

REPORT

**REFLECTION OF THE COVERT AND INFORMAL
ECONOMY IN NATIONAL ACCOUNTS OF
THE REPUBLIC OF BYELARUS**

**JOINT OECD-EUROSTAT-GOSKOMSTAT OF RUSSIA WORKSHOP ON
MEASUREMENT OF THE NON-OBSERVED (COVERT) ECONOMY**

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REFLECTION OF THE COVERT AND INFORMAL ECONOMY IN NATIONAL ACCOUNTS OF THE REPUBLIC OF BYELARUS

At present for formation of macroeconomic indicators the Republic of Byelorussia faces an urgent task statistical measurement and accounting of the shadow economy due to its soaring share in the course economic reforms and during introduction of market relations. The reason for that lies in the fact that during creation of an economy with many modes of production the legal framework formation is lagging behind, institutions exercising control over activities (tax authorities) are being set up, the private sector is expanding due to privatization of state enterprises, new private businesses are mushrooming, while accounts in the economy's new sectors remain imperfect, the income gap is increasing and people have to seek new income sources to keep their living standard.

The shadow economy should be statistically surveyed on the basis of the theoretical definitions given by the 1993 System of National Accounts. The shadow economy includes activities in goods production and services delivery, as well as an illegal income and assets redistribution.

At present the informal sector of the Republic's economy is under evaluation. The informal (or non-observed) sector accounts activities performed mainly legally by individual producers, or the so-called non-corporate enterprises, i.e. businesses owned by persons, households that have not been registered in a proper way and are based on informal relations between those who participate in production and who fully or partially produce products and services for their own consumption.

The Ministry of Statistics evaluates regularly the informal sector. In SNA adjustments are made to total GDP and GDP by kinds of final expenditures and by the primary income categories.

Sample surveys of domestic households are the main sources of information about the economy's informal sector.

Sampling covers 6,000 households of Belarus. That is 0.2% of the Republic's total. The sampling segregated the rural and city dwellers for the sampling's better coverage of the Republic's territory by the type of its population.

The survey structure consists of four consecutive quarterly questionnaires (interviews) that cover the whole sampling of households in a calendar year, the next calendar year sees a totally renewed sampling providing its rotation.

The sample surveys conducted in the Republic provide data on income and expenditures of households covering wide classification of goods and services.

Comparing data on paid services provided to domestic households by natural persons and legal entities with the statistical accounts data on paid services provided to the population, final counts on production, intermediate consumption and value added of the “domestic households” sector by type of activities (industries, construction, transportation, services, healthcare, education) are provided.

Besides, households sector is expertly evaluated in specific industries using some other data sources.

Industries

The share in the total industrial output of output produced by the population is not big.

There is an experimental estimate of the alcohol output produced by households. It is equal to total sales in sugar minus sugar consumption by the population multiply by price of one liter of alcohol produced by households (80% of the product’s average price in the state trade network). Calculation is made by the following formula:

$$U = (T - N) * P, \text{ where}$$

U – value of alcoholic products produced by households (million of Rubles);

T – amount of sugar sold to the population through all channels (kilograms);

N – amount of sugar consumed by the population (in accordance with the sample surveys of households) (kg);

P – price per liter of alcohol produced by households (million of Rubles).

The intermediate consumption is expertly estimated taking into account the share of intermediate consumption in liquor-vodka industry.

Moreover, the output in industries includes finish accounts by industrial kinds of services provided to the population in this type of activity according to the data of households sample surveys.

The following formula is used for estimation:

$$U = V/R * R_c, \text{ where}$$

U – output of industrial kinds of services to the population (million of Rubles);

V – “Industries” output by small businesses (data from forms No 1-МП) (million of Rubles);

R – number of people employed by small businesses in the “Industries” sector (data from form No 1-МП), (persons);

R_c – number of the self-employed (data of sample surveys of domestic households), (persons).

The intermediate consumption is expertly accounted considering the share of intermediate consumption in the corresponding industries.

Agriculture

The better part of the agricultural output is produced by private subsidiary holdings, a considerable part of this out put is consumed by households themselves.

The agricultural output of households consists of the plant growing and animal husbandry outputs.

The plant growing output is calculated separately for a specific district (territorial unit) on the basis of annual surveying of the households’ crop areas for various crops using an average per hectare yield capacity and sale prices typical for the territory.

The animal husbandry output is also measured for each particular district on the basis of the households survey data on the number of cattle by its kinds, the latter’s’ average productivity, sale prices.

Gathering and Hunting

The value of hunting products and those gathered by the population in forests is calculated on the basis of the households sample surveys and sale prices of collecting and hunting enterprises for these kinds of products. The intermediate consumption is not estimated.

Construction

Construction works are performed in the Republic not only by officially registered construction enterprises but also by informal construction teams and people themselves.

The “Construction” output in part of garage construction and building of premises on personal plots of land by owners themselves is calculated by cement usage by the population according to the following formula:

$$U = g : (G : P), \text{ where}$$

U – individual construction (carried out by the population itself) output (million of Rubles);

g – cement consumed by the population (tons);

G – cement consumed to perform commissioned construction and installation works (tons);

P – value of commissioned construction and installation works (million of Rubles).

Transport

Individual producers have lately accounted for a considerable part of transportation services in Belarus. Since objective information can hardly be collected from individual entrepreneurs, data are being collected indirectly.

Private transportation services are estimated in the following way:

$$U = K * P * T^*, \text{ where}$$

U – vehicle transport services output (million of Rubles);

K – number of licenses issued by local authorities and the Transport Ministry (pieces);

P – average income of state-run taxies (million of Rubles);

T – number of workdays.

The output of services provided by licensed individual entrepreneurs is calculated in the same way, using the data of quarterly surveys conducted by the Statistics Ministry.

Trade and Public Catering

Trade is the second industry in importance for the household informal and covert activities after agriculture.

In the gross operating surplus account in the households sector data on non-organized trade and those on the share of gross surplus in retail trade (estimated on the basis of data provided by trade enterprises reporting to statistical bodies) are used. The volume of non-organized trade turnover is defined on the basis of surveys of big markets and sample surveys of households.

Housing

The services output of private housing is estimated on the basis of the data from form No1- housing providing information about individual housing (dwellings in private ownership of the citizens) and operational costs per one square meter of living space in state and collective ownership. This output is determined by the formula:

$$U = (P * ((K_H - K_{PK})) / 2), \text{ where}$$

U – private housing services output (million Rubles);

P – cost of operation of one square meter of living space in state and collective ownership;

K_H (K_K) – individual housing at the year's beginning and end (thousand square meters);

K_{PK} – privatized housing at the year's beginning and end (thousand square meters).

Healthcare

The healthcare services output is calculated on the basis of medical licenses provided to persons.

The volume of services provided by one licensed person is estimated as the volume of services

provided by one employee of a small business providing reports in accordance with form No1 – МП “Report on activities of enterprises of non-state ownership”.

$$U = V/R * K, \text{ where}$$

U – healthcare services output (million of Rubles);

V – output of small businesses in healthcare (data of Form 1 – МП) (million Rubles);

R – number of people employed by small businesses in healthcare;

K – number of medical practice licenses provided to persons.

Education

At present in the Republic sees the provision of paid services is widespread in the form of private lessons provided by teachers and professors to applicants entering higher educational institutions.

The output of these services is calculated by the number of freshmen enrolled for studying in daytime, the timetable, the number of subjects and the per hour cost. The calculation formula is the following:

$$U = K * T * t * G * P, \text{ where}$$

U – services output (million Rubles);

K – number of enrolled students at daytime departments of state higher educational institutions;

T – weeks per subject (weeks);

t – hours per subject in one week (hours);

G – number of subjects;

P – per hour cost of a lesson (million Rubles).

T,t,G,P: data on these parameters are determined on the basis of advertisement analysis.

Culture and Arts

The culture and arts output is calculated on the basis of the number of licenses provided to persons for concert and guest performance activities, movies' production, copying and demonstration. The

output per one licensed person is equaled to the production output per one employee of a small business in accordance with the data of Form 1 – МП “Report on activities of enterprises on non-state type of ownership”.

$$U = V/R * K, \text{ where}$$

U – culture and arts services output (million Rubles);

V – output of small enterprises in culture and arts (data from Form 1 – МП) (million Rubles);

R – number of employees of small enterprises operating in culture and arts (persons);

K – number of licenses provided to persons working in culture and arts.

Following the existent methodology, the informal sector’s production and services output makes 12% of the gross domestic product of the Republic of Belarus (1999).