared assets held abroad is not included in the official statistics (balance of payments/IIP). When there are voluntary disclosure (VD) schemes, these data are included in the official statistics (these were in 2001/2003, 2008/2009, and 2015). The VDs confirm that there are significant amounts of undeclared external assets held in tax havens. Since corporations are subject to many regulatory checks, it is likely that most of the unreported assets belong to households.</p> <p><i>Statistical Techniques:</i> IMF CPIS data is used and the discrepancy between assets and liabilities is the proxy for undeclared external assets in securities. Information of bank deposits is taken from the BIS locational statistics. Based on the un-reported information, estimation about personal income tax evasion is taking place. The analysis of these ESS reveals that the amounts of undeclared assets held offshore are significant.</p> <p><i>Challenges:</i> opportunity of improving data sources with the availability of new ones.</p>
<p>Jordan: Fictitious Transactions with Money Transfers to Resident's Accounts Abroad</p>
<p><i>Scope:</i> Expatriate workers remit money by different channels. Money transferred by informal channels is not recorded officially. Illegal foreign workers use illegal channels to transfer the money abroad.</p> <p><i>Statistical Techniques:</i> The CBJ estimates that 30 percent of the total number of work permits is the number of informal workers and these workers transfer abroad about half of the amount transferred by legal workers.</p> <p><i>Data Sources:</i> The CBJ got this information by a survey to foreign workers. Challenges: increasing number of illegal foreign workers due to the influx of Syrian refugees.</p>

<p>Nigeria : Informal Trade with Neighbor: The Case of Nigeria</p>
<p>Coverage: Low value but frequent imports and exports of merchandise across various borders/adjoining routes in Nigeria. These transactions are not covered in customs data.</p> <p>Statistical Techniques: A study was developed to: (1) identify the categories of commodities being trade informally a cross-border selected posts; (2) determine the direction of this trade; and (3) generate unrecorded cross-border estimates for balance of payments. This study follows these procedures: (1) selection of cross-border posts; (2) selection and training of enumerators; (3) selection of monitoring periods; (4) deployment of survey instruments; (5) border monitoring; (6) data entry, cleaning; and analysis. Study conducted in 2013/2014.</p> <p>Challenges: Update of this study is planning for 2019. The financial requirements for the new study is enormous and is limited by the security concerns and access to certain borders because the political insurgence in certain parts of Nigeria.</p>
<p>Peru: Informal, Underground, and Illegal Activities in the International Accounts: The Case of Peru</p>
<p>Scope: balance of payments includes only informal, small scale gold mining, remittances of Peruvians working abroad and from Venezuelans working Peru through informal channels. Illegal activities goods (drugs and smuggling) are not included. The IIP does not include financial balances for informal activities.</p> <p>Data Sources: Informal and small-scale gold mining exports through Bolivia are collected by bilateral economy information. Worker’s remittances to Peru through informal channels are collected by the annual survey to money transfer institutions. Worker’s remittances to Venezuela are collected by the quarterly information to migration office, survey to money transfer enterprises, and survey to Venezuelans in Peru. Smuggling and shuttle trade are not included in balance of payments. Only occasionally estimations are prepared by tax administration office. Drug trafficking is estimated by the INEI</p> <p>Challenges: no timely and reliable data, lack of coordination between data producers and users.</p>
<p>Russia: Experience of Russian Federation in Evaluating Transactions of Individuals Related the Acquisition of Real Estate Abroad</p>
<p>Scope: Acquisition of real estate abroad by Russian individuals and households.</p> <p>Data sources: These include:</p> <ul style="list-style-type: none"> • Banks’s reports on individuals` transactions related to the purchase and selling of real estate. • Quarterly data on banking transactions and transactions via money transfer systems broken down by counterpart economies, sectors and by currency of payment. • Household surveys: Semi-annual survey conducted by the Bank of Russia with the participation of large banks and members of money transfers systems on individuals carrying out international money transfers. Details on purpose, counterpart, currency, etc. are collected. • Model using balance of payment data and administrative data from Russian Statistical Office as well as expert assessment. <p>Statistical techniques: Indicators derived from banks` reports and household surveys are processed by the Bank of Russia and used in the balance of payments compilation under “Direct investments from Russia/Equity” item. For IIP compilation, since issues about exchange rate and other changes are to be considered, the Bank of Russia has developed a model based on expert evaluation. One issue to consider is</p>

<p>when the buyer of the real estate change residence since the house abroad will be his/her permanent residence.</p> <p>Challenges: Challenges arising from the information collected: mixed payments (e.g., fees of agents and lawyers), real estate deals cancelled, and unclear final purpose of accounts in foreign banks). To improve the IIP compilation process connected to the real estate abroad, the Bank of Russia is currently elaborating a methodological approach for the revaluation process by taking into account the market value changes and dynamics of the real estate prices in different economies. Currently, the revaluation is not made due to lack of reliable data. Besides, a meeting with counterparts to check mirror data identified significant discrepancies. Further efforts to identify the reasons of the discrepancies are being carried out.</p>
<p>Russia: Estimating Volume of Exports and Imports of Goods non-registered in the customs statistics of the Russian Federation</p>
<p>Scope: Both informal exports and imports of goods by individuals and households and hidden (“shadow”) imports of goods by enterprises are considered. These transactions are not covered in customs data.</p> <p>Data sources: Data from regular surveys collected by Russia’s Federal State Statistics Service, bank’s reports (on resident individuals’ cross-border remittances and transactions conducted using payment cards) as well as administrative information of the Russia’s Federal Customs Service are used for the compilation of separate components.</p> <p>Challenges: Methodological differences between customs and balance of payments/IIP; no data for some types of foreign trade in goods, high thresholds, regular concealment and understatement of data on value or amount to avoid taxes or custom duties. To cope with these challenges, a system of estimates of foreign trade in goods volumes non-registered by customs statistics has been developed.</p>
<p>Thailand: Misrecording of Legal and Illegal Transactions in Travel: The Case of Thailand</p>
<p>Scope: Travel debits and credits in balance of payments.</p> <p>Data Sources: The foreign tourist spending survey from the Ministry of Tourism and Sports. This survey does not break down into formal/informal and legal/illegal activities. The ITRS data is other source, although it does not include non-bank transactions.</p> <p>Statistical Techniques: presentation of the statistical techniques in how travel data for balance of payments is compiled.</p> <p>Challenges: The major constraint of the tourism industry is its being IE while some minor attribution is because of the unlicensed services providers. As small business, they heavily rely on cash transactions, they are non-registered business, and they generate underreporting issues.</p>

COMESA: Cross-Border Trade (CBT) Initiative
<p>Coverage: Small scale cross-border trade (SSCBT) on goods and services involve bypassing border posts, concealment, under-declaration, wrong classification, under-invoicing, and other concealment methods. The purpose of this initiative is to develop the collection of SSCBT goods and services trade for the COMESA economies.¹² Currently, there are two projects: (1) the Great lakes project (Uganda, Rwanda, and Democratic Republic of Congo), and (2) COMESA Cross Border Trade (CBT) Initiative (COMESA member states and Tripartite Region).¹³ On the Great Lakes Project, Rwanda and Uganda have already established SSCBT collection systems. The project seeks to assist Democratic Republic of Congo's commence systematic collection of SSCBT statistics. The CBT Initiative will seek to harmonize the collection in the program countries with a key emphasis on engendering the SSCBT collection.</p> <p>Statistical Techniques: These initiatives follow recommendations related to formal trade and new surveys. The new surveys are to collect minimum data requirements (specific set of variables). COMESA has provided technical assistance in integrating the SSCBT databases of some member states into the EUROTRACE system (used for formal trade).</p> <p>Challenges: Lack of harmonization on the minimum data variables among COMESA state members.</p>
Uganda: The Informal Cross Border Trade Survey for Uganda
<p>Scope: Informal cross-border trade in the merchandise trade between Uganda and neighbor countries.</p> <p>Data Sources: The Informal Cross-border Trade Survey (ICTB) that covers 20 border posts using direct observation with occasional interaction with traders.</p> <p>Challenges: Funding for the survey; bridging survey data into international commodity nomenclature; quantifying some items; concealment of items; and recording and pricing of assorted goods.</p>

IV. CHALLENGES IN COLLECTING IE DATA

36. **Fifty-two economies reported detailed comments on the challenges in compiling IE data.** This section summarizes these comments, grouped by the following issues: (i) data sources, (ii) enterprise registration, (iii) double counting, (iv) coverage, (v) methodology, (vi) compilation, (vii) overlapping, (viii) coordination, and (ix) others.

A. Data Sources

37. Compilers noted difficulties in finding appropriate data sources or any data sources at all to produce IE data. Even if some data sources are available, they are not detailed enough to produce the split among informal, underground, and illegal activities. Difficulties in

¹² COMESA member states are Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Somalia, Sudan, Swaziland, Tunisia, Uganda, Zambia, and Zimbabwe.

¹³ The Tripartite region is a conglomeration of COMESA, Southern African Development Community (SADC), and EAC economies.

compiling the resident-nonresident split for IE data were also highlighted. Regarding coverage, some compilers cited difficulties in obtaining data sources for some specific illegal activities such as illegal money transfers or illegal cash flows. The diversity of IE activities also explains the difficulties found in the data sources. Some compilers mentioned the lack of timeliness and relevance of the data sources may affect adequate reporting.

38. Many compilers mentioned surveys as the source of IE data. Although some economies use surveys (such as the HIES) for compiling these data, they are not conducted with the required frequency to improve the quality of the IE produced. Some economies reported that much-needed surveys were discontinued. The inadequacy of the statistical survey as a tool to compile IE data was also cited, not least because of issues such as sampling frame, respondent non-cooperation, and enterprise registration. Further, standard statistical surveys do not reflect changes in the NOE phenomenon (for example new illicit drugs, new counterfeit goods). Finally, respondents are unlikely to report illegal or informal activities if the activity is criminal or the intent is to avoid regulations, penalties and/or taxes.

B. Enterprise Registration

39. Several compilers indicated that the non-existence or incomplete register of enterprises involved in IE activities constrain the production of IE data.

C. Double Counting

40. IE activities could unknowingly be captured in source data, for example, when transmitted through a legitimate enterprise, while being estimated separately to gain full coverage in the balance of payments/IIP/NA. Also, it is difficult (or costly) to exclude double counting transactions since they are not easily identifiable; and may require data analysis at a micro level.

D. Coverage

41. Coverage of IE transactions and positions are very poor or limited. Some economies have an interest in collecting only underground and illegal activities data.

E. Methodology

42. Many compilers indicated that definitions of what is an illegal activity might vary among economies. This could be the case for informal and underground as well. The lack of methodological sources or frameworks for compiling IE also affect the compilation of these activities. Compilers of the international accounts noted that available methodologies are

concentrated on the current account and less on the financial account. Some economies use the “notions of the non-observed economy”¹⁴ for classifying IE activities.

F. Compilation

43. The lack of compilation practices guidelines for IE data or the inconsistency of these practices were cited as important challenges. Compilers also underscored the absence of statistical techniques and estimation methods for IE compilation in international statistical guidance. Some compilers indicated that separately measuring the subcomponents of the IE should be secondary to obtaining overall accurate estimates for IE, or that estimating the size of the IE is less relevant than the other data compilation challenges.

G. Overlapping

44. Data compilers noted that informal, underground, and illegal activities may overlap; and are difficult to calculate and delineate. The use of several data sources to estimate, for example, prostitution, might cause double counting. Comingling of illegal and legal activities was also cited.

H. Coordination

45. Lack of coordination among and within agencies in charge of producing data or data sources for IE was mentioned by several compilers as an important challenge for the compilation of IE data.

I. Other

46. Among other challenges, compilers presented the lack of institutional willingness to support and/or devote more resources to IE data compilation. This, for some economies, is shown by the absence of legal mandates or regulations to produce or continue producing data sources or data for IE, or to encourage the response to the IE surveys. Changes in economic and political considerations were also cited as factors negatively impacting data availability.

47. The sharing economy¹⁵ was included as a relevant challenge for the compilation of IE data. The data sources for sharing economy are scarce that make difficult to determine the size of this activity and the proportion of these services consumed by foreign travelers as well as commissions paid to or retained by foreign intermediate (platform) entity. The individual service provider related to sharing economy are not, in general, registered or

¹⁴ Chapter 3, *Measuring the Non-Observed Economy, Handbook*, OECD (2002).

¹⁵ Sharing economy is an umbrella term with a range of meanings, often used to describe economic activity involving online transactions.

incorporated making more difficult the capacities of the data compiler to define the size of this economy.

48. Lack of funding, poor IT resources, and insufficient staff trained in the collection and compilation of IE data are also reported as significant challenges for the compilation of these data. Some compilers are looking to find ways to compile these data by avoiding the reporting burden on data source producers. Some data producers indicated that they are reluctant to disseminate IE data.

V. DEVELOPING AN APPROPRIATE STRATEGY TO ADDRESS DATA GAPS ON IE

A. Data Compilation Strategy: Way Forward

49. While ESS compilers are confronted with users' need for comprehensive cross-border data on IE, the task remains challenging due to the structure and opacity of these transactions and positions, and their evolving nature. Based on the key challenges identified by respondents to the survey, a comprehensive IE data compilation strategy should address:

- Identification and promotion of best data collection and compilation practices;
- The need for IE data consistency across macroeconomic datasets; and
- Prioritizing actions taking account of different levels of statistical capacity.

The proposed work program (below) aims to deliver on promoting best methodological and compilation practices.

B. Proposed Phase 2 Work Program

As part of its work program during the Phase 2 of its mandate, the TFIE will:

- Review the IE data collection and compilation practices as reported in the survey, IRs and other supporting materials;
- Identify the best collection, compilation, and dissemination practices of IE data; and advise and support STA's work on developing appropriate modes of publicizing these practices (follow up with survey respondents required); and
- Provide broad (non-country specific) recommendations for the improving current compilation methods.

ANNEX I. TASK FORCE ON THE INFORMAL ECONOMY: TERMS OF REFERENCE

A. Background

The discussion during the recent IMF Balance of Payments Statistics Committee (the Committee) meeting of October 2017 focused on the need to address the issues associated with covering the informal economy cross-border statistics. The informal economy covers a broad typology comprising informal, underground, and illegal activities. These activities are generally outside the scope of the regular data collection programs because they are, for example, undertaken by, but not only, households or small-scale nonfinancial corporations and with a relatively low level of organization. They may not be registered and are therefore difficult to measure. Further, the boundaries of informal economy are not always clear as the informal, underground, and illegal activities may overlap with other activities that units may attempt to conceal because they are illegal, or incentives exist to evade government regulations. Therefore, covering informal economy in cross border statistics poses numerous challenges, including the lack of a consistent measurement framework across countries and the cost of data collection.

B. Objectives

The Task Force will have the primary objective of taking stock of country practices with a view to identifying data collection methods and compilation techniques that are feasible for addressing the coverage and consistency of informal economy in cross border statistics. This assessment would underpin the design of appropriate strategies to enhance the coverage of informal economy in cross-border statistics.

In line with the IMF's commitment to foster data accuracy and availability particularly in low income countries, the Task Force's deliberations and outputs would inform the broader work on the informal economy being undertaken by the IMF's Statistics Department (STA). In undertaking its work, the Task Force will build upon the work done by the *International Labor Organization* and the *Expert Group on Informal Sector Statistics (Delhi Group)*¹⁶ on measuring the informal sector and informal employment. The Task Force will also collaborate with the *Advisory Expert Group on National Accounts* and the *Inter-Secretariat Working Group on National Accounts*.

C. Rules of Procedure

The Task Force will meet and discuss by electronic means (i.e., mostly via email and occasionally, via teleconferences).

¹⁶ The Expert Group on Informal Sector Statistics, commonly known as the Delhi Group was established by the UN Statistical Commission in 1997 to exchange views on the measurement of the informal sector, document the data-collection practices, including definitions and survey methodologies followed by member economies, and recommend measures for improving the quality and comparability of informal sector statistics.

D. Governance and Participation

The IMF will chair the Task Force and provide secretarial support. It will comprise Committee Members representing economies and international organizations with an interest and relevant experience in compiling cross-border statistics on informal economy. Representatives from non- Committee member economies, where informal economy may represent a significant proportion of cross-border economic activity, will also be invited to participate in the Task Force.

E. Timeframe and Deliverables

The work will take place during February 2018–September 2019. The following key deliverables and timetable are currently envisaged:

- a. Preliminary report submitted at the next Committee meeting (draft report to be sent to the IMF by mid-September 2018).
- b. Final report to be presented at the October 2019 Committee meeting (draft report to be prepared by mid-September 2019).

**Annex II. Membership of the Task Force on Informal Economy
(As of September 7, 2018)**

Chair

Paul Austin

IMF, Statistics Department

Members

Carlos Arturo Mora

Departamento Administrativo Nacional de Estadística (DANE) de Colombia

Themba Munalula

Common Market for Eastern and Southern Africa (COMESA)

Cristina Pinheiro

European Central Bank

Naglaa Nozahie

Central Bank of Egypt

Ilcho Bechev

Eurostat

Matthias Ludwig

Eurostat

Olaf Novak

Eurostat

Michael Frosch

International Labor Organization (ILO)

Thomas Alexander

IMF, Statistics Department

Antonella Baldassarini

Italian National Institute of Statistics (ISTAT)

Rajeh Alkhdour

Central Bank of Jordan

Ubong Sylvanus Udoette

Central Bank of Nigeria

Consuelo Soto

Central Bank of Peru

Robert Pupynin

Bank of Russia

Chatchawan Intaruk

Bank of Thailand

Yuwawan Rattakul Boonyaleephan

Bank of Thailand

Emmanuel Ssemambo

Bank of Uganda

Ivo C. Havinga

United Nations

Sarah Stutzman

Bureau of Economic Analysis
United States

Secretariat

Rita Mesias

IMF, Statistics Department

Malik Bani Hani (Alternate)

IMF, Statistics Department