NON-OBSERVED ECONOMY OF MONGOLIA

1. CURRENT PRACTICES AND STATUS

The National Statistical Office of Mongolia has implemented a number of projects to reflect the activities of informal sector in the national economy to the GDP estimation step by step in parallel with the other countries.

Since 1997, the estimations of size of the non-observed economy have been made with the support of international organizations. The first survey was conducted in 1999 under the recommendations of the World Bank consultant Mr. Bill Bikales and the informal activities in retail trade sector (kiosk, small retailers operating in the street and market), transportation (taxi driver), and food services were added to the official GDP of 2000 for the first time. Since this year, value added of informal sector was estimated by extrapolation on the basis of CPI changes and number of people working with the licenses.

The operators who have undeterminable income that is not required to report to the tax authority were covered in the Establishment Census of Mongolia which was conducted in 2006 and the databases of their activities were created. Based on the census results, the activities of those operators were classified by the economic activities and their output reflected to the estimation of GDP of 2006. Also, the previous years’ calculations were updated according to the census results.

However, the value added of the informal sector is calculated by using above mentioned surveys’ results and reflected to the official GDP; but there are further needs to improve and update the associated estimations. Also, it is required to cover the other activities that are included in the concepts and frameworks of the non-observed economy to the estimations of informal sector and to complete the calculations.

For the first time, the NSO of Mongolia has estimated the size of non-observed economy in the frameworks of N1-N7 applying the “Handbook for Measurement of the Non observed Economy, 2002” and “System of National Accounts, 2008” which were jointly produced by Organization for Economic Co-operation and Development (OECD), Statistical Committee of the Commonwealth of Independent States (CIS-STAT), International Labor Organization (ILO), International Monetary Fund (IMF), United Nations Statistical Commission (UNSD) and World Bank (WB) and the “Handbook for Non observed economy in National Accounts” which includes the UN and EU’s countries practices.

Within the framework of the estimation of the non-observed economy of Mongolia, the NSO carried out the several numbers of surveys and calculations. The NUEMs was conducted in 2012 at the national level and the survey results were used to determine the total production of informal sector. In addition, the other frameworks of non-observed activities such as illegal and underground productions were estimated on an annual basis using the associated administrative data sources.

The NSO conducted surveys in accordance with the international framework (N1-N7) of the non-observed economy such as survey of household unincorporated enterprises producing for the market (survey of household unincorporated enterprises producing for the market cover non-agricultural and non-mining, (survey of artisanal mining), survey on Experts opinion of intentional distortion of business accounting, estimation of illegal production.

We consider the Mongolian economy situation, agricultural sector and mining sector uncovered in survey of HUEM based household. The HUEMs were conducted by the “1-2-“method which was recommended by the UNESCAP and DIAL of France and has been implemented in countries such as Mexico, Peru, West Africa, Madagascar, China and Bangladesh since 1990. Agricultural and mining sector were excluded. This method generally has two phases which conduct the LFS and HUEMs sequentially.

The sampling of the survey of HUEM was based on the sampling of the LFS. HUEMs were covered by following criteria.
Total HUEMs selected, weight of LFS used direct. HUEMs can best describe as:

- A unit engaged in the production of goods or services with the primary objective of generating employment and incomes to all persons concerned.
- Characteristic of HUEMs same the household production.

Production of informal sector and own final use of NOE were estimated from results of survey of HUEM.

**Informal sector production**: Informal sector was considered a sub-sector of the SNA institutional sector households. Enterprises that produce for the market, not fully consist in the official registration and tax, businesses with undeterminable income covered in informal sector. Not all Enterprises are officially registered HUEM of informal sector separates registered and nonregistered enterprises.

**Household production for own final use**: Production undertaken by household unincorporated enterprises exclusively for own final use by the owners’ households is not part of the informal sector according to the 15th ICLS Resolution, and is thus regarded as a separate NOE problem area.

Coverage of household production for own final use is included: Services of owner occupied dwellings, Activities of households as employers (Domestic services produced with paid staff)

**ILLEGAL PRODUCTION**

The illegal production shows the N2 framework of the non-observed economy and it is divided into the following 2 categories by the type of activity. In which:

- To produce, transport, sell, store and transfer to others the goods and services which are out of law
- To run the activities illegally or without permissions even though the activities are legally accepted

The illegal activities such as drug trade, smuggling of goods and prostitutions which are compromised between the 2 sides of the retailers and purchasers are included in production boundaries. But the other illegal activities such as robberies which are not compromised between the 2 sides are excluded in production boundaries. Therefore, the illegal activities which are not compromised between the 2 sides are defined as the
special type of external factor and their values are not included in national accounts. The drug trade and prostitutions which are dominated in the illegal activities were included in current estimations.

Drug trade and consumption

Data source. The calculations of the drug trade were made based on the associated information and surveys from the Police organization and the some administrative data of the Customs office and Health organizations. It is seen that the estimations of drug trade could be improved through putting the different conditions to the share of the seizure drugs and the vulnerability analysis in each time. The information such as the share of the drug users to the total population, the number of patients, the number of crimes, the size of seizure drug and the market price of drugs were used for the estimations. Also, the neighboring countries’ price information was used for this calculation.

By 2010, the number of drug users reached to over 400. Between the 2008 and 2011, totally 4.2 kg of heroin, 19.1 kg of cannabis, 30 gram of amphetamines and 15978 pieces of drugs were detected and seizure.

The prostitution

Data source. The several surveys conducted by the NSO and other organizations were used by the data source for the calculations of the prostitutions. For instance, NSO conducted the “Survey on sex workers and sexually exploited children” in 2010. Based on information such as the number of total prostitutes of which the number of prostitutes who serves to the foreigners and the monthly average income, the estimations was made.

According to the survey results of 2010 which was conducted in 8 districts of Ulaanbaatar, totally 4640 prostitutes were surveyed.

UNDERGROUND PRODUCTION

The underground production shows the N6 framework of the non observed economy. In N6, the goods and services that produced legally but not misreported in official statistics due to next several reasons. In which:

a. Evade the income tax, value added tax and other taxes;
b. Evade the social security contributions;
c. Evade to adhere the statutory standards (for example, evade to adhere the minimum wage, maximum working time, labor safety and the hygienic standard )
d. Evade the administrative rules and regulations (for example, evade the statistical questionnaires and administrative registration)

According to the recommendations of SNA-2008, the hidden or underground economy will cover the activities that evade the administrative regulations and duties and the felonious activities will be included in the illegal activities. For this estimation, the parts who avoid paying the taxes and social security contributions and hiding their incomes were covered.

Data source. We used the information such as the amount of tax that levied on partly paid income of the entities, the number of inspected entities and the number of registered establishments that carried out their activities in reference period.

By 2010, totally 35276 establishments carried out their activities. Of which, the tax inspections were made for 9465 establishments. Those establishments were divided into several groups by their income nearby interval. In the results, totally 615.4 billions of togrog's underestimated outputs were estimated by 2010. Among the industries, the 48.6 percent of mining and quarrying sector's production and the 29.6 percent of trade sector's production were underestimated, respectively. All adjustments for the non-observed economy have implications on GDP estimates. GDP is computed by three methods (production, income and expenditure method). Adjustments for informal and hidden economic activities are made for GDP calculated by all methods. In the calculation of GDP by the production method, adjustments are made for related sectors. In calculating GDP by the expenditure method, the main adjustments are made to households’ expenditure for final consumption. Small adjustments are made to fixed capital formation, mainly in construction of private dwellings.
TABLE 2. THE SHARE OF NON-OBSERVED ECONOMY TO TOTAL ECONOMY (MLN.TUG), 2010

<table>
<thead>
<tr>
<th>Industries</th>
<th>NOE</th>
<th>GDP</th>
<th>Total economy (NOE+ GDP)</th>
<th>Share of NOE to total economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1 332 093.1</td>
<td>8 414 504.5</td>
<td>9 745 568.2</td>
<td>13.7</td>
</tr>
<tr>
<td>Agriculture</td>
<td>8 060.2</td>
<td>1 203 348.0</td>
<td>1 211 408.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>305 661.8</td>
<td>1 981 970.1</td>
<td>2 287 631.9</td>
<td>13.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>84 089.5</td>
<td>708 931.6</td>
<td>793 021.1</td>
<td>10.6</td>
</tr>
<tr>
<td>Electricity, gas, steam and air conditioning supply</td>
<td>1 454.2</td>
<td>174 302.8</td>
<td>175 757.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Water supply; sewerage, waste management and remediation activities</td>
<td>2 230.2</td>
<td>33 051.7</td>
<td>35 281.9</td>
<td>6.3</td>
</tr>
<tr>
<td>Construction</td>
<td>82 511.7</td>
<td>147 178.0</td>
<td>229 689.7</td>
<td>35.9</td>
</tr>
<tr>
<td>Wholesale and retail trade; repair of motor vehicles and motorcycles</td>
<td>528 875.9</td>
<td>1 310 622.1</td>
<td>1 839 498.0</td>
<td>28.8</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>186 841.2</td>
<td>659 297.7</td>
<td>846 138.9</td>
<td>22.1</td>
</tr>
<tr>
<td>Accommodation and food service activities</td>
<td>28 266.1</td>
<td>54 553.4</td>
<td>82 819.5</td>
<td>34.1</td>
</tr>
<tr>
<td>Other services</td>
<td>104 102.3</td>
<td>2 141 249.1</td>
<td>2 245 351.4</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Hereafter, the NUEMs would be conducted every 5 years. Therefore, the value added of informal sector of the intermediate years could be calculated based on the previous survey’s results and number of units which was identified by the Labour Force Survey. And it is possible to estimate the size of other frameworks of non-observed activities annually.

CHALLENGES We endeavored and fulfilled our goals very successfully but we could not cover and catch 2 groups from 7 such as N4 (legal persons not surveyed), N7 (Other statistical deficiencies).

CONCLUSION The main objective of the survey and calculation was to define the size of non-observed economy and also, to determine the size of informal employment and the value added produced by the employees which involved in informal sector. In order to conduct this survey, we fixed up the previous surveys’ informative issues and covered all the main frameworks of the non observed activities. Thus, it is seen that this survey was more advanced than others. The NUEMs, the estimation of illegal production and the assessments of the entities who hidden their income were made respectively and the results were combined in order to estimate the non observed activities.

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