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Measuring the Non-observed Economy

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### **Country Paper: Russian Federation**

#### **Some aspects of Non-Observed Economy measurement in Russia**

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This paper, prepared Mr Alexander Kevesh, Deputy Chairman of Goskomstat of Russia, Moscow, Russian Federation, has been reproduced as submitted. It has been issued without formal editing.

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**“Some aspects of Non-Observed Economy measurement in Russia”**

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1.1 Business - register

The Statistical register functions and is created in bodies of state statistics of Russia.

It includes an administrative part, a statistical part, lists of supervised objects on concrete statistical tasks.

The administrative part contains information from the constituent documents of the managing subject: name, address, organizational and legal form, structure of the founders, size of the capital stock. Also, in the administrative part of the register each managing subject is identified, based on application of the all-Russian classifiers of technical, economic and social information: a unique identification code, classification attributes: codes of placement, organizational and legal form, forms of ownership, subordination towards different departments, types of economic activity.

The statistical part of the register apart of the specified identification contains a number of attributes, which are used for organization of statistical survey.

These are:

- code of the Basic type of activity, which is determined by methods, harmonized with a harmonized technique, used by statistical services of the European states;
- type of the enterprise (large, subject of small business etc.);
- attribute of reference to public sector of economy;
- attribute of belonging to subjects of natural monopolies;

The managing subjects, that are included in the business-register are those, that have a state registration according to the legislation of Russian Federation.

These are legal units and their detached divisions, private entrepreneurs. In early 2004 the register counted 4,1 million legal units and their detached divisions (branches and representations) and 4,7 million of individual businessmen. However, according to indirect signs, nearly one million legal units and over one million businessmen have stopped their activities, without a legal liquidation.

The following observation units of the statistical register are applied:

Legal unit, linked to a legal person, or several legal persons connected as a rule by the production;

Local unit - detached or structural division of a legal person located at the address, which is distinct from the main organization;

Group of the enterprises - some legal persons and/or local units united, as a rule, by financial connections;

Individual entrepreneurs.

Such units as institutions, local unit by form of activity and households are now not being used in the register.

The size of VAT, number of personnel or any other criteria is not influencing the procedure of inclusion of the managing subject in the register.

The updating of the administrative part of the register is carried out daily. The statistical part of the register is formed in the beginning of each accounting year.

## 1.2 Industry

The estimation of scales of economic operations unobservable by direct statistical methods is carried out in the framework of the national qualifier OKONH (branches of the national economy). The methods of estimation and scales of economic operations which are not under direct statistical supervision are studied now in the framework of OKVED, as this qualifier is introduced in the practice of state statistics since January 1, 2004.

Data of households sample surveys, administrative statistics etc. are used as sources of estimation of complete volumes of economic operations, including the unobservable.

The adjustment of value added parameters of the non-observed economy, including production for market sales and own consumption of non-corporate enterprises constitutes 22-25%.

While assessing the output, data are compared, which characterize the supply and demand.

The indicators of the National Accounts System contain parameters of the hidden economy (latent economic activity and informal activity). The illegal economic activity is not currently included in the framework of the manufacturing.

The parameters of the hidden economy are estimated both at the stage of production, and at stages of formation and use of the incomes.

In the first place, estimations of the latent and informal activity are carried out at the level of branch statistics. Thus various methods are applied: a balance method, method of commodity flows, estimation based on special surveys, expert estimations. These accounts are carried out at a level of branch statistics, and then are used in the definition of the national accounts indicators. During the construction of the "Input-Output" tables, the final updatings are made, containing parameters of economic operations that are not falling under direct statistical supervision, as well as the statistical divergences.

## ***2. Expenditure***

### 2.1 Household final consumption expenditure (HHFC) and the Household Sector

When defining the final consumption of households, the basic sources of the information is the data on the turnover of retail trade and public catering, as well as data on volume of paid services to the population are used. In statistics, the mechanism of precalculation of these parameters on concealment and informal activity exists, and allows to achieve equation of resources and use of goods and services for household final consumption.

Consumption of illegal kinds of production is not currently included in the framework of household's final consumption.

The consumption of own made production includes mainly agricultural production. The estimation of this indicator is made on the basis of natural and cost balances of basic kinds of agricultural production in of the population households.

## 2.2 Government Final Consumption Expenditure

The estimations of the Government Final Consumption Expenditure are formed on the basis of the reports on budgetary performance of all levels, and also reports of government extra-budgetary funds. Thus the data from the budgetary performance report is used, composed in accordance to economic and functional classification. For calculate this indicator, estimations of fixed capital consumption of governmental management bodies are also used.

## 2.3 Final Consumption Expenditure of NPISH

Final Consumption Expenditure of noncommercial organizations serving households are estimated on the base of sample surveys of activity results of these organizations, organized once per two years.

## 2.4 Gross Fixed Capital Formation.

Currently, balance cost sheet is not compiled in Russian Federation.

In practice, the concept “Fixed assets” is used, which are understood as produced assets, used repeatedly or constantly during a long period, not less than one year, for production of goods, rendering of market and non-market services.

Large and medium commercial organizations and (in reduced volumes) noncommercial organizations are providing, within the framework of state statistical survey, information on availability and movement of fixed assets and some other non-financial assets.

Definition of the cost of fixed assets of households (habitation belonging to physical persons and fixed assets of non-corporative enterprises, created by households (entrepreneurs without formation of a legal unit) is carried out by computational methods. There is no accountancy available on these fixed assets, and statistics possesses mainly data in natural expression available for the calculations – data on number of cattle, quantity of agricultural equipment, surface of area of habitation, data on the trade area, used by businessmen, quantity of license on transport activity etc.

The method of continuous inventory used in other countries for calculations of fixed assets cost, is used in the Russian statistical practice for getting the missing data on age structure of fixed assets and appraisalment of household goods.

The structure of fixed assets is defined on the base of the All-Russian qualifier of fixed assets (OKOF), introduced in 1995. It includes buildings, structures, machines and equipment, vehicles, cultivated assets - cattle and longstanding plantings etc., as well as non-substantial fixed assets (geological exploration, computer software, original products of the entertaining genre, literature and art, knowledge-intensive industrial technologies, other non-substantial fixed assets).

Indicators, describing «non-substantial fixed assets» are included in the forms of statistical surveys on fixed assets, but the getting data on non-substantial fixed assets on the basis of the data of the primary and book-keeping accounting is complicated by the presence in it of only general category «non-substantial fixed assets », as well as by the incomplete reflection in the accounting and reporting of costs of non-substantial fixed assets acquired and created by organizations.

On the basis of these forms of statistical observation and with the help of models of calculations, currently the balance of fixed assets on full reported value and depleted cost of balance is made in the statistical practice. The principles of the cost accounting of fixed assets used in it, are similar to those, used in book keeping - fixed assets are taken into account at the purchase cost (historical cost) or in the mixed prices, if a part of these assets is taken into account on a replacement cost as a result of reassessments (taking place during the last years on a voluntary basis).

Besides, balances of fixed assets in middle-year prices of the reporting year and in real prices are made, in which all parameters of availability and movement of the fixed assets for one year are recalculated in uniform prices - accordingly, in middle-year prices of the given year or in the prices for a unified basic date.

Methodological principles of cost parameters reflection for fixed assets in balances of fixed assets formed in mixed prices, in middle-year prices of accounting year, and in constant prices have certain differences from the principles of their reflection in balance cost sheet of SNA.

These differences are linked to some distinctions in the structure of fixed assets in SNA and in the practice of the Russian book-keeping and statistical account (first of all - in approaches to allocation of objects of the uncompleted construction to fixed assets), and also to different principles of estimation of fixed assets and reflecting cost changes during one year in balance cost sheet of SNA and fixed assets balances. During the transition to building up a balance cost sheet, the divergences will be eliminated.

Currently, the basis of calculating total accumulation of fixed assets (VNOK) is the indicator of investments in fixed assets, which reflects expenses of institutional units on purchase of fixed capital, as the balance cost sheet, in which fixed capital should be accounted in the framework of current methodology of SNA, at current market prices, is not yet built up.

Total investments in fixed capital include construction, expansion, reconstruction, modernization of objects, purchase of machines, equipment, tool and stock, formation of the basic herd, cultivation of longstanding plantings expenses.

Information on investments in fixed capital is formed on the basis of methods of direct statistical survey, sample survey, calculations of latent, informal activity.

To define amounts of total investments, two methodological approaches are used:

«balance» method – an approach based on balancing of manufacture, distribution and use of investment resources (construction and other materials, used at implementation of construction works, and also production of mechanical engineering without the account of its separate types, usually consumed as personal demand items);

«combined» method – an approach based on combinations of direct statistical observation data, data from administrative sources and modeling calculation.

## 2.5 Changes in Inventories

Calculation of floating capital is carried out on the basis of statistical surveys and data of bookkeeping. The property of the citizens is taken into account in household's consumption in the part of durable goods and is not considered when calculating floating capital.

While assessing the change of stocks, data of enterprises on availability of stocks in the beginning and end of each quarter is used on following types: production reserves, finished goods, goods, incomplete production. Calculation of stock addition is carried out with taking into account of corrections for holding income.

## 2.6 Acquisitions Less Disposals of Valuables

Russian statistics does not yet make work on defining all valuables costs, which are possessed by the state, legal and physical persons. The only estimation made is that of costs of jewelry that is in possession of the population. The cost of these products in purchasing prices is defined as the sum of their sales in retail trade for all previous years, in current prices - by recalculating them in the cost of sales on the basis of price indexes.

Net purchase of valuables is estimated by a balance method in the part of precious metals.

## 2.7 Imports and Exports of Goods and Services

In foreign trade statistics, according to the UN recommendations («Statistics of international goods trade: concepts and definitions», 1998), and also to IMF Manual on payment balance (ПИБ5, 1993) commodity flows which are not registered by customs bodies, are taken into account besides the data of customs statistics received based on customs cargo declarations, filled by the participants of the foreign trade activity:

- data of statistical survey of foreign trade of Russian Federation with Republic of Byelorussia, with which customs borders do not exist;
- data of statistical surveys of export (import) volumes of goods which are not crossing customs borders of Russian Federation (fish and seafood, caught and sold in neutral waters; fuel and goods acquired by foreign (Russian) vehicles in Russian (foreign) ports;
- precalculations of the Bank of Russia to data of foreign trade statistics, that includes cost estimates of the goods imported (exported) by physical persons within the limits of established duty-free quote and in simplified procedure, and other elements of precalculation.

If the first two elements included in foreign trade statistics are nor results of informal activity, but represent the direct data of statistical reporting of legally working organizations, the precalculations on activity of the physical persons in the trans-border flow of goods can be linked to estimations of informal economy. Precalculations are carried out by use of data on retail sale of goods on ware, mixed and food markets (where the imported thus goods are encashed) and estimation data on share of import goods in the total amount of sales on separate commodity groups.

## ***3. Employment/labor statistics***

### 3.1. Measurement of employment in the informal sector of economy

Since 2001, in Russian Federation during the implementation of population census results, due to problems of employment it is planned to form information on number and structure of people engaged in the informal sector of economy.

While working out criteria for classification of the occupied population by belonging to informal sector of economy, regulations of the Resolution concerning statistics of employment in the informal sector, accepted by 15 International conference of labor statistics (January, 1993) were used.

Based on data of population census on problems of employment, about 10.6 millions people were occupied in the informal sector in 2003. Of them, 8,7 millions people (83%) had their main place of work in this sector. For 1,8 millions people (17%) employment in informal sector was an additional source of income.

The informal sector covers 14-16% of the total number of the occupied population. Among the village inhabitants, employment in informal sector of economy differs from 27% to 29% of the total number of the occupied village population, among the city inhabitants - 10-12%.

### 3.2. Measurement of labor expenses to produce goods and services on all kinds of works

Calculation of cumulative expenses of labor and drawing up labor accounts is a new direction in statistical practice of Russia.

In 2003, Goskomstat of Russia produced experimental calculation of cumulative labor expenses indicators in branches and sub-branches of economy and industry as a whole for Russia for 1999-2001.

Starting from 2003 results, regular calculations of cumulative labor expenses indicators on production of goods and services by branches of economy and industry are integrated in all subjects of Russian Federation. The calculations will be compiled, on the average, once in a year.

### ***4. Fiscal Data***

Fiscal data is used in composite pattern to define the size of production tax accruals. It is not used during the implementation of estimations of the non-observed economy.

Detailed information on the tax burden of small enterprises or any other is not available to state statistics.

Calculations of final consumption and accumulation of governmental management sector are carried out within the framework of building up of this sector accounts. In so doing, data from reports on implementation of budgets, compiled based on economic and functional classification, as well as data of governmental extra-budgetary funds is used.

**NUMBER OF EMPLOYED IN THE INFORMAL SECTOR OF ECONOMY  
BY TYPE OF ACTIVITY  
in 2001-2003 (averages for a year)**

	<i>Total, thousand people</i>	<i>Including</i>		<i>In % to the number of employed in the informal sector</i>		<i>Employed in the informal sector</i>
		<i>Main or the only place of work</i>	<i>Secondary place of work</i>	<i>Main or the only place of work</i>	<i>Secondary place of work</i>	<i>In % to the total number of employed people</i>
<b>Total</b>						
2001г.	9184	7129	2055	78	22	14,3
2002г.	9531	7411	2120	78	22	14,4
2003г.	10587	8740	1847	83	17	16,1
<b>City inhabitants</b>						
2001г.	5145	4565	580	89	11	10,5
2002г.	4984	4478	506	90	10	9,9
2003г.	6126	5643	483	92	8	12,2
<b>Rural inhabitants</b>						
2001г.	4039	2564	1475	63	37	26,5
2002г.	4546	2933	1613	65	35	28,6
2003г.	4461	3097	1364	69	31	28,6
<b>Men</b>						
2001г.	4780	3675	1105	77	23	14,3
2002г.	4911	3775	1136	77	23	14,5
2003г.	5508	4520	988	82	18	16,4
<b>Women</b>						
2001г.	4404	3454	950	78	22	14,2
2002г.	4620	3636	984	79	21	14,4
2003г.	5070	4220	859	83	17	15,8