

FOR PARTICIPANTS ONLY

STAT/WAISQ/Azerbaijan

11 May 2004

ENGLISH ONLY

UNITED NATIONS ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

OECD/UNESCAP/ADB Workshop on Assessing and Improving Statistical Quality:

Measuring the Non-observed Economy

11-14 May 2004

Bangkok

Country Paper: Azerbaijan

Non-observed economy and its assessment in Statistical practice of Azerbaijan

This paper, prepared by Mr Nuru Suleymanov, Head of National Accounts Statistics Division, State Statistical Committee of the Republic of Azerbaijan, Baku, Azerbaijan, has been reproduced as submitted. It has been issued without formal editing.

Non-observed economy and its assessment in statistical practice of Azerbaijan

1. Introduction

Elements of shadow economy exist to some extent in all countries irrespective of social-economic structure and level of economic and social development. As the shadow economy is integral, and in some cases rather significant part of economy on the whole, in modern conditions there appeared acute necessity of its accounting and use of data on it in every possible economic and statistical researches all over the world.

2. Non-observed economy in the transitive period and factors influencing its scales

In the period of transition from centralized economy to market economy, completely different conditions were created for growth of the level of shadow economy and unaccounted activity on the whole. This growth is partly caused by economic reasons connected with development process of market relations, and partly - with inefficient performance organization of bank and tax systems, customs institutions and weak normative-legal regulation, the changes in which not always keep up with rapidly changing economic conditions.

With transition to free market economy and emergence of private sector number of the managing subjects in Azerbaijan sharply increased. In these conditions methods of overall statistical observance taking much time, material and human resources become low profitable for application forcing us to pass to statistical information gathering methods that are more acceptable for the changing situation.

Though on the basis of the Law of the Azerbaijan Republic "On statistics" statistical bodies have established obligatory order of presenting statistical reports by all enterprises working in the territory of the country irrespective of their kind of the property, part of them, for this or that reason appears out of sight of statistical bodies.

The basis of conducting statistical surveys is the State Register of Accounting Units (SRAU) which is compiled in State Statistical Committee of Azerbaijan.

Register includes the legal entities, local units and branches which have a bank account.

In institutional mean population of units of SRAU is: corporations, subsidiary corporations, quasi-corporations (excluding quasi-corporations owned by households), and non-profit institutions.

SRAU covers information on name, address, types of activity, organizational-legal form, type of ownership, number of employees and other information necessary for organization of statistical observations.

Data from units included to Register is collected through regional statistical offices located in each region of country. Activity of units included to State Register is under the complete registration annually and partial (sampling) in short term periods.

Besides SRAU in Statistical Committee of Azerbaijan, the Register of persons engaged in economical activity without creating legal entity is compiled, based and quarterly updated on data of Tax Authorities.

It is used for realization of sampling surveys and getting information on this group of units.

Main volume of agricultural output in the country is produced by quasi-corporations owned by households. For organization of statistical observations on this part of economical subjects, also the Register of Agricultural Land Owners was created 4.

Mainly, the information for compiling National Accounts is data collected from accounting units registered in SRAU, that is why the quality and actuality of Register is one of the factors affecting the completeness of coverage and quality of GDP. However, as it is indicated above, all of the enterprises acting in the territory of the country are obliged to give reports to statistical authorities, some of the units registered in SRAU by different reasons avoid to present information.

The other part of the enterprises giving reports to tax and statistical bodies try to understate information about their profit in order to reduce payments in the form of taxes and social deductions, which is one of the forms of hidden economy. Concealment of incomes is promoted also by huge number of cash deals in all business transactions.

Another important element of shadow economy in Azerbaijan is unregistered labor activity. The people not working officially anywhere carry out certain work at enterprises, are engaged in hawking, construction, repair and other activity in the field of goods and services manufacture. Most of them are villagers engaged in agriculture and having come to the city in search of a job, but for whatever reasons, not finding job or not wishing to work in the village. The scales of this factor are strongly increased by presence of refugees from the territories of the republic occupied during military actions; they have been torn off from their houses and habitual activity.

One more factor of shadow economy intensification in the transitive period is connected with opening of the country to external world and expansion of international relations. Along with positive influence on economy this process had also negative consequences by way of occurrence of mass smuggling on commercial level.

In the emerged situation, in connection with increase of its scales, shadow economy could no more remain out of the sight of statistics. Annually the problem of its accounting was the point at issue at the board of State Statistical Committee of Azerbaijan Republic.

3. Arrange of works on estimation of the parameters of non-observed economy

Taking into account little experience in this area, Statistics Management of the National accounts together with other branch managements and departments started studying sources, volume and different display forms of this phenomenon in all the branches of economy. Since 1998 the data on volume of shadow economy received from branch departments began to be used at accounting of the gross domestic product, but unfortunately, up to this day for the absence of good methodological materials and single program on study and estimation of shadow economy volumes, returns of estimations do not present fuller picture of this phenomenon.

Recently at finding out cases requiring study for maintenance of GDP scope completeness the State Statistical Committee of Azerbaijan Republic prefers the term “Non-observed economy” used by the European Union and reference on which may be found at the Decision of the European Committee 94/168/EC, where it is written down that “national accounts provide exhaustive measurement of manufacture in accordance with borders of manufacture, when they cover manufacture, primary incomes and use, data on which contained in statistical or administrative sources, are gathered with the help of direct and indirect survey”.

The term “non-observed economy” represents convenient name for description of the manifold of activity types included in CHC 93 in manufacture borders, which should be measured to get full set of national accounts, but on this or other reason have remained outside of statistic system.

It includes concepts of illegal economic activity, hidden (shadow or underground) and informal (including home, not market activity) activities in combination with any other activity stayed outside of the basic statistical program.

Today during economic transformations statistic experts of Azerbaijan have confronted with the problem of upgrading statistical estimation and accounting of non-observed economy for correct formation of macroeconomic parameters.

In 2000 department on shadow economy was established at the Statistics Management of National Accounts of the State Statistics Committee of Azerbaijan whose function includes arrangement and coordination of works in the field of estimations on unregistered activity, development of methodologies and realization of works directed to improvement of analysis and assessment of non-observed economy. The works on perfection of national model and concept of non-observed economy, methods of its estimation, arrange and realization of statistical inspections are conducted. Besides experts of our department are working on drawing up of tables expenses-issue, which are a good tool for analysis and perfection of the given national accounts. But one thing must be noted that success of measures on perfection of non-observed economy measurement depends in many respects on arrangement of works on identification and correction of weak places in the basic program of economic statistics.

Generally, following model of non-observed economy is accepted in statistics of Azerbaijan:

1. Unregistered illegal activity;
2. Informal activity;
3. Activity solved by the legislation, but not registered officially;
4. Distortion of the data connected with scope and updating of statistical register;
5. Not getting answers at official statistical surveys;
6. Understatement of data in official statistical accounting.

Certainly, branch departments of statistics play the decisive role in measurement and assessment of the data on non-observed economy, as they have irrefragable knowledge on:

- Components of non-observed economy, which should be assessed in their specific branch;
- Strong and weak sides of the data worked out by them;
- Problems of data acceptance connected with estimation of non-observed economy.

N.Suleymanov,

Chief of the Division of
National Accounts

**Calculation structure of non-observed economy under NACE sections
(by the data of 2002)**

NACE sections	Non-observed economy	
	Specific weight on section, %	Specific weight on GDP, %
A. Agriculture, hunting and forestry	29.7	4.4
B. Fishery	94.1	0.2
C. Mineral resource industry and quarrying	-	-
D. Manufacturing industry	39.3	6.8
E. Electric power, gas and water supply	-	-
F. Construction	5.3	0.5
G. Wholesale and retail trade; repair of cars, motorcycles, household goods and personal use items	35.0	2.9
H. Hotels and restaurants	4.8	0.0
I. Transport, warehousing and communication	22.9	2.4
J. Financial intermediation	-	-
K. Real estate operations, rent and commercial activity	10.0	0.3
L. State management and national defense; obligatory social insurance	0.3	0.0
M. Education	14.3	0.7
N. Public health and social services	21.6	0.4
O. Other communal, social and personal services	12.7	0.6
Sum in GDP	-	19.2

Simplified model of non-observed economy