

SOURCES OF FORMATION AND DEVELOPMENT OF THE SHADOW ECONOMY IN AZERBAIDJAN AND THE STATE OF ITS ACCOUNTS AND ASSESSMENT

Some elements of the shadow economy exist at a certain extent in all countries regardless of their social-economic formation and level of economic and social development. Due to the fact that the shadow economy is a part, and in some countries a quite considerable part, of the whole economy, there is a palpable need in the modern world in its account and usage of data on this economy in all sorts of economical and statistical developments.

Under the administrative command system before disintegration of the Soviet Union in Azerbaijan, like in the other Union republics, there were a limited number of enterprises and all those enterprises were state property and operated under the state control. That ensured complete accounting, planning and observation of their activities. Nevertheless some covert economic activity existed even under centralized economy; its scale and forms were typical for the period. Performance of additional non-registered work by people working at state enterprises or by the unemployed was the most widespread form of covert economic activity. This activity included construction, apartments repair works, babysitting, education, clothes making, etc. Moreover, then there existed illegal production of unaccounted products at the state enterprises as well as “clandestine” workshops, there was hiding from accounting of the real output of extracted, grown and processed raw materials, there was the so-called “black market”.

However, thanks to the fact that the phenomenon was inconsiderable in proportion to the whole economy, it was not in the focus of statistical observation. This “clandestine” activity was a matter of concern for investigation and law enforcement authorities that were supposed to combat stealing of the “socialist property” and other illegal activities.

Transition from centralized to market economy brought about new conditions for the shadow economy growth and unaccounted activities. There are some economic reasons connected with the market relations development, besides the phenomenon can also be explained by ineffective organization and operation of the banking, taxation, customs, inadequate legal provisions and

regulations, the changes in which are lagging behind the rapid transformation of economic conditions.

Switch over to the market economy and emerging private sector gave rise to a great number of enterprises in Azerbaijan. Under the circumstances time and men consuming methods of full statistical observation is applicable with great difficulty, which makes it necessary to seek more adequate methods of statistical data collection.

In spite of the fact that the Statistics Law of the Republic of Azerbaijan obliges all enterprises operating on the country's territory to provide statistical reports regardless of their type of property, some enterprises fall out of sight of statistical authorities. Some enterprises providing reports to the tax and statistical bodies seek to lower their surplus aiming at cutting down on tax and social payments, which is a form of the covert economy. An enormous share of cash deals in all kinds of business transactions also contributes to income hiding.

Non-registered employment is another element of the shadow economy. People who are officially not employed anywhere perform some work at enterprises, do some trading in the streets, are engaged in construction, repair and other works in production and services. Most of them come to cities from rural areas trying to earn money because they have failed to find a job back at home or they prefer not working in the village. The refugees and forced migrants from the Republic's territories occupied during the warfare contribute to the problem since those people are far from their homes and usual activities.

There is another factor contributing to intensification of the shadow economy in the transition period, it is connected with the country's opening up and expanded international ties. Alongside the positive effect of this process, it brought about some negative phenomena, like mass smuggling at the commercial level, drugs' trafficking, production and sale.

Under the circumstances, due to the growing shadow economy, the statistics had to focus on the problem. The problem of the shadow economy account was repeatedly considered at the collegiate meeting of Azerbaijan's State Committee on Statistics.

Due to lacking experience in the field the Statistics Department of National Accounts jointly with some other departments and divisions started studying the phenomenon's sources, scope and specific forms in all economic sectors. Since 1998 the branch departments' data on the shadow economy have been used in evaluation of the Gross Domestic Product. However, lacking methodological materials and absence of a uniform program on studying and measurement of the shadow economy result in incomplete picture of the phenomenon.

To define the notion of shadow economy Goskomstat of Azerbaijan refers to the terms and definitions provided in the latest Eurostat and OECD developments that use the term of "non-observed economy" including the notions of *illegal* economic activities, *covert* (shadow or clandestine) and *informal* activities.

The covert and informal activity output in industries is made of products manufactured by households, industrial services provided to persons, hidden output of legal entities.

The main sources of information about individual entrepreneurship are sample surveys of families budgets that have data on their expenditures on products and services purchased from persons, receipts from subsidiary holdings and gathering, primary processing at private holdings, incomes from production and services by individuals.

Since 1996 the State Statistics Committee of Azerbaijan has accounted the informal activities in bakery. Calculations are based on "demand" indicators. Now the population's yearly physiological demand in the products equals one million ton. Thus, to meet the demand 83 thousand tons of bread and bakery products are produced every month.

Taking into account bread made in households for own consumption of half of the rural population and some part of the urban population and deducting its output from the total output in one month, the sales are determined. The received output less the output produced by those enterprises that provided official statistical forms gives the production output of the given products in the informal sector.

Transportation by automobiles in the transport sector of the Azerbaijani economy also boasts of a considerable share of illegal and covert economic activities. These activities comprise unlicensed work of persons and hidden activities of legally registered entities.

The following data presented in the table herewith show the number of automobiles owned by people on January the 1st, 1999:

Types of automobiles	Owned by persons	Technically ready for operation	Regularly used for transportation purposes	Licensed owners	Covert economy
1	2	3	4	5	6
Cars	271977	253902	10339	1330	9009
Buses	3617	2997	2997	757	2240
Lorries	9443	8047	8047	730	7317
Total	285037	264946	21383	2817	18566

The State Traffic Police provided data in columns 2,3. Data in column 4 were calculated in the following way: the cars row was disaggregated by car models and brands, the received 253,902 less models and types of those cars whose owners are not involved in provision of paid services (for example, owners of foreign cars were excluded because they are well-to-do people, owners of models with two doors, because such cars are not designed for the purpose, or owners of cars that need plenty of petrol, which makes their operation unprofitable) gave 206,775 potential services providers, out of which the experts assessment determined 10,339 (5% of physical entities) as regularly engaged in provision of paid transportation services.

Lines of buses and lorries look practically unchanged, since today one can hardly find a person in Azerbaijan who would buy a bus or a lorry to service his own family, so it is logically possible to claim that those people who acquired these vehicles did it for getting benefits.

The tax authorities provided the general data shown in column 5, and after some observation we made a breakdown by vehicle types. One can see from the data presented in the table that in the

reference period nearly 87% of people regularly involved in delivery of transportation services were those who did it illegally.

In non-organized trade turnover is determined on the basis of sample surveys with follow-up estimates. Thus, in all food, non-food and mixed type markets surveys are conducted twice a year to get the number of sales people, goods quantity and prices by product groups, then the turnover is evaluated and the structure of goods is defined. In agricultural markets surveys are conducted on a monthly basis, complete accounting is executed twice a year.

Output of paid services provided by persons is determined on the basis of statistical accounts of officially registered economically operative units and the market of services provided by the informal sector. The informal sector is measured on the basis of expertise.

Besides, results of different statistical sample surveys of businesses and households are used for tapping up output of covert, illegal and informal economic activities in construction, agriculture and social services.

Today, in the period of economic changes statisticians of Azerbaijan face an acute problem of perfecting statistical measurement and accounting of the non-observed economy to provide correct macroeconomic indicators formation. To achieve the objective:

- General methodological principles for reflection of the shadow economy in national accounts should be formed;
- Concrete measurement methods in particular elements of the shadow economy should be developed;
- A system of statistical observation of the informal sector should be developed taking into consideration the international standards;
- Surveys should be organized and conducted in all sectors of economy, including households with purpose of measurement of the Republic's shadow economy.

Up till present in Goskomstat of Azerbaijan there has been no special program on shadow economy surveying and measurement. All work has been carried out by Goskomstat specialists on the basis

of diverse materials and recommendations received from Eurostat, OECD, and the NIS Statistics Committee. This year the State Statistics Committee of the Republic of Azerbaijan is to start the Shadow Economy Project within the TACIS program. The project implementation is scheduled for 2000-2002. We hopefully think that close cooperation with the statistics office of the donor-country, implementation of the project as a joint effort will ensure good results in observation and measurement of the shadow economy output in this country, as well as in national accounts statistics usage. This would provide full coverage of the SNA indicators and their compatibility with those of other countries.

N.Suleimanov

Head of Department of National Accounts Statistics