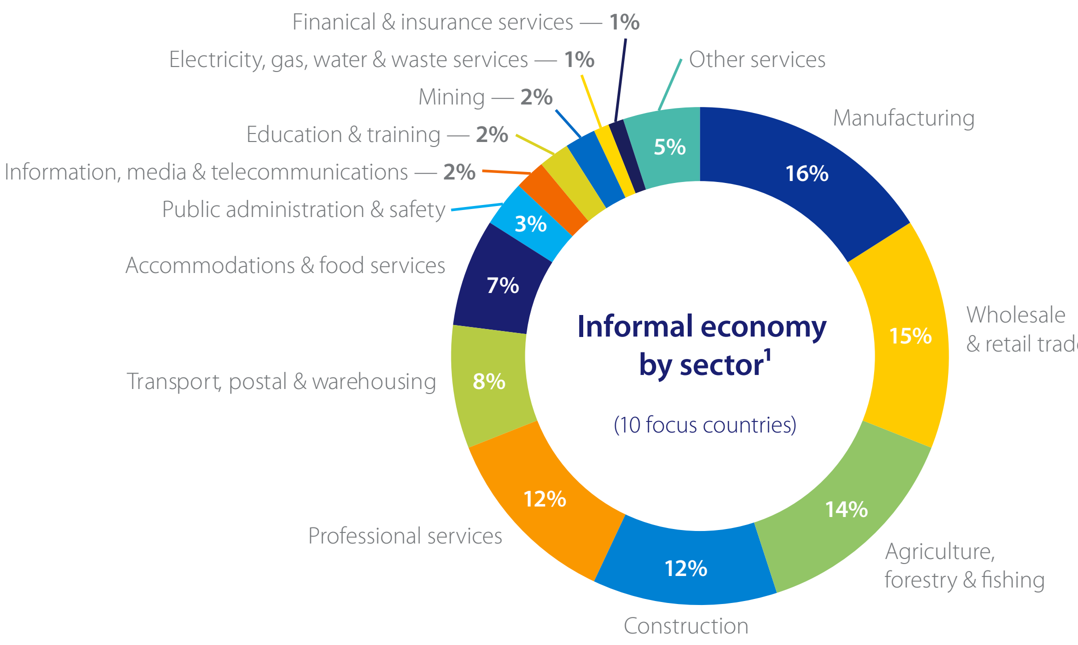
For the Greater Good

DIGITIZING THE INFORMAL ECONOMY

Twenty-three percent of the world's economy is conducted out of sight of government and tax authorities, leading to more than US$10.7 trillion in unreported income and revenues annually. A new A.T. Kearney study commissioned by Visa looks at how digital payments can reduce the size of the informal economy—which relies on unreported cash transactions to thrive—and boost GDP and tax revenue across 60 global markets.

What is the informal economy?

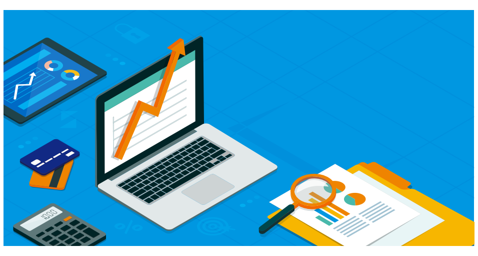
The informal economy consists of legal, cash-dependent, income-generating activities conducted "off the books," from paying for a rickshaw in Kolkata or street tacos in Mexico City to unreported wages for an au pair in Dublin or a seasonal farm worker in California.



What are the negative impacts of the informal economy?

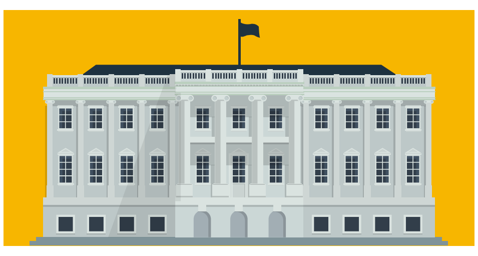
Individuals

Workers who are not officially on an employer's books are vulnerable to unfair labor practices and likely cannot benefit from labor rights such as market wages and health coverage. They are also at risk of not having recourse in case of workplace accidents, and have limited opportunities for mobility.



Businesses

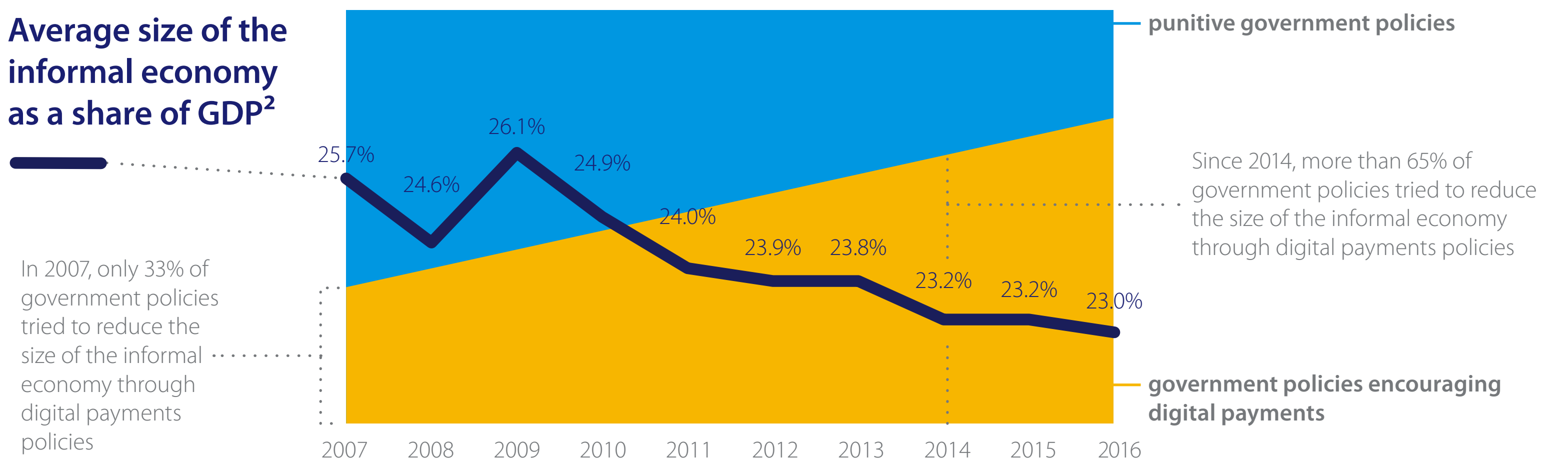
When informal businesses don't pay their fair share of taxes and avoid the full costs of hiring labor, they put their competition in the formal economy at a disadvantage. Companies in the formal economy are, in effect, penalized for following the rules.



Governments

Because informal transactions are conducted out of sight of governments and tax authorities, governments are unable to collect the fair share of taxes from the informal economy. With less tax revenue, governments may not be able to provide the services their communities need to thrive. The informal economy ultimately obscures a country's real economic value and output.

From enforcement to digital payments: A shift in policies



The study shows that more than 65 percent of government policies launched since 2014 to combat the informal economy have focused on digital payments—a significant shift compared with efforts just 5 years earlier, which focused on regulatory enforcement of strict rules.

Digital payments as a solution

The study found that the higher the use of digital payments in a country, the smaller the size of the informal economy. If all 60 markets increase digital payments by 10 percent each year for five consecutive years, this collectively adds US$1.5 trillion to global GDP by 2021.

+$1.5 trillion

1. Encourage governments to adopt digital payments
2. Incentivize digital payments usage and acceptance with value-added tax (VAT) rebate policies
3. Subsidize funds that support the development and expansion of acceptance infrastructure
4. Accelerate adoption of fast, easy-to-use contactless payments

The study explores four tangible calls to action to reduce the use of cash and shift off-the-books transactions into the formal economy, which could bring individuals benefits such as reduced poverty, greater job security, and access to social benefits, as well as providing governments with additional tax revenue that could be used to improve infrastructure, education, and healthcare.

Five-year impact of digital payment adoption[3]
(2017-2021 GDP change)

	Informal economy in 2016 (% of GDP)	1 Digital payments adoption by public sector	2 Tax rebate for card payments	3 Acceptance development fund	4 Increase in contactless payments
Australia	9.0%	$1.0bn	n/a	n/a	n/a
Brazil	36.5%	$17.7bn	$108.7bn	$12.0bn	$38.8bn
China	14.5%	$59.6bn	$261.2bn	n/a	$88.8bn
India	23.3%	$58.8bn	$117.6bn	$75.0bn	$55.0bn
Italy	19.5%	$14.4bn	$67.2bn	n/a	$10.8bn
Kenya	33.7%	$1.3bn	$2.9bn	$0.5bn	$0.4bn
Nigeria	53.4%	$19.7bn	$24.8bn	$15.7bn	$14.8bn
Poland	17.4%	$1.3bn	$9.0bn	$6.9bn	n/a
Russian Federation	34.3%	$1.9bn	n/a	$10.1bn	$10.0bn
United States	8.0%	$14.2bn	n/a	n/a	$52.1bn

Read the full study at visa.com/globalinformaleconomy

[1] Source: Eurostat, OECD, countries' national statistical offices, Prof. F. Schneider, A.T. Kearney. Notes: 1. Other services include administrative and support services, health and social assistance, art, etc. 2. Focus countries: Australia, Brazil, China, India, Italy, Kenya, Nigeria, Poland, Russian Federation and United States. 3. n/a: no impact has been calculated as the country serves as a benchmark for the calculation or measure is not recommended for that particular market.
[2] Nominal GDP in current prices in $. Source: EIU, Prof. Schneider, A.T. Kearney
[3] Figure reported refers to upper confidence level of estimated impact.