Seventh IMF Statistical Forum

Measuring the Informal Economy

SESSION II (CONTINUED). STANDARD ESTIMATION PRACTICES— DETERMINING THE LEVEL AND GROWTH OF THE INFORMAL ECONOMY

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Chair: Mr. Abebe Selassie (African Department, IMF)

Presenters: Ms. Shu Yu (World Bank)
                Ms. Lisa Grace S. Bersales (University of the Philippines)
                Mr. Francisco Guillen (National Institute of Statistics and Geography, Mexico)
                Mr. Sanjiv Mahajan (Office for National Statistics, UK)

SUMMARY OF PRESENTATIONS

1.   Shades of Grey: Measuring the Informal Economy Business Cycles (Shu Yu, Ceyhun Elgin, Ayhan Kose, Franziska Ohnsorge)

The paper presents a comprehensive database of informality, with a focus on measures that have strong cross-country and over-time coverage. The database includes both model-based and survey-based measures of informality and covers more than 160 economies for as long as 1950–2016. The paper examines two applications of the database. First, it distills stylized facts of the informal economy, including its declining trend and association with weak development outcomes. Second, it documents the main cyclical features of the informal economy. Informal-economy recessions and recoveries do not differ significantly from those in the formal economy. Like formal-economy business cycles, informal-economy business cycles tend to be shallower in advanced economies than in emerging market and developing economies. Informal employment tends to expand slightly during formal-economy expansions only in advanced economies whereas it is often cyclical in emerging market and developing economies.

2.   Contribution of the Informal Sector to the Philippine Economy: Current Practices and Challenges (Lisa Grace S. Bersales, Vivian R. Ilarina)

In the Philippines, demand for a regular estimate of the contribution of the informal sector to the economy is high. Thus, in 2002 and 2003, the highest statistical policy making body of the Philippines then, already provided the official conceptual and operational definitions of "informal sector." Further, it provided clear criteria for identifying those included in informal

sector and listed the exclusions. Various censuses and surveys have then been regularly conducted to provide the data sources for measuring the informal sector. However, since the data sources have not been enough to provide the estimation based on official definition, the Philippine Statistics Authority (PSA), the statistics office of the Philippines, has been reporting on the contribution of the unorganized sector to the economy. The unorganized sector refers to the sector not covered by establishment surveys of the Philippine Statistical System (Virola and de Perio 2000). The report on unorganized sector is based on an indirect estimation using the Labor Input Method as suggested by Humans and Mehran (1989). Latest efforts of the PSA for better measurement of the informal sector are the 2018 listing of establishments which produced the latest distribution of establishments by formal/informal sector, region, and plans for riders in the Labor Force Survey to capture various areas of informality. This paper will discuss the current methodology for capturing the informal sector and will present efforts on providing more new data for enhancing the methodology.

3. *Measurement of the Informal Economy. From Basic to Derived Statistics* (*Francisco Guillen*)

The National Institute of Statistics and Geography (INEGI by its acronym in Spanish) through the System of National Accounts of Mexico (SCNM by its acronym in Spanish), incorporates the advances and best practices of economic measurements in the global context, and as a proof of that, the Measurement of the Informal Economy has been presented as an integral part of the System from year 2014 onwards. In Mexico, under the vision and framework of the *System of National Accounts 2008 (SNA 2008)*, its measurement has been made explicit through the quantification of its value added, as well as the number of people employed under conditions of informality, thus identifying its contribution to GDP and its impact on the economy. To carry out the Measurement of the Informal Economy, it is important to highlight that the work is articulated to the set of norms and recommendations presented by the International Labour Organization (ILO), the Delhi Group, as well as other international organizations, in order to respond the requests for document analysis from institutions such as the OECD, IMF, EUROSTAT, among others.

4. *Discussant* (*Sanjiv Mahajan*)

Mr. Mahajan touched on the techniques of the six papers presented during Session II, emphasizing the need to take forward important findings, refine them, and improve their basis to enhance estimation practices. He suggested further expansion such as estimating the impact on the environment, which the IMF can further exploit in the update of the *SNA 2008,* and the sixth edition of the *Balance of Payments and International Investment Position Manual*. Mr. Mahajan also shared the EU experience on the establishment of unified parameters that allows comparability and help determine the level and growth rate of the informal economy.

SUMMARY OF COMMENTS, QUESTIONS, AND ANSWERS

Questions focused on (i) differentiating between tax noncompliance or illegal activities in the formal economy and the activities of the informal economy, (ii) whether there is a business cycle correlation between the estimated growth rate of the formal and informal economies in the first presentation.

Regarding (i), the panelists emphasized that both formal and informal economies can have compliant and non-compliant units. A panelist commented that the complexity of measuring tax noncompliance lies in identifying income and spending channels. Another panelist pointed out that the framework to measure the informal economy can be industry-specific, based on compilers' knowledge on the economy and by partnering with academia. In a related discussion, the panelist mentioned that legalizing informal sectors and activities can better channel resources into government. Improving data and properly estimating the size of the economy can improve bottom income quantile welfare, for example, through social security benefits.

Regarding (ii), a panelist noted that ongoing research suggests the growth rate in the informal economy is slower than that in the formal economy, although the two series have a strong correlation.

Audience comments: The panel was asked to clarify that tax compliance is analyzed separately for the informal economy in the Fiscal Affairs Department of the IMF. Another participant noted that the comparability of data across countries should be enhanced by including illegal activities and some grey zone activities in the definition of the informal economy. Whether a given economic activity is illegal or not depends on the country, this will allow for stable statistics that are comparable across countries.