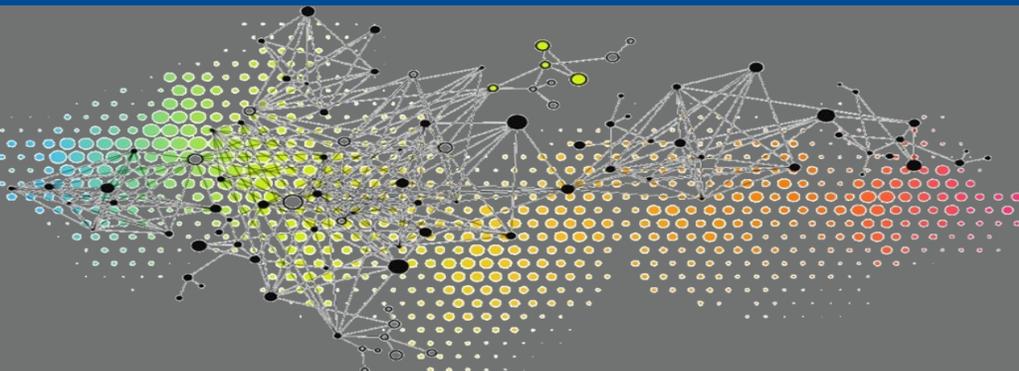




**STATISTICS**

# Measurement of the Informal Economy

UNCTAD-UNODC Task Force on Statistical Methodologies for Measuring Illicit Financial Flows  
July 16-17, 2019  
Geneva, Switzerland





# Outline

- **Informal Economy: Coverage and Framework**
- **Task Force on Informal Economy (TFIE)**
- **Other Initiatives**
  - Forthcoming 7th IMF Statistical Forum on Measuring the Informal Economy
  - Illicit Financial Flows



# Informal Economy: Definition?



Over 30 different concepts identified:

hidden, underground, shadow, illicit, illegal, informal, unregulated, unofficial, etc.



**No economy is completely regulated and captured perfectly by statistical enquiries**

• SNA 2008 – Chapter 25: Informal Aspects of the Economy



Two approaches:

**(1) To ensure all the activities are encompassed in measures of total activities**

(2) To define what is meant by the subset of economic units considered IE and to measure it



Informal economy includes Domestic activities or Cross-border activities:

**To bring cross-border informal economy activities to the ESS**

**No discussion about the definition of IE**





# Implications of not including IE activities in ESS

Misleading information on the levels of BOP accounts and IIP

Biased international comparisons

Distortions in the consistency with the National Accounts

Overlapping concepts makes a clear delineation of the activities difficult as it is not always possible to classify a transaction or activity according to a particular type



# Informal Economy: Statistical Framework

IE data will be based on the conceptual framework and estimation methods already defined by different international organizations



*OECD's Measuring the Non-Observed Economy – A Handbook*



*ILO's Measuring informality: A statistical manual on the informal sector and informal employment*



*BPM6*

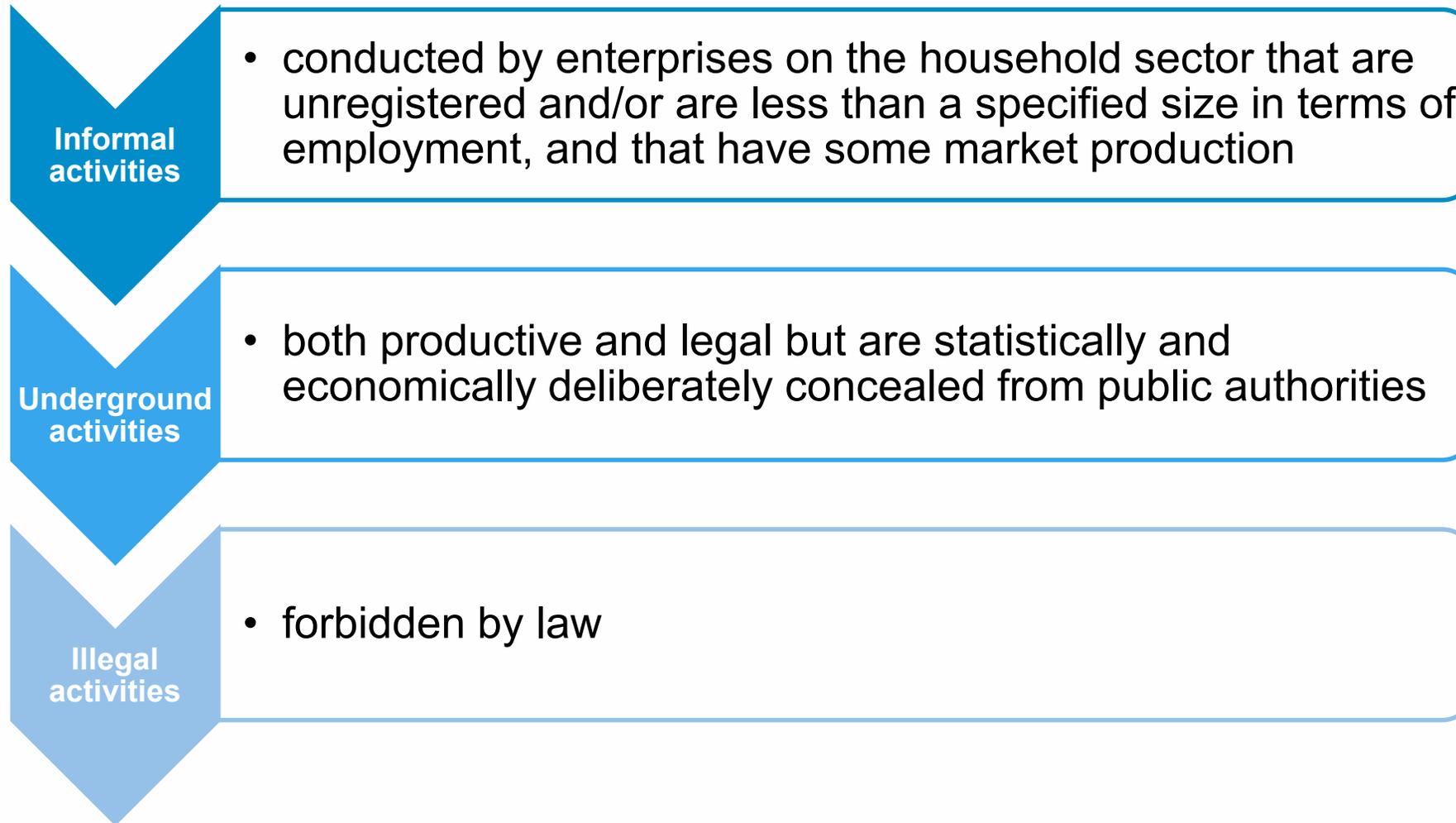


*SNA 2008*



*Handbook on the Compilation of Statistics on IEAs in NA and BOP*

# Informal Economy: Coverage to be used



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# Task Force on Informal Economy (TFIE)

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The IMF BOPCOM begin addressing gaps covering informal, underground, and illegal activities aimed at promoting more comprehensive coverage of transactions and positions in the ESS

At its 2017 meeting, the BOPCOM supported the establishment of the TFIE

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**The TFIE has 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 IE in cross border statistics**

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This assessment would underpin the design of appropriate strategies to enhance the coverage of IE transactions in cross-border statistics

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**The TFIE was constituted with a two-year mandate: Phase 1 and Phase 2**

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# TFIE – Phase 1: Work Program (January–October 2018)

## Inventory of Economies' Experiences

- In collecting (data sources), compiling (compilation/estimation) and disseminating practices of informal economy (IE) data
- Also, institutional and legal framework, current challenges, and future plans for the production of these data were collected

## How?

- By an **Online Survey**
- By **Individual Reports (IRs)** on selected issues based on the survey

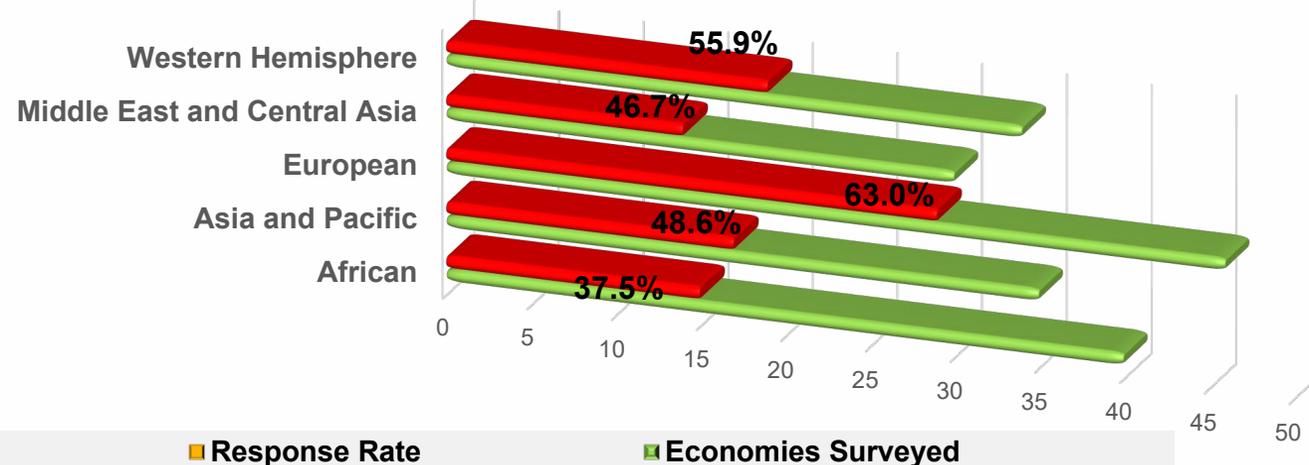
## When?

- During June-August 2018

# TFIE – Phase 1: IE Survey

- BOP/IIP and NA compilers across Fund membership (185 economies)
- 94 economies submitted 112 responses (51% response rate)
- Of 112 responses, 62% (64 economies) compiles data on IE and 38% (38 economies) do not
- 64% of responses covered only BOP and 13% covered BOP and NA
- Geographically, the survey response rate was highest in Europe (63 percent) and lowest in Africa (38 percent)

**Economies' Survey Participation by Region**



# TFIE – Phase 1: IE Survey – Key Findings (1): Methods and Sources

Economies use a combination of direct and indirect sources available to estimate the size of these activities

- Survey
- Administrative data
- Partner economy data,
- International studies and reports; special research
- Experts' views and opinions

Economies use estimation methods that are generally aligned to either NA compilation, or to macroeconomic modelling

The selection of the statistical techniques depend on:

- Availability of reliable resources
- Measurements problems
- Suitable compilation practices (e.g., reduce double counting)
- Best estimation methods and accuracy of estimates

## Main Indirect Statistical Compilation/Estimations 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).

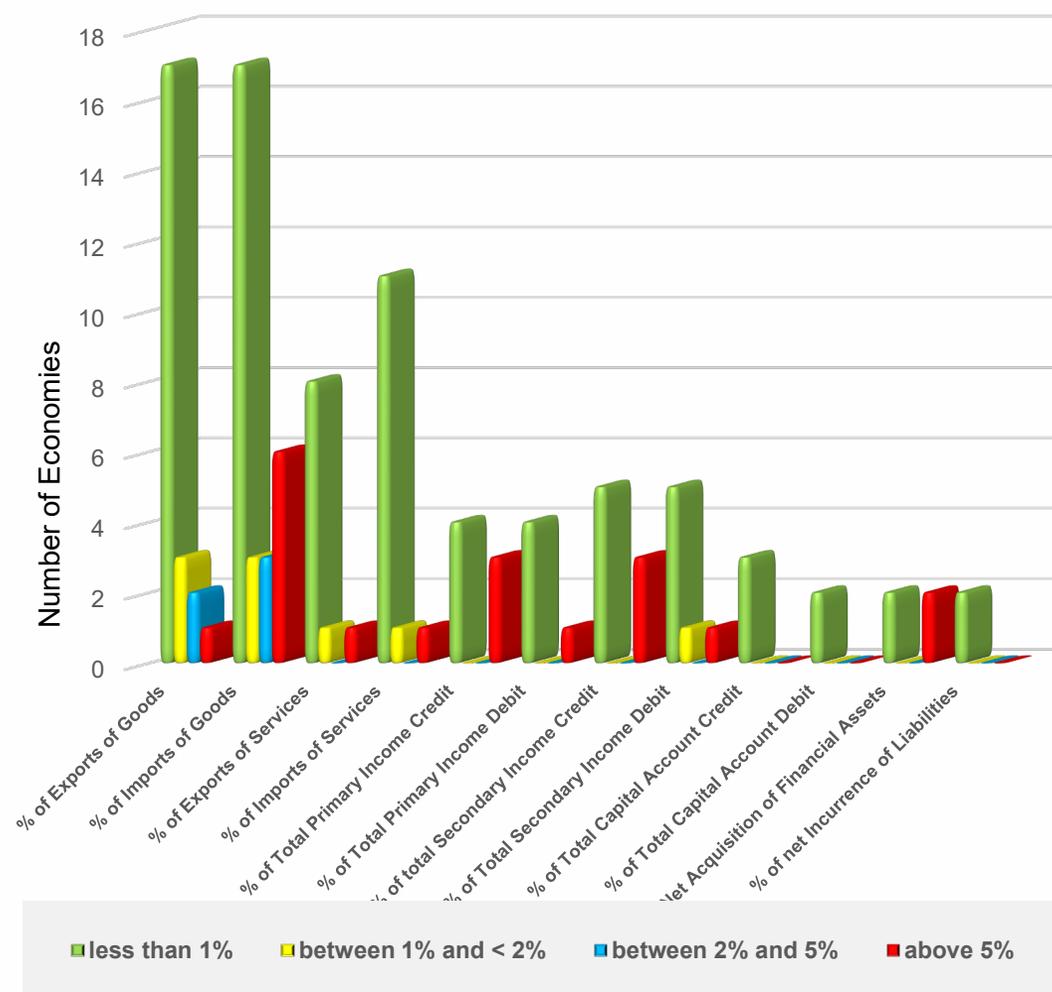
**Commodity flow approach:** this involves balancing total supplies and uses of individual products using accounting equations. One specific application is calculating the output of the retail trade from supply of commodities.

## TFIE – Phase 1: IE Survey – Key Findings (2)

On the prevalence and extent to which IE transactions impact the BOP, the estimates concentrated on goods, and to a lesser extent on services

Few compile IE transactions for the capital and financial accounts

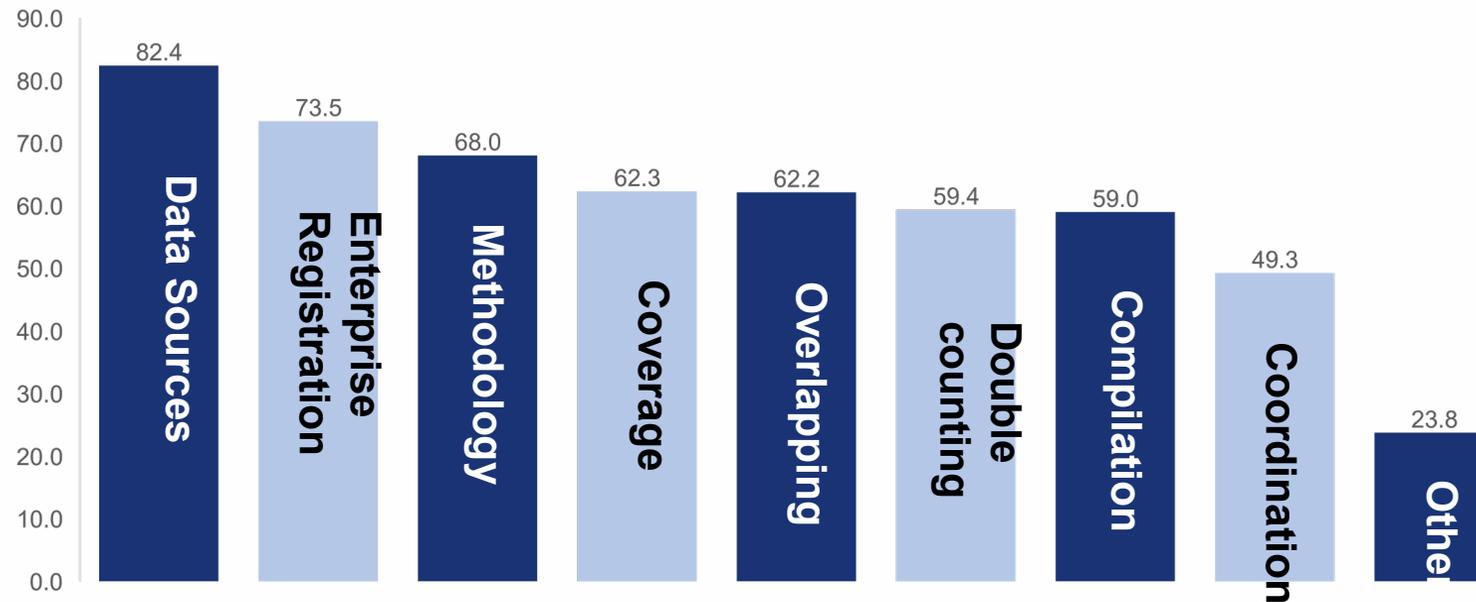
The availability of separately-identifiable data on IE activities remains limited



# TFIE – Phase 1: IE Survey – Key Findings (2)

## Challenges

Data sources, enterprise registration, and methodology are the major challenges reported by compilers



# TFIE – Phase 2: Work Program (November 2018–October 2019)

## Why Phase 2?

- To highlight the “**encouraged**” collection, compilation, and dissemination practices of cross border transactions and position data of informal economy

## How?

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

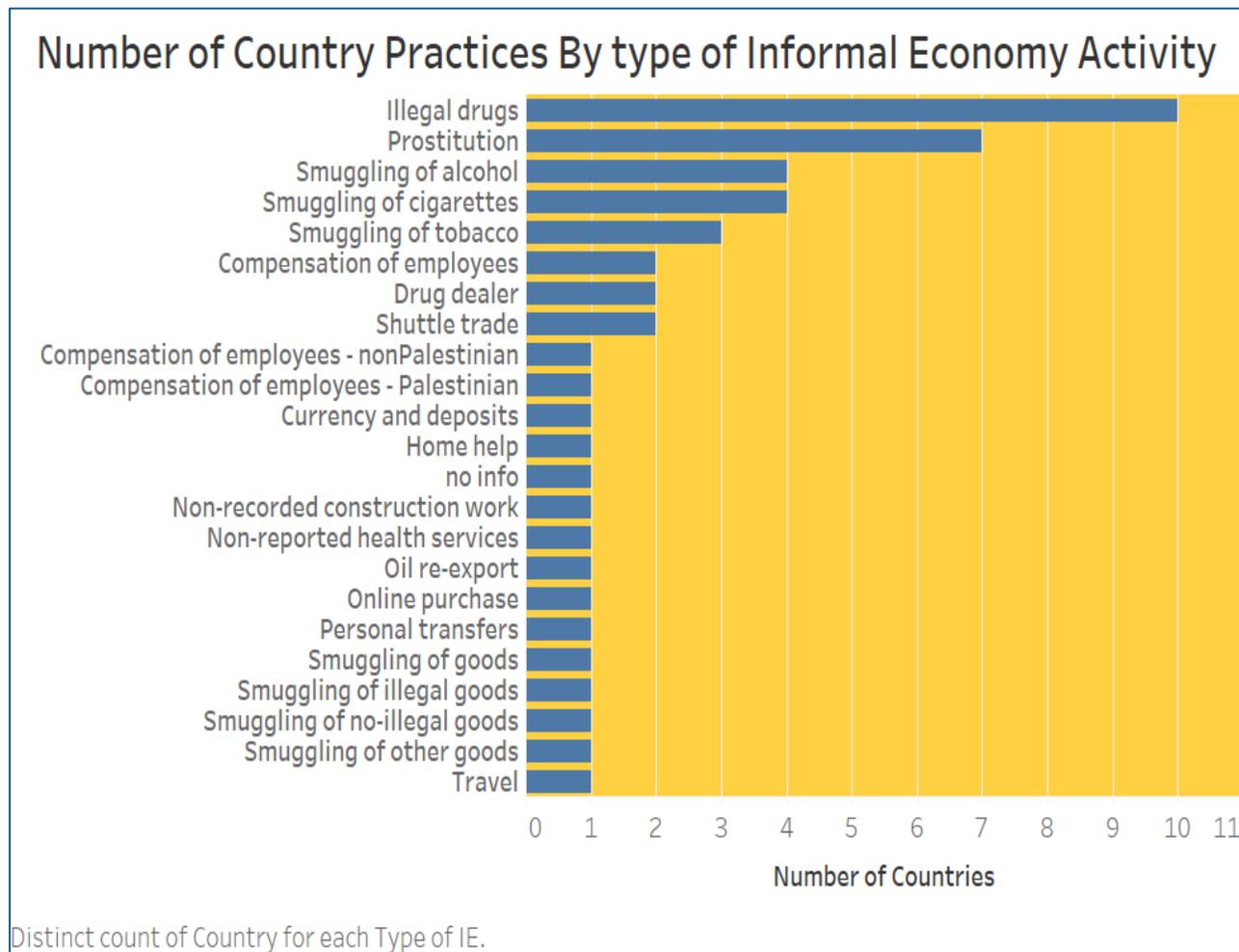
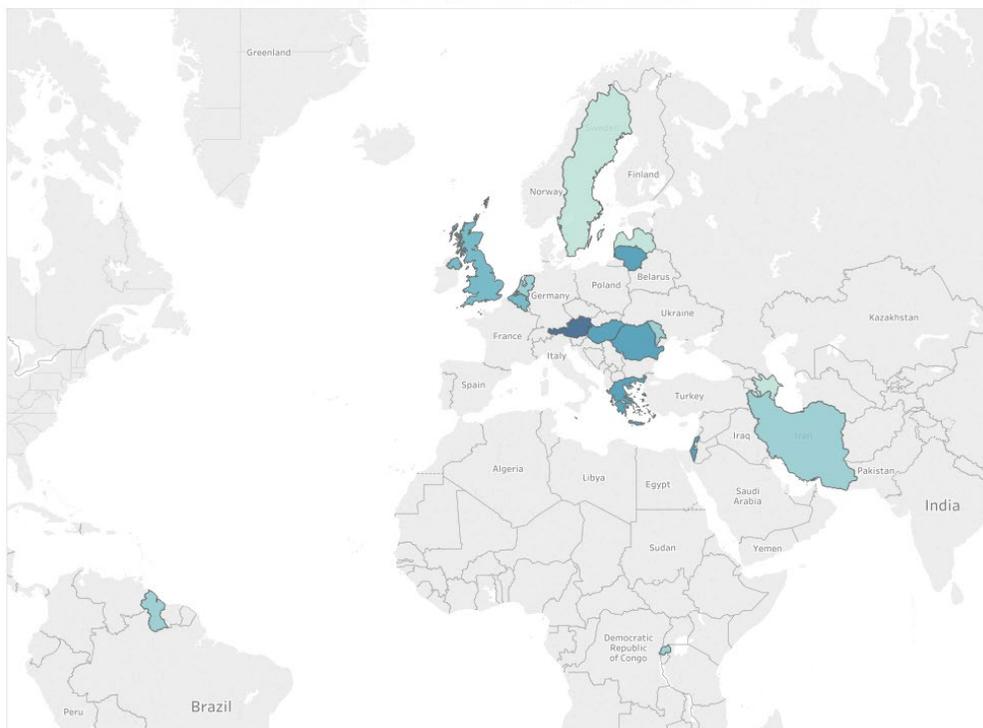
## When?

- To be launched at the end of Phase 1

# TFIE – Phase 2: Main Outcomes – Country Data Reports (CDRs)

19 countries prepared “Country Data Reports (CDRs)” with almost 50 compilation practices in different types of IE activities

Countries Reporting IE Compilation Practices



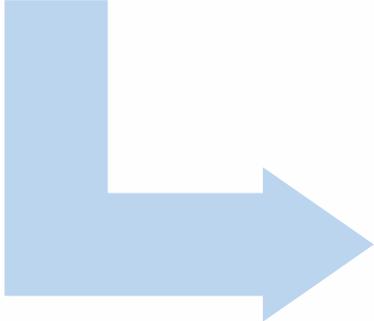
\*This information was provided by national compilers that participated in the Informal Economy Survey  
 “No info” is for countries that compile IE data but for confidential issues they did not provide the information



# TFIE – Phase 2: Main Outcomes – Individual Reports (IRs)

Colombia	Illegal drugs
ECB	Prostitution
Egypt	Informal sector
Eurostat	Smuggling of migrants
Eurostat	Trafficking of arms
Italy	Smuggling of goods
Italy	Householdings of securities
Jordan	Fictitious transactions with money transfers
Nigeria	Informal trade
Peru	Workers' remittances through informal channels
Russia	Transactions of Individuals related to the acquisition of real estate abroad
Russia	Exports and imports non-registered in the custom statistics
Russia	Practices for encouraging coordination between NA and BOP to produce IE data
Thailand	Misrecording of legal and illegal transactions in travel
COMESA	Cross-Border initiative
Uganda	Informal Cross-border trade
USA	Personal transfers in the US international accounts

Compilation practices presented in the CDRs and IRs will be posted on a IMF website.



See at XX (to be provided later)

## TFIE: Main Recommendations (1)



Select, document, and disseminate **encouraged collection/ compilation/dissemination practices** used in economies currently to assist other compilers



Encourage **coordination** between international accounts and NA compilers in moving towards a more integrated approach in addressing coverage of the IE data in the BOP and rest of world (ROW) accounts. This coordination should be extended to other data producer (for instance, FIU)



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.



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IMF CONFERENCE

**7<sup>TH</sup>** IMF Statistical Forum

**MEASURING  
THE INFORMAL  
ECONOMY**

**STATISTICS DEPARTMENT**

November 14-15, 2019 | IMF Headquarters | Washington, D.C.

Section 1: Definition and Scope of Informal Economy

Section 2: Traditional Estimation Practices: determining the Level of Growth of IE

Section 3: New Technologies and New Potential Data Sources – Innovation and Big Data

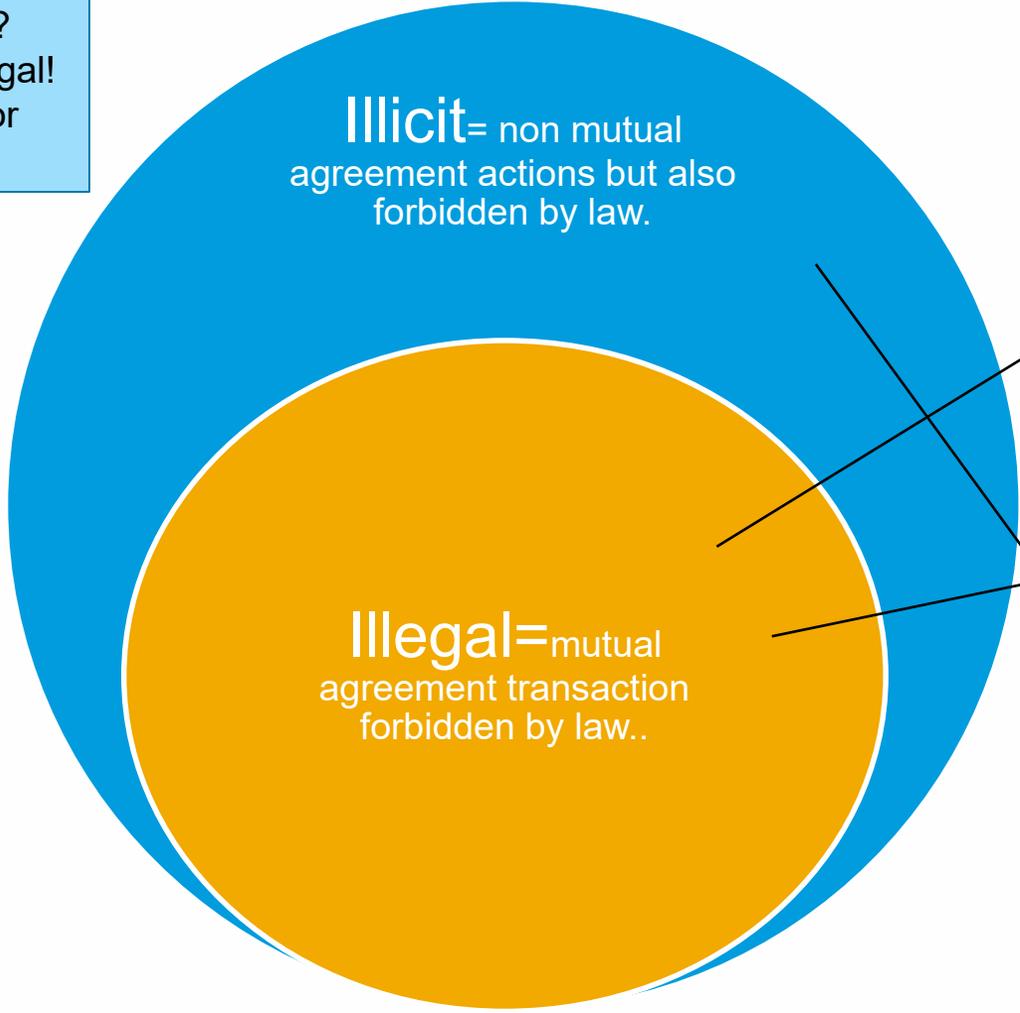
Section 4: Measuring Informal Cross-Border Flows (Illicit Financial Flows)

Section 5: Closing Panel – Policy Conclusions and Recommendations

<https://www.imf.org/en/News/Seminars/Conferences/2019/03/25/7th-statistical-forum>

# Illicit Financial Flows (IFFs)

Tax avoidance?  
It is not illegal!  
Unethical or immoral?



Focus on the movement of flows across borders that:

- Are exchanged by an illegal “mutual agreement”. They have an illegal source (e.g., corruption, smuggling of goods; illegal services);
- Are transferred for an illegal purpose (e.g., terrorist financing), which are not necessarily from an illegal source; and
- Are generated from an illegal “non-mutual agreement” action (e.g., tax evasion where there is no mutual agreement between the tax payer and the tax administration and it is not a transaction following the international standards).



# Illicit Financial Flows: IMF Work in this area (1)

**Anti-money laundering, combating the financing of terrorism (AML/CFT):** Working with IMF members to identify issues related to ML/TF and provide policy advice to strengthen their AML/CFT frameworks.

**Tackling corruption as a transnational issue** that requires efforts not just in the country where the corruption is but also the countries where the proceeds of corruption are concealed. A two-step approach in Fund's *Enhanced Framework on Governance*:

- 1st part includes the assessment in how vulnerable member states are on issues related to governance—including corruption—and make a judgement about the potential economic impact of these vulnerabilities.
  - ▶ The focus is on 6 key indicators: (1) fiscal governance (2) financial sector oversight (3) central bank governance and operations (4) quality of market regulation (5) rule of law, and (6) AML/CFT.
- 2<sup>nd</sup> part puts an emphasis on measures to prevent private actors, including those involved in organized crime, from offering bribes or providing services that would facilitate the concealment of proceeds of corruption.

**Strengthening tax compliance and enforcement to combat tax evasion and avoidance:** The IMF has been collaborating with the OECD, World bank and UN in the [Platform for Collaboration on Tax](#), including by developing toolkits to help developing countries address challenges in international taxation

**Enhancing fiscal transparency in the extractive industries sector**

**Monitoring IFFs:** TFIE work and Guidance on how to record in fiscal statistics the recovery of looted assets and unaccounted wealth.



## Illicit Financial Flows: IMF Work in this area (2)

IMF Board Paper on Fund IFFs  
current initiatives (LEG, FAD, STA,  
and MCM) – mid 2020

- bring some clarity to the definition of IFFs
- present the work being done by Fund staff in a more holistic way, and provide synergies for further collaboration on these issues.
- The paper could trigger follow-up work.

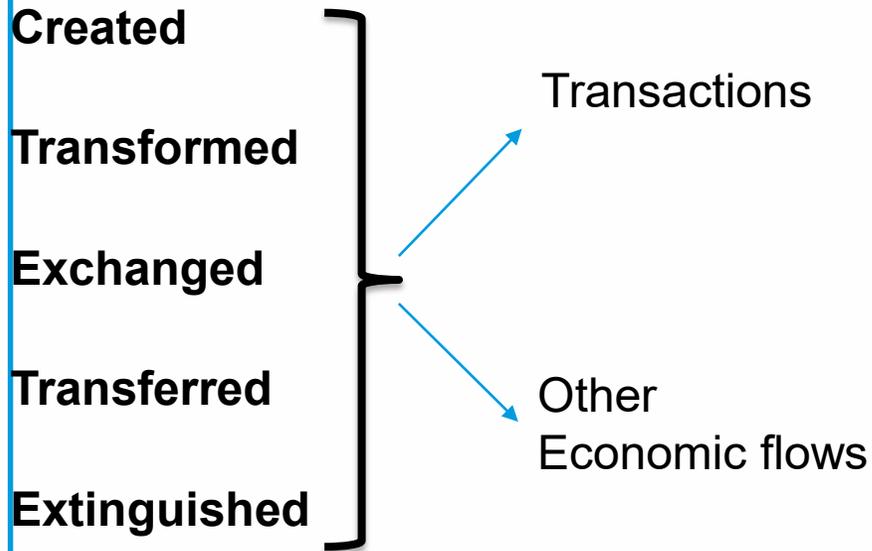
Thank you!

# Background slides



# Economic Flows

An Economic Flow could be:



## Transactions

Interaction between institutional units by “mutual agreement”. Mutual agreement = there was prior knowledge and consent by the units

## Other economic flows

- Holding gains and losses. For instance changes in the level and structure of prices
- Other change sin the volume of assets
  - Appearance/disappearance of economic assets
  - Effects of external events
  - Change in the classification



# Illicit Financial Flows = Legal and Illegal activities

