

A Deep Dive into Costa Rica's Informal Economy

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The ideas expressed in this paper are those of the authors and not necessarily represent the view of the Central Bank of Costa Rica.

Abstract

This paper analyzes Costa Rica's informal economy, focusing on its contribution to value added and employment. Using national accounts methodologies aligned with the System of National Accounts (SNA) 2025, the study compares results with estimates from the Continuous Employment Survey (ECE), which follows International Labour Organization (ILO) guidelines. The findings highlight the prevalence of informality in specific economic activities, the impact of digitalization, and informal cross-border transactions. The study underscores the need for methodological convergence between BCCR and INEC to enhance data consistency. Additionally, it identifies structural barriers to formalization, including regulatory costs and social security constraints. The paper concludes with policy recommendations to improve informality measurement and facilitate formal sector transition.

Keywords

Informal economy, national accounts, informal employment, value added, Costa Rica, digitalization, cross-border flows.

JEL Codes: E26, J46, O17

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Acronyms

BCCR: Central Bank of Costa Rica

ECE: Continuous Employment Survey

INEC: National Institute of Statistics and Censuses

ILO: International Labor Organization

SNA: System of National Accounts

VA: Value Added

1. Introduction

This paper provides a comprehensive analysis of the informal sector in Costa Rica, considering its impact on national production and employment dynamics. The informal economy represents a critical challenge for economic and social policies, given its role in employment generation and its contribution to the Gross Domestic Product (GDP).

The paper presents an exploratory exercise for 2021 data, developed by the Central Bank of Costa Rica (BCCR) to estimate and characterize the Value Added (VA) of the informal sector and informal employment following the guidelines of the System of National Accounts 2025 (SNA 2025). The results are compared with informal employment obtained from INEC's; the primary difference in the results lies in the reference frameworks: BCCR bases its estimates on the SNA guidelines, while INEC follows the ILO guidelines. However, with the adoption of the SNA 2025, significant progress would be made toward harmonizing methodologies between both approaches. This implies convergence in the future, leading to more coherent and consistent labor and economic statistics. Such alignment would contribute to a more integrated and effective analysis, ultimately supporting the formulation of public policies.

The paper highlights, as well, the main challenges in its measurement, such as economic digitalization and informal cross-border flows. It also emphasizes the importance of the efforts made by the BCCR and INEC to unify the guidelines for measuring the informal employment.

2. Conceptual framework

The Data and Statistics Division (DDE) of the BCCR conducted an exploratory exercise for 2021 to estimate the VA of the informal sector and the informal employment based on SNA2025 recommendations.

Informal economy: All informal productive activities carried out by workers or economic units within the general production boundary; this includes informal household own-use production of goods and services, informal sector production, and the labor inputs that are used to undertake these types of production, as well as informal labor inputs in the formal sector.

Informal sector: Household unincorporated market enterprises and the associated labor input that are not formally recognized by government authorities because they are not registered for tax or similar purposes.

Informal employment: labor activity that is not covered by formal provisions such as labor laws, regulations or social protection. Includes self-employed workers, contributing family workers and dependent contractors without formal status.

Informal cross-border flows: transactions carried out by small units or informal workers, such as informal trade in goods and services, employment of non-resident workers, and remittances related to the informal economy.

Digitalization in the informal economy: economic transformation that facilitates participation in informal activities through digital platforms. It creates new types of employment and poses measurement challenges.

3. Data sources

The primary data sources are:

- i. National Survey of Household Microenterprises (ENAMEH)
- ii. Continuous Employment Survey (ECE) and
- iii. Cross classification by economic activity and institutional sectors.

3.1. National Survey of Microenterprises of Households (ENAMEH)

The ENAMEH survey is used to compile key indicators for estimating the household sequence of accounts. ENAMEH is designed to obtain information on the economic activities carried out by household unincorporated microenterprises.

The ENAMEH is aimed at productive activities carried out by independent or self-employed persons, according to the International Classification of Status in Employment (ICSE). These people work on their own account or as employers and develop market-oriented activities, but do not constitute formal enterprises.

To be considered in the ENAMEH, productive activities must meet at least one of the following conditions:

1. Not be registered in the National Registry as a company or company name with a legal identity card.
2. Not keeping formal accounting records that differentiate income and expenses in a complete manner.
3. Not assigning a fixed salary to the owner for his/her work in the economic activity.

These activities may be managed by a single person, with the support of unpaid family members, or with workers hired on an occasional or permanent basis and they can also be undertaken in association with other people.

3.2. Continuous Employment Survey (ECE)

The main objective of the ECE is to measure key indicators of employment, unemployment and informality, which are critical for the formulation of economic and social policies. This survey is conducted by INEC.

With the ECE it is possible to identify the extent of informal employment in Costa Rica, since it allows to measure:

- ✓ The proportion of workers in informal employment.
- ✓ Economic activities most affected by informality.
- ✓ Socioeconomic characteristics of informal workers.

4. Methodology

4.1. Exploratory exercise from national accounts

This section presents the process through which is estimated by an exploratory exercise, an estimation of the VA and employment of the informal sector following the SNA guidelines and considering the particularities of the Costa Rican economy.

Figure 1. Informal sector: Exploratory exercise to measure value added and employment



Source: own elaboration.

- 1. Identify household production:** The production and employment of the household sector by economic activity is identified through the cross-classification of institutional sectors and economic activities.
- 2. Select market production:** Once household production by economic activity is obtained, it is only considered the market⁴ production. This implies that household

⁴ The production of goods and services that are sold at economically significant prices in a market.

own-use production is excluded as it is not part of the informal sector according to the System of National Accounts (SNA) and it is also excluded labor inputs used to undertake household own-use production. In Costa Rica, household own-use production is concentrated in agricultural activities and owner-occupied housing services.

- 3. Excluding market activities due to regulatory formality:** It is included in informal sector-only market production carried out by workers that are not formally recognized by government authorities because they are unregistered for tax or similar purposes. As a result of the above, activities undertaken by workers that operate within a formal regulatory framework and cannot be conducted without the necessary legal permits are automatically excluded from the informal economy. These activities are:

- a) Human health care and social assistance services.
- b) Veterinary services.
- c) Legal activities.

All labor inputs used to undertake these activities are not included as part of informal employment.

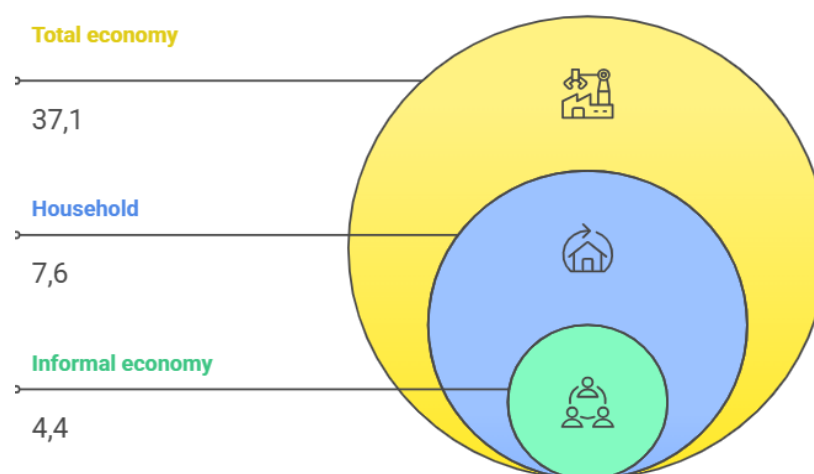
- 4. Estimate VA:** Once the production of the informal sector by economic activity is obtained, the corresponding VA is estimated applying the ratios VA/production of the units that are part of the economic activity informal sector.
- 5. Estimate informal employment by economic activity:** The steps mentioned above are followed to determine the number of informal employees.

5. Results

5.1. Exploratory exercise

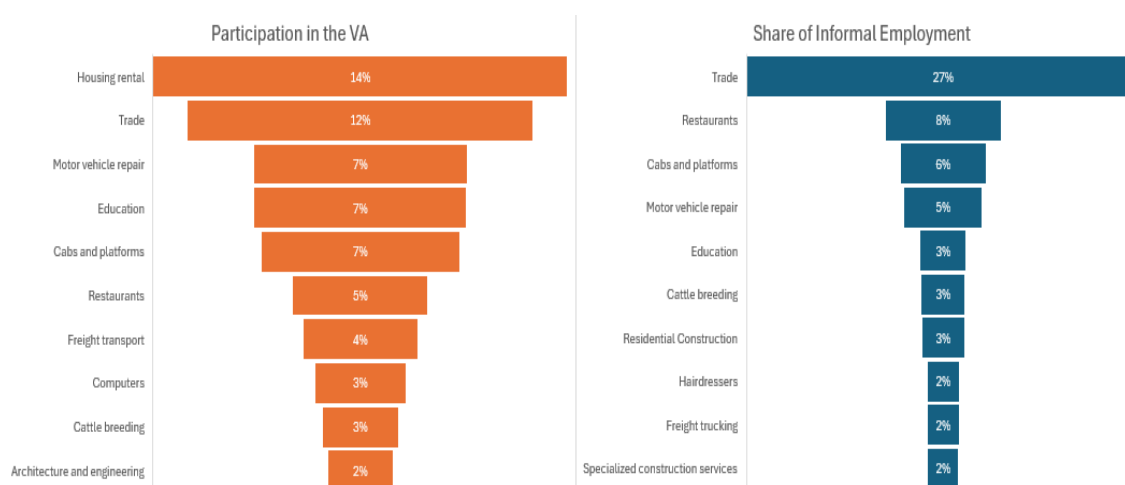
To contextualize the importance of the informal economy VA within the Costa Rican economy, the households VA and the informal sector accounted for 20 % and 12 %, respectively, of the total economy. Furthermore, when calculating the share of the value added of the informal economy within the value added of households, it is observed that 59% of the household VA is attributable to informal activities (Figure 2).

Figure 2. Value Added in trillions of colones 2021



Source: Prepared by the authors with data from BCCR.

Figure 3. Informal sector: Share of employment and Value Added by main economic activities
-in percentages- 2021



Source: own elaboration with data from BCCR.

The informal sector is mainly concentrated in activities such as housing rental, with the highest share in VA (14 percent), followed by trade (12 percent). Vehicle repair and education show a significant contribution to VA, indicating their potential for higher productivity. Other activities such as restaurants, cabs (Uber, Didi, etc.), reflect the predominance of traditional and low entry cost activities in informality (Figure 3). In terms of informal employment, trade is the economic activity with the highest share (27%), followed by restaurants (8%). This reflects the high labor turnover and ease of entry that characterize these sectors.

In general, the informal economy is concentrated in accessible and poorly regulated activities, which poses challenges for formalization and tax collection.

Table 1. 2021: Weight of informal employment in the economy by category

Category	Informal Economy	Total Economy	Informal Economy Weight
<i>Occupied Personnel</i>	718 268	2 307 362	31 %
<i>Wage Earners</i>	257 208	1 817 697	14 %
<i>Own Account</i>	328 593	347 199	95 %
<i>Entrepreneurs, Employers, Patrons</i>	99 181	102 967	96 %
<i>Unpaid Family Workers</i>	26 242	27 539	95 %
<i>Other Unpaid Workers</i>	7 045	11 959	59 %

Source: own elaboration with data from BCCR.

The results obtained indicate that employed persons represent 31 percent of the total economy and 14 percent in the employee category. The significant informality rates for entrepreneurs, employers and patrons and self-employed workers suggests that people who work independently face significant structural barriers to formalization, such as high regulatory costs, social charges, and lack of clear incentives to register in the formal system.

On the other hand, unpaid family workers also account for 95 percent of the total, the precariousness of family work, where the absence of direct income and social protection.

5.2. Informal employment ECE

This section complements the results obtained from the exploratory exercise with informal employment indicators from the ECE. The informal employment analysis process comes from data collected quarterly by ECE; to compare with the exploratory exercise annual data is used.

Figure 4. ECE: Informal employment analysis process



Source: own elaboration.

1. Select key indicators: key indicators related to informal employment and recommended by the ILO are identified.
2. Calculate annual averages: for each of the selected indicators, annual averages are calculated from the quarterly results provided by the ECE. This allowed to obtain a consolidated and representative perspective of the annual behavior, by eliminating possible seasonal fluctuations present in the quarterly data.
3. Analysis of annual data: the resulting annual data were analyzed to identify patterns, trends and possible correlations between different aspects of the labor market and informality.

ECE figures on informal employment in the country show that 45 percent employed population are in informal employment.

Table 2. Total population and share of informal employment in the total employed population 2021

Total employed population	2 039 832
Employed population with Informal Employment	920 389
Share of Informal Employment	45 %

Source: own elaboration with data from the ECE.

Informal employment by economic activity

The following table presents the total employed population and the number of workers in informal employment according to the economic activity in 2021.

Table 3. Total employed and informally employed population by economic activity 2021

Economic Activity	Total Employment	Informal Employment
<i>Primary Sector⁵</i>	238 227	139 225
<i>Secondary Sector⁶</i>	368 351	162 871
<i>Trade</i>	341 484	168 542
<i>Households as Employers⁷</i>	124 765	101 589
<i>Transportation, Storage, Accommodation, and Food Services</i>	231 841	145 575
<i>Professional, Administrative, Teaching, and Health Activities</i>	397 719	85 468
<i>Public Administration, Financial Activities, Communications, and Other Service Activities</i>	323 944	115 485
<i>Not Specified</i>	13 503	1 636
Total	2 039 832	920 389

Source: own elaboration with data from the ECE.

Table 3 identifies the informal employment by economic activity. The activities of Trade and transportation, storage, lodging and food services; are the activities with the highest concentration of informal employment respectively.

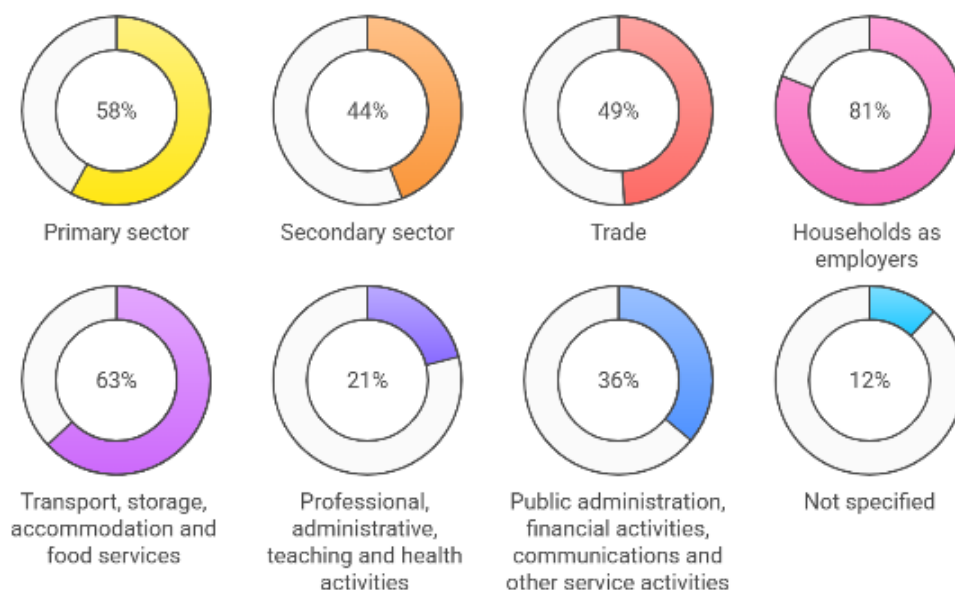
The following figure presents informal employment data by economic activity.

⁵ Includes agriculture, livestock, and fishing.

⁶ Includes manufacturing, construction, mining and quarrying, electricity, gas, steam and air conditioning supply, water supply, sewage disposal, and waste and pollution management.

⁷ Are those who carry out productive activities or businesses, such as micro or small businesses.

Figure 5. Share of informal employment by economic activity 2021



Source: own elaboration with data from the ECE.

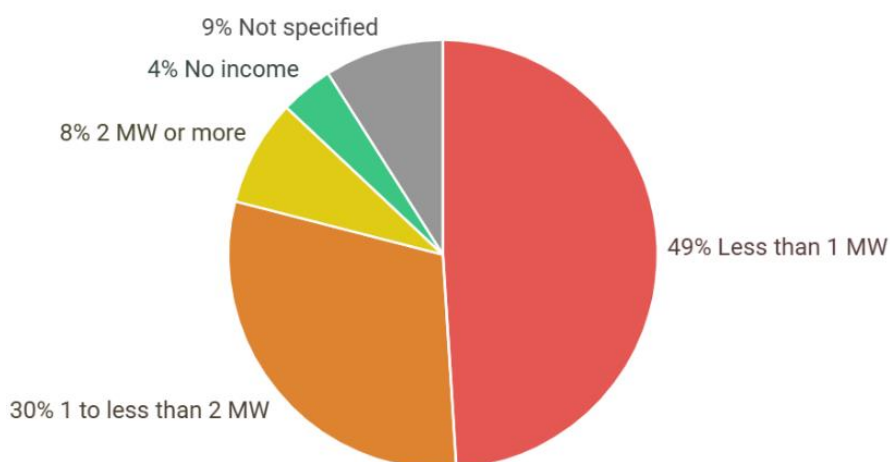
There is a high concentration in households as employers (81 percent), transportation, storage, lodging and food services (63 percent) and the primary sector (58 percent). These activities reflect typical characteristics of informality, such as low regulation, low barriers to entry and little government oversight.

On the other hand, professional, administrative, teaching and health activities have the lowest informality (21 percent), indicating that more specialized and regulated sectors tend to operate within the formal framework.

Informal employment by income range

The following figure illustrates the income distribution of individuals engaged in informal employment in Costa Rica during 2021. For reference, income based on the minimum wage (mw) in force in that year was ₡317,915.58 colones (approximately US \$512 at the average exchange rate in 2021) for unskilled workers. This classification provides insight into economic inequalities and labor vulnerability faced by those working under informal conditions.

Figure 6. Proportion of the income range of people in informal employment 2021



Source: own elaboration with data from the ECE.

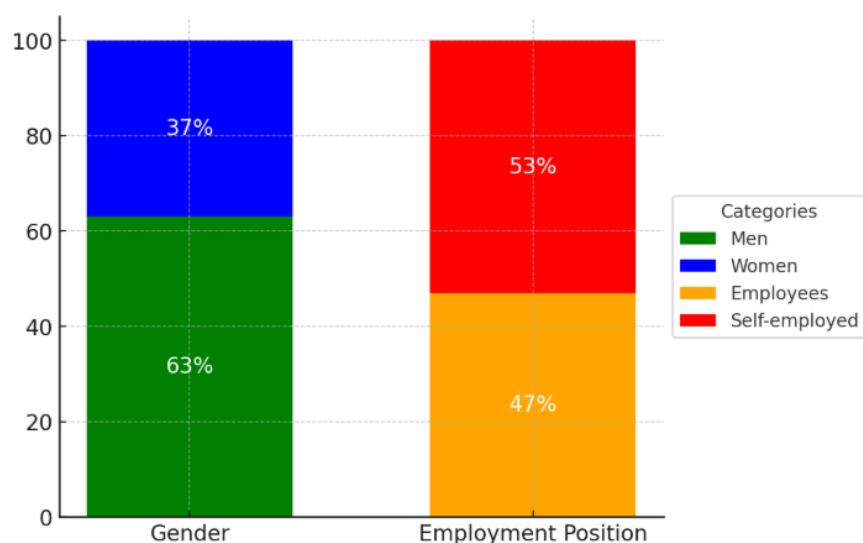
According to the figure 6, 49 percent of informal workers earned less than one minimum wage, which reflects a situation of significant precariousness in most informal jobs, since they do not reach the minimum income established to cover basic needs. This not only jeopardizes their quality of life, but also limits their ability to save and consume, and consequently affects their overall economic well-being.

On the other hand, 30 percent earned between one and less than two minimum wages, which suggests that an important part of this group has incomes just above the minimum level, but still insufficient to significantly improve their economic situation.

Informal employment by gender and position in employment

Figure 7 shows the distribution of informal employment in 2021 and highlights the differences according to gender and position in employment.

Figure 7. Share of informal employment by gender and position in employment 2021



Source: Prepared by the authors with ECE data.

The foregoing reveals a significant disparity in the distribution of informal employment by sex. This difference can be explained by several factors, such as labor market segmentation, the greater participation of men in activities traditionally associated with informality (such as construction and informal commerce), and the difficulties faced by women in accessing informal jobs due to unpaid responsibilities.

In terms of employment position, the figure shows that informal employment is more concentrated among the self-employed. This reflects a strong correlation between self-employment and informality, as self-employed workers tend to lack access to social protection systems and labor benefits. However, the classification is not as disaggregated, which limits a more detailed analysis of the different subcategories within these positions and their relationship with informality.

5.3. Indicators

The following are the estimated indicators and those pending according to the SNA recommendations.

Table 4. Indicators on the informal economy and employment

Indicators	Status
1. The extent of informality - the prevalence of informality in employment, economic units and activities.	Done
2. The composition of informality - the distribution of informal and formal jobs and economic units by socio-demographic characteristics.	Done
3. Exposure to informality - the share of people with informal main jobs and of economic units in the informal sector by socio-demographic characteristics.	Done
4. Working conditions and levels of protection of people in informal and formal employment, productivity and factors limiting or favoring the development and sustainability of informal and formal economic units.	In progress
5. Contextual vulnerabilities - including poverty, inequalities, discrimination and other conditions such as limited or no access to land and natural resources; and with respect to all sources of income and social protection of all household members, as well as household composition	In progress

Source: Prepared by the authors with data from the System of National Accounts.

6. Challenges

6.1. Informal employment

The Central Bank faces important challenges in obtaining data related to informal employment, particularly in aspects such as working conditions, levels of social protection and the factors that influence the sustainability and development of both formal and informal activities. It is also necessary to deepen the measurement of productivity and the identification of structural barriers that affect these economic units.

On the other hand, the methodological convergence between the ILO and the SNA represents a significant advance, since it reduces the gaps in the comparison of data between the BCCR and the INEC, by strengthening the quality and consistency of the available information. This alignment also helps to avoid duplication of efforts between institutions, optimizes resources and promotes a more efficient and coordinated analysis.

6.2. Economic digitalization and its relationship with the informal economy

Economic digitalization has driven the emergence of new digital activities, many of which operate informally. This phenomenon presents significant challenges for measurement, due to the absence of standardized registries and the reliance of formal businesses on informal digital platforms. In addition, legal and fiscal regulation is insufficient to address the complexity and novelty of these activities.

In Costa Rica, relevant efforts have been made to address these challenges, particularly through the incorporation of questions and modules related to the digital economy in national surveys. One example is the Economic Survey of Companies (EEE) of the Central Bank of Costa Rica (BCCR), which since 2018 includes specific questions on e-commerce and payment methods used by companies. This study seeks to generate more accurate data on digitalization in the Costa Rican productive sector, aligning with the SNA guidelines.

However, despite these advances, limitations persist. To move in this direction, it is essential to foster greater collaboration between national institutions and international actors.

6.3. Informal cross-border flows

In Costa Rica, the Central Bank (BCCR) has developed important exercises since 2011 to approximate the measurement of informal employment, particularly through studies on cross-border and seasonal workers. These investigations, conducted in the periods 2011-2012, 2013-2014, and 2017-2018, have provided relevant data on income and outflows of workers in key economic activities such as coffee, melon, sugarcane, bananas, and trade in border areas. However, these efforts represent preliminary approaches, which although they have been valuable in advancing the understanding of informality still do not manage to cover all its complexity in the country.

Among the main findings are the identification of hiring patterns in specific activities and the economic relevance of cross-border and temporary workers. For example, the studies show that in crops such as coffee, 70 percent of the workers are foreigners, mostly Panamanians and Nicaraguans, while in melon, sugar cane and bananas, 100 percent of the temporary workers are Nicaraguans. These exercises have made it possible to incorporate the remunerations of these workers in the current account of the Balance of Payments in accordance with the guidelines of the Integrated Balance of Payments and International Investment Positions Manual, Seventh Edition (BPM7).

Despite these advancements, challenges remain. Studies have highlighted the absence of standardized and comprehensive records that would enable an accurate characterization of workers' working conditions, social protection levels, and mobility patterns, particularly for those operating outside formal frameworks. Furthermore, it is acknowledged that current methods struggle to capture emerging economic dynamics and shifts in labor structures, emphasizing the need for ongoing improvements in tools and methodological approaches.

7. The Way Ahead

Costa Rica is currently conducting a comprehensive revision of the national accounts with reference 2022; this revision would include some of the recommendations of the SNA2025 and its scope incorporates the measurement of the informal sector as official statistics.

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