

Informal Economy Task Team (IETT): Concept Note

1. This note aims to identify and delineate the statistical issues on the informal economy that should be addressed as part of the update of the *System of National Accounts 2008 (2008 SNA)* and the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)*. An important contribution of the *2008 SNA* was establishing the connection between the work on the informal sector, the informal economy, and their integration in the national accounts. Interest in this area continues to attract considerable attention especially in developing countries, where a large proportion of economic activities and employment are informal. Increasingly, in both developed and developing countries, new informal types of economic activities are also emerging that make use of digital technologies. These activities create new types of jobs that could be characterized as being less formal or even informal in nature.
2. Informal jobs provide employment and income to many people who might otherwise be unemployed. Yet these informal jobs are often associated with lower and uncertain income for workers. Informal workers and enterprises are less protected against negative economic shocks—as evidenced in the ongoing COVID-19 pandemic—which may have broader consequences for inequality and poverty.¹ The quantification of the informal economy and data on its characteristics are needed for designing, implementing, monitoring and analysing macro-economic and social policies and to assess their impact.
3. The IETT will prepare guidance for a coherent set of statistical recommendations which will define and operationalize the different concepts necessary to measure productive activity, including cross-border transactions, in the informal economy. The guidance will take account of country practices and contribute to increased coverage and harmonization of statistics on the informal economy across economies. It is expected that such guidance would contribute not only to the work related to the updates of *2008 SNA* and *BPM6*, but also the ILO's revision of the standards for statistics on informality.
4. Accordingly, the IETT envisions three workstreams: (i) developing a common/ integrated conceptual and operational definition of the informal economy, taking account of various concepts of informality; (ii) recommending methods to classify and measure the informal economy, including cross-border transactions; and (iii) developing relevant presentational frameworks. The broad considerations for the proposed guidance notes on these workstreams are addressed below. It should be noted that the IETT will also work closely with other Task Teams on the update of the SNA and BPM and

¹ See [COVID-19 Crisis and the Informal Economy: Immediate Responses and Policy Challenges](#): ILO Brief (May 2020)

the ILO working group on informality due to the considerable relevance of the guidance on the informal economy for these workstreams.

CONCEPTUAL AND OPERATIONAL DEFINITION

5. Notwithstanding its importance, measurement of the informal economy has posed challenges for compilers. The term informality itself is often used interchangeably with others to describe not only the activities, but also employment that may elude official statistics. It is used broadly to describe the part of the economy that may not be covered in official statistics (the non-observed economy), production taking place outside the regulated economy, or the production of households; and is sometimes used interchangeably with informal sector.

6. The debate over the definition and scope of informality is not new. The literature on the informal economy is broad, with much debate in both the academic literature and macroeconomic statistics as to what constitutes the informal economy and how it should be measured. For instance, Smith (1987) in a study of the informal economy in the US defines it as all activities that elude the national accounts because the counting mechanisms do not detect them. This definition is quite similar to that used by Giles (1999) to measure the “hidden economy”. There may also be variation in this definition, depending on the parameters considered. Tanzi (1983) excludes illegal activities in estimating the “underground” economy. However, in developing a taxonomy of the underground economy, Feige (1990, 2015) notes that non-compliance and non-observability are common features. He distinguishes four types for the underground economy: the illegal economy (based on the contravention of rules governing the production and distribution of prohibited goods and services); the unreported economy (circumvention of the fiscal code by tax evasion); the unrecorded economy (based on the violations of the rules and conventions of national income accounting); and the informal economy (circumvention of labor market regulations specifying minimum wages, working conditions, social security, unemployment and disability benefits). More recently, Medina and Schneider (2019) define the shadow economy as being synonymous with the informal economy and including all economic activities that are hidden from official authorities for monetary, regulatory, and institutional reasons.

7. The 2008 SNA recognizes two separate goals for measuring that aspect of the economy that may be unregulated activities or activities that are not covered in statistical enquiries. “...*the first is to ensure that all activities including those that may be described as “hidden” or “underground” are encompassed in measures of total activity. The second is to define what is meant by the subset of economic units that can be considered “informal” and to measure this*” (2008 SNA, para. 25.1). The rationale for the first is to have a complete view of the economy that is comparable over time and across economies. This aspect—the non-observed economy—has been considered and addressed in the *Handbook of the Non-Observed Economy*² and is supplemented with guidance on the recording of illegal productive activities in the

² *Measuring the Non-observed Economy: A Handbook* (OECD, CIS STAT, IMF, ILO 2002), <http://www.oecd.org/sdd/na/1963116.pdf> notes that there are about 30 different terms that are synonyms for or are closely related to the definition of the underground economy.

8. The second aspect recognizes the analytical importance, especially in developing countries, of being able to measure that part of the economy that reflects the efforts of people without formal jobs to engage in some form of monetary economic activity (2008 SNA, para. 25.3). This second aspect is more closely aligned with the analytical framework of the informal economy. The ILO has identified the need for this analytical framework and proposed a definition of the informal economy to cover all productive activities by workers and economic units that are—in law and in practice—not covered by formal arrangements (ILO, 2002).

9. However, neither the 2008 SNA nor the ILO provide a statistical definition or framework for the informal economy. The IETT therefore aims to develop a consistent and coherent set of statistical concepts and definitions relating to the informal economy across all statistical datasets (in particular, national accounts, external sector statistics, labor statistics) that are acceptable to labor statisticians and macroeconomic statisticians. This guidance could be integrated into other key themes considered for the next version of the international statistical standards.

10. The underlying issue is that while the concept of the informal economy has been developed for policy analysis and discussed in economic literature, it has not been developed as a statistical concept. Policy-induced demands have also fostered the use of indirect macro estimation methods to address the statistical measurement gaps. A statistical concept of the informal economy will need to capture the productive activities and work relationships of production units that are not formally recognized and thus not covered by formal arrangements. It would also need to take account of the frameworks of informal sector, informal employment, and informal productive activity, thereby establishing the necessary link between the statistical measurement of informality and the policy purpose of measuring it.

11. The proposed framework of the informal economy will build on the work of the ILO Working Group for the Revision of the Statistical Standards of Informality as it relates to informal productive activities, the informal sector, informal work and informal employment.

12. The IETT will therefore prepare an overarching guidance note on the following:

- Statistical framework and classification of informal economy (including identifying aspects of the informal economy in existing classification systems; and addressing the gaps); and
- Cross-cutting issues, including the delineation of illegal/underground/non-observed activities and the delineation of formal/informal/own final use production/non-profit institutions in the economy.

MEASUREMENT

13. While statistical agencies in many countries attempt to account for informal productive activities, it is commonly assumed that a large part of informal productive activities is not captured in official GDP

³ <https://ec.europa.eu/eurostat/documents/3859598/8714610/KS-05-17-202-EN-N.pdf/eaf638df-17dc-47a1-9ab7-fe68476100ec>

statistics because countries do not separately publish such estimates. The *2008 SNA* (para. 25.81–25.82) as well as the ILO handbook on measuring informality⁴ provides an overview of some of the statistical approaches that may be used to measure productive activities undertaken in the informal economy. However, both sources note that the choice of the appropriate method depends on how established the data collection methods are to cover the activities of interest (*2008 SNA*, para. 25.81–25.82). A consistent measurement of the informal economy across countries is therefore needed to ensure that countries' economic performance is comparable.

14. Informal economy productive activities may also be directly related to cross-border transactions, mainly in the current account. Some of the cross-border transactions carried out informally across the borders of neighboring countries with strong economic links may also include hidden or illegal transactions, for instance, shuttle trade and smuggling. Households may also produce a range of tourism services for non-residents, including vacation rental services and operating small eating establishments. Remittances may also be transmitted through informal channels by workers who may not have financial access. For instance, the informal “hawala” system predominantly used in the Middle East and South Asia, represents one form of informal money transfer. These workers may also be engaged in informal employment, including short-term and seasonal work, because they may not have the appropriate employment permits. The omission of informal cross-border transactions and/or positions that are typically outside the scope of regular statistical inquiries and data collection systems may therefore have an impact on the coverage of the international accounts.

15. Workers in informal employment may also transmit the remittances through formal money transfer channels. Income derived from the informal economy may generate imports of consumer goods and imports of services.

16. Digitalization has penetrated many aspects of economic activity and the rapid pace of digitalization has led to concerns about the possible mismeasurement of economic activity. Increasing household participation in production activities facilitated by digitalization suggests that the conventional household surveys and enterprise surveys may need to be transformed to collect comprehensive information on the production of households. Digital platforms can be a useful source of data on informal activity as they provide a link between formal enterprises and the informal economy.

17. The IETT will therefore produce guidance notes on the following:

- Measuring the informal cross-border transactions; and
- Digitalization and the informal economy: data collection from digital platforms in collaboration with the Digitalization task team.

PRESENTATIONAL FRAMEWORK

18. A more nuanced understanding of the informal economy is difficult without better data. Given the diverse needs discussed above, the framework for measuring the informal economy should be designed to meet a wide range of analytical and policy needs.

⁴ ILO, 2013 *Measuring Informality: A Statistical Manual on the Informal Sector and Informal Employment*. See Chapter 8: “Use of statistical on informal sector and informal employment for national accounts”, pages 243–266.

19. To support measurement, work on the statistical standards should also encompass identifying best practices in data collection and developing practical guidance for countries on measuring the informal economy. The practical guidance should take account of the technical and resource availability of the countries that have the greatest need for estimating the informal economy.

20. Going forward, a framework that supports consistency across datasets is vital; at the same time, balance must be struck between one that is flexible enough to meet the various user needs and at the same time being consistent and comparable across economies. The flexibility of the statistical standards to provide for alternative presentations of the underlying accounting frameworks also allows flexibility for a robust presentation of the informal economy while remaining internally consistent and integrated. This presentation requires the articulation of how aspects of the informal economy may be identified in existing classifications and accounts or the development of special classifications and accounts.

21. The IETT will prepare a guidance note to examine the following:

- Presentation in the system of national accounts and the external sector statistics to ensure users have a clear understanding of the informal economy and its evolution.