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Coordination of international statistical work

in the United Nations Economic Commission for Europe region:

Outcomes of the recent in-depth reviews carried out

by the Bureau of the Conference of European Statisticians

In-depth review of measuring the non-observed/informal economy

Prepared by Mexico, International Monetary Fund and United Nations Economic Commission for Europe

Summary

This document served as basis for an in-depth review on measuring the informal and non-observed economy, conducted by the Bureau of the Conference of European Statisticians (CES) in October 2021. It provides an overview of country practices, conceptual and measurement challenges in measuring informal economy as well as a summary of ongoing international activities to respond to these challenges. It highlights the need for an agreed statistical framework and presents current international efforts in this respect. The last section summarizes the discussions by the CES Bureau and its decision in October 2021.

The in-depth review by the CES Bureau was also informed by the International Monetary Fund's (IMF) policy paper *Measuring the informal economy*, published in February 2021. The present document draws also on ILO's Conceptual Framework for Statistics on Informal Economy and the outcomes of the joint UNECE/EFTA/Eurostat/IMF/UNSD workshop on measuring the informal sector, held in March 2021. It also benefits from the work of Eurostat, OECD and UNCTAD on measuring the non-observed economy and illicit financial flows.



I. Executive summary

1. Measuring the informal economy is important from a policy perspective, both for obtaining accurate estimates of overall economic growth and also for providing targeted information on this sector, which may have specific behaviors and require different measures compared to the formal economy. In addition to economic growth, the informal economy also has strong social implications for many countries. It allows people who may not be able to access formal employment, to have earnings. The size of informal economy varies significantly between countries. It may also vary over time within a country, e.g. related to a stage of economic cycle or based on a shock from outside, like the current COVID-19 health emergency crisis.

2. The discussion on the definition and scope of the informality or the informal economy has existed for decades. However, whereas the statistical guidelines for ensuring comprehensive coverage of informal and non-observed activities in economic accounts are well established (such as the *OECD Handbook on Measuring the Non-Observed Economy*, and *Eurostat Tabular Approach on Exhaustiveness*), a statistical framework for measuring the informal economy has not been available. This stems from the conceptual challenges and difficulties of measuring it, especially in developing countries.

3. In addition to the conceptual framework many practical issues related to data availability need to be overcome. Countries have made efforts to estimate informal and non-observed economy as part of their exhaustiveness adjustments, but the estimates are often not separately identifiable. Globalization and digitalization have further complicated the measurement. New business models and types of employment are more difficult to measure by their nature and there are less well-established data sources to identify their existence. The same applies to illegal and illicit activities. Coming up with more accurate estimates would require specific surveys focusing on informal activities, improving supply and use tables and balancing procedures. The possibilities of new types of data sources should also be explored.

4. The lack of agreed terminology and statistical framework has resulted in different definitions and estimates applied by countries, which has affected international comparability. Currently, there are many on-going international activities in this area. Developing a framework for measuring informal economy is one of the priority areas of the updates of the 2008 SNA and BPM6. The Informal Economy Task Team (IETT) under the SNA Research agenda will prepare guidance for a coherent set of statistical recommendations necessary to measure informal economic activity and identify and delineate the statistical issues on informal economy that should be addressed as part of the updates. This work is closely coordinated with the ILO Working Group for the Revision of the Statistical Standards on Informality, which is developing a framework aligned with the new labor standards and providing comprehensive picture of all informal productive activities. The implementation of this guidance will require resources and capabilities, and international organizations should play a role in helping countries to implement the measurement framework and provide higher quality estimates on informal economy. This may include identifying best practices in data collection and developing further practical guidance on the measurement of the informal economy.

II. Introduction

5. The Bureau of the Conference of European Statisticians (CES) regularly reviews selected statistical areas in depth. The aim of the reviews is to improve coordination of statistical activities in the UNECE region, identify gaps or duplication of work, and address emerging issues. The review focuses on strategic issues and highlights concerns of statistical offices of both a conceptual and a coordinating nature. In February 2021, the CES Bureau selected measuring the informal economy for an in-depth review. The in-depth review should benefit from and be coordinated with the work of the IETT. Mexico together with UNECE and IMF prepared the paper providing the main basis for the review. The in-depth review by the CES Bureau was also informed by the IMF policy paper *Measuring the informal economy*, published in February 2021.

6. The share of informal economic activities could vary over the business cycle and if it is not fully measured by national statistical offices, the volatility of gross domestic product (GDP) over the cycle could be exaggerated. Separate statistics on the formal and informal economy on a continuous and consistent basis would allow for decomposing economic growth into formal and informal sources, which may be important when formulating countercyclical and structural policies. Given individuals engaged in the informal economy often fall outside of government support program and labour laws – comprehensive statistics on the informal activity are needed to develop a wide range of social, labour as well as economic policy.

7. Empirical evidence on the degree of cyclicity of the informal economy is mixed - although these results may also be related to the difficulty in measuring informality. The World Bank (2019) found that studies focusing on the share of the informal economy in total output tend to find countercyclical behavior whereas studies focusing on output or employment levels tend to find procyclical results. Elgin and others (2019) found that informal economy and formal economy recessions and recoveries do not significantly differ one from each other.

8. Since the units engaged in informality are generally unregistered, official policy actions may miss the intended targets or not fully attain the intended effects. Improving the measurement of the informal economy can lead to better targeted and more efficient policy actions. It could also lead to a broadening of the tax base and increasing government revenue. In fact, some of the early motivation for measuring the informal economy emphasized potentially recoverable tax revenues (Tanzi, 1999).

9. Informality is an important source of employment for women who may not be able to access formal employment. ILO estimates that in developing economies, more women than men are informally employed (IMF Policy paper *Measuring the informal economy*, February 2021). The informal economy therefore provides opportunities to increase the participation of women in the economy and provides a source of income. However, women tend to be in the type of employment relationships that have lower earnings and a higher risk of poverty (Chen M., 2012). The gender differentials and job characteristics of informal employment also result in lower wages in informal employment.

10. Informality has persisted even as small-scale trade, small-scale production and casual jobs become absorbed into the modern, formal economy. Global integration and increasing digitalization have been associated with a rise in part-time, temporary, and contingent work with little or no benefits (such as freelancers, independent contractors, consultants hired on a per-project basis). The recent COVID-19 health emergency crisis has brought a different type of a cycle, that might affect the informal activity and employment in a different direction than usual cycles.

11. Whereas the concept of the informal economy has been developed for policy analysis, it has not been presented in a statistical framework. Gaining an understanding of the informal economy is difficult without a consistent statistical framework and scope for measurement that facilitates cross-country comparability. The framework for measuring the informal economy should be designed to meet a wide range of analytical and policy needs and be aligned with the macroeconomic statistics framework. Furthermore, the informal economy is hard to measure because the activities are commonly not registered, may fall below various government regulation and taxation thresholds and in some cases a result from seeking to avoid regulation. In other words, they tend to fall outside standard statistical frames or be intertwined in the measures of economic activity and not explicitly measured.

12. The present review recognizes the efforts made by the international institutions to enhance the research agenda, support conceptual development and promote best practices on measuring informality. This paper provides the basis for the review by outlining the scope and existing definitions, summarizing existing international statistical activities and countries practices in the area of informal and non-observed economy, identifying issues and problems, and making recommendations on possible follow-up actions. It largely draws on IMF Policy paper *Measuring the informal economy*, published in February 2021, the *ILO's Conceptual Framework for Statistics on Informal Economy* and discussion paper on country practices for measuring the informal sector and informal employment (ILO, 2020a) and the outcomes of

the *joint UNECE/EFTA/Eurostat/IMF/UNSD workshop* in measuring the informal sector, conducted in March 2021. The paper also benefits from Eurostat, OECD and UNCTAD work on measuring the non-observed economy and illicit financial flows.

III. Scope and definitions of informal economy

13. Over many years ILO has actively developed concepts and statistics on informality. This work has led to developing international standards for defining the two main components of the informal economy namely the informal sector and informal employment adopted respectively at the 15th International Conference of Labour Statisticians (ICLS) in 1993 and the 17th ICLS in 2003. ILO defines the informal sector as comprising units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. The informal sector is a subset of unincorporated enterprises not constituted as separate legal entities independently of their owners and that are either un-registered or below a specific size (ILO, 1993). Informal employment consists of self-employed that own and operate an informal enterprise, contributing family workers¹ and employees having an employment relationships that, in law or in practice, is not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits such as advance notice of dismissal, severance pay, paid annual or sick leave (17th ICLS para. 3.5).

14. In 2002 the International Labour Conference (ILC) proposed an analytical framework and a definition of the informal economy that includes all economic activities by workers and economic units that are—in law and in practice—not covered or insufficiently covered by formal arrangements. The ILO definition includes two components: either the production is taking place in the informal sector or the production is undertaken by formal units using informal employment. This concept does not include any illicit activities or household production for own final use and domestic services. The 20th ICLS in 2018 decided to update the statistical standards to address known problems and ensure alignment to the latest developments in labour market standards. In this regard, ILO established the “Working Group for the Revision of the Statistical Standards on Informality”. The Working Group, that includes members from 40 countries, workers and employers representatives, international organizations and other observers, has since met yearly and is expected to present a final draft of its proposals to the 21st ICLS in October 2023.

15. The *System of National Accounts* (2008 SNA), recognizes the importance of measuring “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), known as the informal sector. The concept of informality has three dimensions: informal employment, informal units and informal activities. These elements are interlinked and provide the basis for measuring the informal economy but exact delineation is challenging and confusion may easily arise as many different terms and concepts are used and borderline between informal, underground, hidden, illegal, illicit or non-observed is not straightforward.

16. For instance, what is the difference between informal and non-observed economy? Non-observed economy covers all productive activities that are not captured in the data sources used for national accounts compilation. The informal economy, on the other hand, is part, and in some countries a significant part, of the non-observed economy but may also be partly observed. Better recognising and measuring the non-observed activities, informal or not, would make statistics more comparable between countries.

17. There are two frameworks, the OECD *Handbook Measuring the Non-Observed Economy* and the Eurostat *Tabular Approach to Exhaustiveness*, aiming to provide exhaustive coverage of non-observed activities in national accounts. While the informal economy would be covered in the exhaustiveness adjustments provided by the above frameworks the estimates may not be separately identifiable and they may be merged with other exhaustiveness adjustments as explained below.

¹ Contributing family workers are considered to have informal jobs by default due to the nature of their employment.

18. The OECD definition includes underground activities as one of the components of non-observed economy. In the 2008 SNA, underground production is defined as “consisting of activities that are productive in an economic sense and quite legal (provided certain standards or regulations are complied with), but which are deliberately concealed from public authorities” to avoid the payment of taxes, social security contributions or to avoid meeting certain legal, administrative and regulatory standards. There could be certain overlap between underground and informal, for example when an employer uses informal contracts in an attempt evade social security costs or labour legislation on hours worked and safety requirements.

19. According to the 2008 SNA, there may be no clear borderline between the informal economy and illegal production. Illegal production generally comprises: (1) the production of goods or services whose sale, distribution or possession is forbidden by law; (2) production activities that are usually legal but become illegal when carried out by unauthorized producers. The scope of illegal production in individual countries depends upon the laws in place, e.g. prostitution. While the production of goods that are forbidden by law is generally considered outside the scope of informal economy, it is difficult to draw a line between the second group “production that becomes illegal when carried out by unauthorized producers” and informal production.

20. Illegal transactions should be distinguished from illicit financial flows. The former are treated no different from legal transactions in macroeconomic statistics frameworks. However, not all illicit financial flows are transactions; therefore, not all the flows would be recorded in macroeconomic statistics. For example, flows arising from exploitation-type activities are not transactions and are therefore excluded. Nevertheless, illicit financial flows are broad and may include illegal transactions at some point along their cycle.

21. The United Nations Conference on Trade and Development (UNCTAD) and United Nations Office on Drugs and Crime (UNODC) have assessed the overlap of concepts related to informal activities as they may be sources of illicit financial flows (IFFs). They have provided the following statistical definition: “Illicit financial flows are illicit in origin, transfer or use, reflect an exchange of value and cross-country borders.” There are four main types of activities that can generate IFFs: 1) tax and commercial activities; 2) illegal markets; 3) corruption; and 4) exploitation-type activities and financing of crime and terrorism. IFFs differ from the other concepts in that they focus on cross border flows only. Here, the delineation of illegal and illicit flows from legal financial flows remains a challenge especially for the identification of the illicit part of tax avoidance.

22. UNCTAD has linked IFFs to four related concepts, namely the non-observed economy categories defined in the OECD Handbook, the Eurostat’s tabular approach to address non-exhaustiveness of the national accounts, the informal sector and shadow economy (see Annex). Non-observed economy and Eurostat’s tabular approach to non-exhaustiveness are taken as the basis to which the other concepts are linked. They note that ILC 2015, by definition, exclude illicit activities from the informal economy.

23. Finally, globalization and digitalization have posed more challenges for the conceptualization and measurement for the informal economy and informal activities. They have created new types of jobs and employment that could be characterized as being less formal or even informal in nature. This will require new approaches in most countries. New providers, like platforms can provide information on products such as transportation or accommodation, but compilers have to find ways to collect data from non-resident companies if they lack legal support to collect information from non-residents, and also find a practical solution to link data and surveys of dependent contractors and platforms (IMF, 2021).

24. During the joint UNECE/EFTA/Eurostat/IMF/UNSD workshop on measuring informal economy, held in March 2021 the countries agreed on the need to clarify the terminology related to informal economy (UNECE, 2021). The existence, and the use of clear terminology and definitions are important in understanding statistics and improving international comparability. This is also closely linked to the concept of leaving no-one behind of the 2030 Agenda. It would be important to map the different concepts together and see how exactly they differ in an attempt similar to the one done by UNCTAD from the perspective of measuring illicit financial flows.

IV. Overview of international statistical activities in the area

25. Even though the commonly agreed framework for measuring the informal economy is still missing, different global initiatives are underway and the interest for further work in this area continues to attract considerable attention especially in countries where a large proportion of people work in the informal sector.

A. International Labour Office (ILO)

26. Measuring informality has been one of the priorities of ILO work. As explained in the previous section this work has provided definitions of informal employment and informal sector. In addition, a statistical framework on informal economy is currently under development and will be available in 2023 for discussion at the 21st ICLS. The new statistical framework is intended to be a comprehensive statistical framework that addresses all informal productive activities understood as *all productive activities carried out by persons and economic units that are – in law or in practice – not covered by formal arrangements*. The framework is likely to expand the current boundaries recognizing that informal productive activities can take place outside the informal sector for example among households producing for own final use and in relation to forms of work other than employment such as own-use production work or volunteer work. The informal economy would from that perspective be an overarching concept encompassing all informal productive activities carried out by economic units and persons. The new framework will be aligned to the latest statistical labour standards and will be based on country practices for measuring the informal sector and informal employment.

27. In 2018, ILO provided, for the first time, comparable estimates of the size of the informal economy and a statistical profile of informality at global and regional levels in its publication *Women and Men in the Informal Economy: A Statistical Picture*. ILO has processed micro data from countries' employment surveys, reviewed their practices and applied a common set of criteria to measure informal work of more than 100 countries, both developed and developing. The conclusion is that informal employment represents a significant part of the economy and labour market and plays a major role in production, employment and income generation, while at the same time putting workers at a risk of vulnerability. While gaps still persist, countries have progressed in the measurement of informal employment in recent years. There is still a need to increase the level of harmonization between countries, while allowing flexibility to accommodate national needs.

B. Organisation for Economic Cooperation and Development (OECD)

28. In 2002, OECD published *Measuring the Non-Observed Economy, A Handbook*, developed jointly with ILO, IMF, the Interstate Statistical Committee of the Commonwealth of Independent States (CIS-Stat), the Italian National Statistical Institute, Statistics Netherlands, the Russian Federation State Statistical Committee, and the University of Versailles. The work leading to the Handbook arose from concerns that unless efforts are made to deal with such activities, economic indicators are under-estimated. This can be a serious issue, particularly in transition and emerging economies. Given the miscellany of possible approaches, there was a need to identify and promote international best practice. In this regard, the Handbook makes an important contribution to the measurement of a type of informal economy which is non-observed.

C. Eurostat

29. At the EU level, a lot of developments and verification work have been undertaken to ensure exhaustive measures of economic activities underpinning gross national income (GNI). The Eurostat Tabular Approach on Exhaustiveness (TAE) is used as a general framework by EU countries to present their work on exhaustiveness. It provides a consistent and complete conceptual framework that incorporates all aspects of Commission Decision

94/168 on Exhaustiveness as well those of Commission Decision 98/527 on VAT fraud, by classifying adjustments into seven types of “non-exhaustiveness”. It also provides the framework for the calculation of the adjustments, by linking available compilation methods (such as the employment method, fiscal audits, VAT comparisons, etc.) to the non-exhaustiveness types.

30. TAE was developed and tested in the context of several projects with the then Candidate Countries to the European Union in the period between 1998 and 2003. From 2016 all EU Member States have implemented this approach as a general framework for presenting their work on exhaustiveness. In the past, the TAE guidance document of March 2005 was accessible only to members of the GNI Expert Group (GNIG) and EFTA countries. In view of the continued interest and the aim of further disseminating best practices and supporting other National Accounts compilers to improve exhaustiveness of their accounts the April 2021 GNIG meeting decided to make the guidance document publicly available.

31. The EU GNIG has launched a new sub-group on exhaustiveness to develop further practical guidance and identify good practices in three priority areas: misreporting, employment method and non-collected VAT and exhaustiveness adjustments. The final report from the work of the sub-group is scheduled for 2023.

D. United Nations Economic Commission for Europe (UNECE)

32. In 2005-2006, UNECE carried out a survey of national practices in estimating the non-observed economic activities in national accounts to contribute to the developments. Previous surveys had been conducted in 1991 and 2001/2002. The first 1991 survey covered nine countries and was presented as a collection of articles featuring the contributions from each country. The observations were published in 1993 as an Inventory of National Practices in Estimating Hidden and Informal Activities for National Accounts.

33. A second survey was conducted in 2001-2002 to which 29 CES countries responded. In this survey, for the first time, an attempt was made to compare and analyse country practices and trends, and to standardize the contributions in terms of terminology and presentation.

34. The third survey was carried out in 2005-2006 and 43 CES countries replied to the survey, showing the increasing interest and volume of work to estimate non-observed economy over the years. In this latest round participating countries were asked to provide estimates of the size of the non-observed economy relative to total GDP and to elaborate on the methods used to arrive at these estimates. The results were released in 2008 in the UNECE publication on the *Non-Observed Economy in National Accounts, Survey of Country Practices*.

35. In March 2021, UNECE, European Free Trade Association (EFTA), Eurostat, International Monetary Fund (IMF) and United Nations Statistics Division (UNSD) organized a *workshop on Measuring Informal Economy* for Eastern Europe, Caucasus and Central Asia (EECCA) and South East Europe (SEE). The online workshop provided an overview of ongoing international work with respect to measuring the informal sector, non-observed economy and owner-occupied housing, including the planned work of the joint IETT set up as part of the SNA Update and sought the exchange of experience between EECCA and SEE countries and other participating countries on the measurement of these issues.

E. United Nations Conference on Trade and Development (UNCTAD)

36. UNCTAD supports governments in understanding and quantifying informal cross-border trade, most recently in a UN Development Account project that started in 2016. Informal cross-border trade is trade between neighbouring countries conducted by vulnerable, small, unregistered traders. Typically, it is proximity trade involving the move of produce between markets close to the border. By leveraging informal cross-border trade for

the empowerment of women, poverty alleviation and peacebuilding, this work contributes to poverty eradication, reduced insecurity and socially inclusive development.

37. Within the last decade, illicit financial flows (IFFs) have garnered increasing attention initially within the context of poverty alleviation, and growth and development; and more recently - through global spotlight on corruption, offshore wealth related to tax evasion and aggressive tax avoidance by multinationals, transparency and financial integrity and finally, the need to mobilise domestic resources to achieve the 2030 Agenda, especially now due to the economic impacts of the COVID-19 pandemic. The indicator framework for the 2030 Agenda assigns UNCTAD as a co-custodian of an SDG indicator 16.4.1 on the value of inward and outward IFFs. While there is a pressing policy need to measure IFFs, statistical measurement is very difficult as IFFs are hidden by nature. UNCTAD, together with UNODC, published a Conceptual Framework for the Statistical Measurement of IFFs, in October 2020, and released Guidelines on Methods to Measure IFFs for pilot testing in summer 2021. The framework clarifies, that, for instance, aggressive tax avoidance by multinationals is illicit and such part of IFFs even though it is not illegal. These flows drain resources from development. The framework is aligned with SNA and BPM. In 2021, pilots to test the measurement of IFFs is ongoing in 13 countries in Africa and 6 countries in Asia and the Pacific. UNODC carried out pilots to measure the crime related IFFs in Latin America in 2018-2020. The future aim is in a complete statistical framework to measure IFFs in the context of the SNA and BPM.

F. International Monetary Fund (IMF)

38. At its 2017 meeting, the IMF Committee on Balance of Payments Statistics (BOPCOM) endorsed the creation of a Task Force on the Informal Economy (TFIE) with a two-year mandate. The primary objective of TFIE was to take stock of country practices with the aim of identifying data collection techniques and compilation methods that are relevant for addressing the coverage of the informal economy in external sector statistics. TFIE launched a web platform aimed at enabling peer learning. The platform disseminates metadata for 24 economies, including the country members of TFIE, covering almost 57 compilation practices on the informal economy in the international accounts and/or national accounts. Section V of this paper provides some more details of the work.

39. The theme of the *Seventh IMF Statistical Forum* in 2019 was “Measuring the Informal Economy”². The Forum discussed issues relating to the definition, scope, and measurement of the informal economy, and included country case studies on measurement practices.

40. As a follow up to the Forum, IMF prepared a policy paper proposing a framework for measuring the informal economy that is consistent with internationally agreed concepts and methodology for measuring GDP. The proposed framework will facilitate preparation of estimates of the informal economy as a component of GDP and provides input to the development of guidance on the informal economy as part of the update of the 2008 SNA and the Balance of Payments and International Investment Position Manual (BPM6).

V. Towards a statistical framework on informal economy

41. The informal economy is a dynamic concept, it consists of all informal productive activities carried out by persons and economic units. Chapter 25 of the 2008 SNA established, for the first time, the connection between the work on the informal sector, the informal economy, and their integration in the national accounts. However, neither the 2008 SNA nor the current ILO statistical standards provide a clear-cut statistical definition or a comprehensive framework for measuring and presenting the informal economy. There is broad agreement that no single criterion on its own is sufficient to determine what is meant by informal, but several criteria must be considered (2008 SNA para. 25.18). These could

² Papers and presentations are available at:
<https://www.imf.org/en/News/Seminars/Conferences/2019/03/25/7th-statistical-forum>

include considerations on registration or incorporation, size, legality and other aspects of the activity.

42. 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 OECD *Handbook on Measuring the Non-Observed Economy* and the Eurostat Tabular Approach on Exhaustiveness and is supplemented with guidance on the recording of illegal productive activities in the *Handbook on the Compilation of Statistics on Illegal Economic Activities in National Accounts and Balance of Payments*.

43. The second aspect recognizes the analytical importance, especially in developing countries, of being able to measure and delineate 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.

44. As mentioned previously work on developing a statistical framework measuring the informal economy has already been undertaken by ILO and IMF. The definitions of informal sector and informal employment, that are currently being reviewed by the ILO Working Group, is likely to be integrated in a comprehensive statistical framework of informal economy based on the underlying concept of informal productive activities thus recognizing that informal productive activities exists within the informal sector as well as outside the informal sector. The IMF proposal has further elaborated the coverage of informal economy and extended it also to production of goods by households for own final use and production of services by paid domestic staff.

45. Currently developing a framework for measuring informal economy is one of the priority areas on the updates of the 2008 SNA and BPM6. In this context the joint IETT was established to advise the Inter-secretariat Working Group on National Accounts (ISWGNA), the national accounts Advisory Expert Group (AEG) and the BOPCOM on the issues related to the informal economy. IETT will prepare guidance notes to update the SNA and BPM to include a statistical framework to measure and present the informal economy. (For more information see: <https://www.imf.org/en/Data/Statistics/BPM/IETT>)

46. The guidance will include an overarching framework of the informal economy; guidance notes on measuring informal cross-border transactions; digitalisation and the informal economy; and their presentation in the SNA and BPM. It will take account of country practices and contribute to increased coverage and harmonisation of statistics on the informal economy across economies, thereby improving comparability. This work builds on previously mentioned work on developing a framework on informal economy by ILO and IMF. It will also take into account methodological guidance by Eurostat and OECD and the recent changes of labour statistics standards following the 19th and 20th ICLS, the revisions of the International Classification of Status in Employment (ICSE) and International Classification of Status at Work (ICSaW). It is expected that the guidance notes prepared by the IETT 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.

VI. Country practices

47. Several international organizations have surveyed country practices in the measurement of the informal economy relating to their area of work.

48. ILO has made several overviews of country activities in measuring informal employment. The results presented here are based on four sources:

- A review of labour force survey (LFS) questionnaires from 148 countries as part of the revision of ICSE-93;
- An assessment of available criteria in the 112 micro data set used for the harmonized series on informal employment and the informal sector at ILOSTAT;
- A questionnaire collecting information on country practices sent out to countries as part of the preparations to the 20th ICLS;
- A questionnaire collecting information regarding the combination of criteria for defining informal jobs held by employees.

49. Approximately 70 countries have measured the informal sector and/or the informal employment at least once within the last ten years. In addition, estimates on informal employment can be provided for 40 countries based on data that have been collected but not with the direct objective to provide estimates on informality. In particular, there is a lack of direct measurement on informal sector/informal employment among developed countries.

50. ILO notes that the criteria for identifying informal employment were applied systematically to a person's main job in 119 countries with available data from the national labour force survey or similar national household survey. There is a strong preference among countries to use employer's contribution to social insurance as a main criterion for the operationalization of the definition of informal jobs held by employees. Only eight countries out of the 54 did not include this criterion at all in their operational definition.

51. Employer's contribution to social insurance is typically combined with existence of a written contract, paid annual leave and paid sick leave. 15 countries use additional criteria such as payment of income tax, the possibility to be fired without notice or receiving of a thirteenth month salary.

52. According to a survey carried out by the IMF TFIE, countries use a range of statistical practices to cover the informal economy. These practices are determined by the availability of source data, resources, and statistical capacity. User interest and policy needs also play a role in determining which components are addressed. In general, informal economy coverage, in both the national and international accounts, requires additional source data, including through surveys. However, the unavailability of resources and statistical capacity, especially in developing countries, remain key impediments.

53. For the international accounts, the key compilation practices and issues are as follows:

- Balance of payments compilation practices for informal economy 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;
- In general, economies use a combination of direct and indirect sources to estimate the size of informal economy activities. Some economies have developed direct (data-specific) surveys for some components or draw on micro studies or surveys designed for other purposes as inputs for estimation;
- Economies use indirect estimation methods generally aligned to either national accounts compilation, or to economic modelling;
- Availability of separately identifiable data on informal economy activities remains limited;
- Data sources, enterprise registration, and methodology are the major challenges reported by compilers.

54. The Eurostat Tabular Approach on Exhaustiveness (TAE) is used as a general framework by all EU countries to present their work on exhaustiveness. This work also accumulates information on the coverage of informal economy and related activities in the national accounts and reasons for non-exhaustiveness. According to the GNI inventories for the cycle 2016-2019 the non-observed economy adjustments on the production side average 8.2 per cent of GDP, ranging from 0.9 to 33.1 per cent in the different countries. TAE does not provide explicit measure of the informal sector, the informal activities may be covered

under several categories, such as underground producers, producers not obliged to register and misreporting, which constitute 1.6, 0.6 and 4.9 percent of the average adjustment to GDP respectively.

55. In preparing the Online Workshop on Measuring Informal Economy, UNECE sent a survey to the Eastern European, Caucasus and Central Asian (EECCA) and South East European (SEE) countries. All countries that replied compile estimates for the non-observed economy and most often use the Eurostat tabular approach. The non-observed economy ranges between 5 and 30 per cent of GDP and for many countries around 20-25 per cent. The single most difficult area to measure covers illegal activities, while the most important elements are informal and underground economy and misreporting.

56. The Latin American countries have advanced in measuring the informal economy, notwithstanding that there are no recent thorough surveys of the data collection and methods for estimation of the informal activity and the way it impacts countries' GDP. A regional methodological research paper published by ECLAC and Peru in 2012 shows that countries generally apply the 2008 SNA and the OECD Handbook. The paper refers to the 15th ICLS definitions, which distinguish between informal employment and informal sector and characterize the informal activity with the absence of legal tax register and the lack of accounting registers. Due to this the operational definitions of informality are mainly associated with the lack of registration, the absence of social contribution payments and the size of the unit. In terms of the 2008 SNA, the methodology makes use of the breakdown market, own use and non-market production and the use of a full set of accounts for household crossed with employment surveys, similar to the approach presented in the Eurostat Tabular Approach for Exhaustiveness. Several countries have made progress in the estimation of the share of the non-observed economy over GDP through the compilation of employment and remuneration matrices by industry and occupational category. As an example, Mexico publishes employment indicators and Hussman matrices from the LFS and the share of informality to GDP.

VII. Impact of the crises

57. Informal workers are more vulnerable to negative shocks such as the COVID-19 pandemic. Measures taken by governments to curtail the spread of COVID-19 have severely impacted sectors where the concentration of informal workers is high. These include domestic workers and workers in accommodation and food services, manufacturing, and retail, and farmers producing for the urban market. Informality is prevalent in activities where the employees or units are required to engage in direct interaction with consumers or other producers. Social distancing policies and work from home arrangements may therefore limit the ability to work and generate income for a large proportion of the workers engaged in services.

58. Workers affected by lockdowns are likely to face greater job losses - without the benefit of social protections—leading to an increase in income inequality. The effect of social distancing policies may not be as pronounced in agriculture in developing economies as much of it is related to subsistence production undertaken on small farms. Nevertheless, income from the sale of excess production—which could be used to maintain assets for production—may be affected by curtailments on movement and the decline in demand.

59. The ability of informal workers to take advantage of government interventions to address the loss of income may be hindered by the factors that give rise to informality. Since informal workers have no insurance against income loss and often are unregistered, it is challenging for governments to deliver the direct income support necessary to sustain these workers during the crisis.

60. According to ILO (2020b) in 2020, over 2 billion workers were earning their livelihoods in the informal economy. This represented 62 per cent of all those working worldwide. Informal employment represents 90 per cent of total employment in low-income countries, 67 per cent in middle-income countries and 18 per cent in high-income countries. The COVID-19 pandemic exposed those working in the informal economy to severe consequences, as most of them cannot rely on income replacement or savings. Not working

and staying home means losing jobs and livelihoods. These developments meant that the need for better data and statistics on informal employment and informal economy became even more pressing due to the global pandemic.

61. ILO notes that similar observation applies to informal enterprises, which account for eight out of every ten enterprises in the world. These are mainly unregistered small-scale units, often employing ten or fewer undeclared and low-skilled workers, including unpaid family workers, mainly women, who labour in precarious conditions, without social protection or health and safety measures at the workplace. They have low productivity, low rates of savings and investment, and negligible capital accumulation, which make them particularly vulnerable to economic shocks, and are often excluded from COVID-19 crisis-related short-term financial assistance programmes for businesses.

62. During the current COVID-19 crisis informal activity and employment might have been developed in a different direction compared to expected behaviors during downturns. For example, there is evidence that informal activity and employment in Mexico, have been even more affected than formal activity. This is different from to previous financial crisis, when the increase in informal activity allowed a source to income.

VIII. Issues and challenges

63. Several conceptual and measurement challenges related to measuring the informal economy were described in the previous sections. The most important are summarized in the bullets below:

- While informal economy has always attracted considerable interest, and even more so during the current COVID-19 health emergency crisis, a well-established statistical framework for its measurement and presentation is missing. The lack of common concepts and measuring framework have led to a situation, where countries are developing their own definitions with varying interpretations of the scope of informality. This hampers international comparability. The gap is typically filled by non-official estimates based on indirect approaches, often using monetary methods. These monetary methods tend to provide high estimates that attract public attention but are quite approximative and do not always guarantee the quality and reliability of the results;
- While countries have estimated informal and non-observed economy as part of their exhaustiveness adjustments, the estimates are not separately identifiable. It is difficult to obtain direct measures, part of the informal activity may already be covered in macroeconomic data using standard methods, the rest is assessed using assumptions, indicative information or indirect methods. Often the adjustment may merge informal with other components of the non-observed economy. In addition to not capturing certain unrecorded activities, the risk of double counting may also exist though in more rare cases e.g. due to money laundering when illegal or other unregulated transactions are run by legal entities and then the receipts are moved to the legal market and taxed;
- Even with a common framework, measuring informal economy will remain a big challenge. Regular data sources for the measurement of productive activities, such as enterprise surveys, customs data, administrative and tax data, are not very useful for collecting information on informal activities. Specific surveys that focus specifically on informal activities or adaptation of existing surveys like LFS would be needed. Compiling and balancing supply and use tables could provide many insights and information on the size of the informal economy. Unfortunately, many countries do not have resources to undertake this work on a regular basis;
- IETT is working to bring the different statistical concepts applied in the SNA, BPM and ILO statistics into a common statistical framework that measures and presents the informal economy. Implementation of this measurement framework will require resources and capabilities from countries. Countries' capacities for measuring informal economy differ greatly. Weak statistical systems and the unavailability of

resources impede data collection. Many developing countries rely on external funding and technical support to conduct the household surveys that could be used to measure informality. The reliance of external support results in irregular data collection and infrequent benchmark updates. International organisations should play a role in helping countries to implement the measurement framework and provide higher quality estimates on informal economy;

- Digitalization has further complicated issues related to the measurement of the informal economy and informal activities. It has created both new services and expanded opportunities related to new modes of employment. On the other hand, big data and other new data sources may be useful for measuring informality.

IX. Conclusions and recommendations

64. Measuring the informal economy will continue to be a major challenge. The boundary between the formal economy and the informal economy is blurring. In some countries the informal economy may be growing faster than the formal economy. Many different terms and (sometimes overlapping) definitions are used: non-observed, informal, underground, hidden, illegal, illicit, etc. While the different concepts and definitions offer richer information, this also creates confusion and hampers international comparability. Clarification of terminology related to informal economy under a broader, international framework is important and would be useful for statistical offices and users.

65. The OECD *Handbook on Measuring the Non-Observed Economy* and the Eurostat Tabular Approach to Exhaustiveness provide basic frameworks for ensuring exhaustive coverage of informal and other non-observed activities in macro-economic measures. These two frameworks are largely applied by the CES countries and have been important in enhancing comparability among countries.

66. As mentioned earlier in this document a separate framework that provides coherent set of indicators of informal economy is needed. IETT is working towards a common statistical framework to measure the informal economy in the updated SNA and BPM. The guidance to be developed will include an overarching framework of the informal economy; guidance notes on measuring informal cross-border transactions; digitalisation and the informal economy; and their presentation in the SNA and BPM.

67. IETT will take into account different country practices when developing the framework. However, the feasibility of the framework needs to be tested in countries with different capacities and circumstances. Availability of supply and use tables would provide a very useful basis for this work. Finding data sources, setting up the necessary surveys and mapping the data to the concepts and the measurement framework requires pilot testing, learning from others and adapting best practices to local circumstances.

68. UNECE together with partner organizations should support the testing of the proposed framework in the CES region. Once the framework is adopted, further work on promotion, identifying country best practices in data collection and developing practical guidance on the measurement of the informal economy may be needed. The work of Eurostat's sub-group on exhaustiveness would be also very relevant in this respect. Exhaustiveness is a good frame to improve statistics on the informal economy.

69. Setting up a platform to share and discuss measurement issues would be useful. The collected experience could be extended to countries beyond the CES region.

X. Discussion by the Bureau of the Conference of European Statisticians

70. The Bureau of the Conference of European Statisticians discussed the in-depth review of measuring non-observed/informal economy during the Bureau meeting on 13-14 October 2021. The Bureau recognized the importance of the issue, congratulated Mexico for an

excellent overview of all relevant activities and agreed with the main conclusions of the paper. The following points were made in the discussion:

(a) It is very important to integrate the measurement of informal economy in the updates of the macroeconomic frameworks: System of National Accounts (SNA) and Balance of Payments Manual (BPM). Informality affects a large number of countries and the policy implications are huge, probably even more so outside the UNECE region.

(b) The distinction between non-observed and informal economy is very well described in the paper. These two concepts are linked but respond to different policy needs. The former is targeted at ensuring complete coverage of GDP, and statistical guidance is well established with the OECD *Handbook on Measuring Non-Observed Economy* and the Eurostat *Tabular Approach to Exhaustiveness*. The paper highlights the need for developing a framework for measuring informal economy, which is currently missing.

(c) Dealing with independent contractors is a related issue where information is needed for analytical and policy purposes. To be able to provide the relevant data, statisticians should engage in discussions with policy makers to better understand their needs.

(d) Communication and engagement could be added to the list of proposals for the way forward. The different concepts (like non-observed and informal economy) create confusion. Results should be presented in a clear and meaningful way to the users, so they could understand and make a distinction between the concepts.

71. The Bureau expressed support for the work on developing a framework for measuring informal economy as part of the SNA and BPM Updates. Once the framework is adopted, there will be a need for further work on testing and providing compilation guidance. The UNECE Steering Group on National Accounts should consider the best way to collect and analyse the experiences of UNECE member countries, and on this basis, identify good practices and develop practical guidance on how to apply the framework for measuring informal economy.

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Annex

A mapping of concepts – non-observed economy, Eurostat’s non-exhaustiveness approach, shadow economy, informal sector, and illicit financial flows

