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MEASURING THE NON-OBSERVED ECONOMY IN NATIONAL ACCOUNTS

SERVICES PROVIDED BY PRIVATE ENTREPRENEURS: AD HOC SURVEYS

**STATISTICS ON BUSINESS SERVICES PROVIDED BY PHYSICAL PERSONS
(INFORMAL SECTOR)**

Note by the National Institute of Statistics, Romania

Summary

The paper gives an overview of sample surveys to measure services provided by private entrepreneurs. The surveys were carried out in Kyrgyzstan and Turkmenistan under the European Union Technical Assistance to CIS countries (TACIS 9: Reform of official statistics in Central Asia).

I. INTRODUCTION

1. Production units of the informal sector were defined as a subset of unincorporated enterprises. The term enterprise was used in a broad sense to cover production units that employ labour, are owned and operated by single individuals working on own-account as self-employed persons, either alone or with the help of unpaid family workers.

2. Criteria for informal sector enterprise are as follows:

(a) Private unincorporated enterprises, i.e. enterprises owned by individuals or households that are not constituted as separate legal entities independently of their owners, and for which no complete accounts are available that would allow a financial separation of the production activities of the enterprises from the other activities of its owners;

(b) All or at least one goods or services produced are meant for sale or barter transaction;

(c) Their size in terms of employment is below a certain threshold to be determined according to national circumstances, and/or not registered under specific form of national legislation, and/or their employees are not registered;

(d) Involved in non-agricultural production, including non-agricultural secondary activities of enterprises in the agricultural sector.

II. BUSINESS SERVICES STATISTICS

3. It is most obvious that due to its nature the informal sector is not easily covered by statistical measurement. This is because the informal sector encompasses a variety of activities with different modes of operation, the number of units in the informal sector to be surveyed is large in many countries, and these units are often characterised by features which make their statistical measurement difficult and which are likely to affect the quality of the data obtained. These features include their small size, high mobility and turnover, seasonal variations in business activity, clustering in specific areas, lack of recognisable features for identification/location, lack of usable business records, possible reluctance to survey participation, etc.

4. There are various methods for surveying the informal sector rather than one single method only. The most appropriate method always depends upon the measurement objectives pursued, which are determined by the data requirements of each country. A combination of survey methods can be useful for development of a comprehensive programme of informal sector data collection.

5. Two statistical offices from Central Asian Countries took part in the TACIS 9 project; one of the components of this project refers to the informal sector (statistics on business services provided by physical persons). The countries involved are Kyrgyzstan and Turkmenistan.

6. Service and trade statistics play an important role in the formulation, implementation and evaluation of policies. In particular, they are used to assess the economic and financial measures.

7. There are many similar approaches in both countries concerning the legislation regarding physical persons. Physical persons are registered by tax inspections. Some patents or licences are needed for their activities.

A. Kyrgyzstan

8. In order to improve statistical estimates for services, the Department of Consumer Market and Services Statistics of the National Statistical Committee (NSC) of the Kyrgyz Republic has implemented a pilot survey on sole entrepreneurs providing computer services (codes 72.30.0 and 72.40.0) including computer games, data communications, telematics, and other services.

9. The survey covered the whole territory of the Republic (seven regions and the cities of Bishkek and Osh). The results of the survey showed that on 1 October 2007 there were 360 active enterprises owned by natural persons in the Republic that provided such services to households.

10. Major part of these entities (154 units, or 43% of total) is in the city of Bishkek; 58 entities operate in the Chuisk region.

11. The lowest number of such services providers is in the Narynsk region (only one entity) and no such services were represented at the moment of observation in the Batkensk region. In the course of the survey the following facts were found: 253 entities or 70% provide telematics services, namely: e-mail, facsimile telegraph, and voice communications (IP-telephony). The remaining entities (107 enterprises or 30%) provide computer games and data communication services.

12. The pilot survey questionnaire on individual entrepreneurs (natural persons) that provide computer services includes, besides the amount of services expressed in monetary terms, questions about availability of office equipment owned by individual entrepreneurs.

B. Turkmenistan

13. It was agreed that the pilot survey would cover physical persons and small enterprises having restaurants, bars or canteens (Statistical Classification of Economic Activities in the European Community (NACE) groups 553, 554, 555) as their main or secondary activity.

14. A questionnaire has been drafted to include about 20 questions. The aim is to collect data on the type of activity carried out by the physical persons, number of seats and area of the site, location, size of labour force, incomes, expenditures, number of clients etc. A similar questionnaire was drafted and will be used for small enterprises that perform the same activities.

15. The sample includes small enterprises and physical persons located in Ashgabat and Ahal regions.

16. The draft questionnaires were prepared in Russian, both for physical persons and small enterprises.

17. The structure of the questionnaires consists of the following:

(a) information about the owner of the patent for physical persons and identification information (both for physical persons and small enterprises);

(b) legal status;

(c) type of activity, information about main and secondary activity;

(d) size of business (area of site and number of seats);

(e) place where the site is situated and owner of the place, number of waiters and cooks;

(f) average number of hours worked;

(g) type of providers of the goods;

(h) revenues breakdown (%);

(i) expenditures breakdown (%);

(j) breakdown of the turnover by type of products (%);

(k) average costs per portion;

(l) average gross margin;

(m) number of clients;

(n) information about dynamics of revenues and causes.

III. DATA QUALITY ASPECTS

18. In view of the particular characteristics of the informal sector, special attention to data quality aspects should be paid when informal sector surveys are designed and conducted. While sampling errors can be reduced relatively easily in choosing an appropriate sample size and design, non-sampling errors are more difficult to control. Non-sampling errors include either of the following: (i) conceptual errors; (ii) response/data collection errors; (iii) processing errors (data editing, coding and entry); (iv) coverage errors; and (v) non-response errors. A number of lessons have been learnt from the available survey experience, which can be used to derive certain measures that are likely to be useful in order to reduce non-sampling errors and improve the quality of informal sector survey data.

19. Most informal sector entrepreneurs have a low level of education and do not keep (usable) written records of their activities. They are not used to participate in statistical surveys and often not willing or able to devote much time to it. Some are difficult to contact anywhere because they operate without fixed location (e.g. ambulant vendors, taxi drivers, construction workers). There may also be a certain number of respondents who are reluctant to answer the survey questions for fear of subsequent taxation or harassment by the authorities. Under these conditions, it is essential to make provisions, which help to improve response rates and data quality in informal sector surveys. These include:

- (a) Advance information of respondents regarding the survey and its purposes;
- (b) A formal assurance of confidentiality of the data provided;
- (c) Choice of the date, time and place of the interviews in consultation with the respondents themselves;
- (d) Sound motivation, training and supervision of interviewers;
- (e) Establishment of good human relations between interviewers and respondents;
- (f) Design of survey questionnaires which are manageable in the field in terms of content and length, and which are easy to follow and complete by interviewers;
- (g) Second visits to respondents, if necessary;
- (h) Formulation of questions in a way which is understandable for respondents, and which refers to their specific situation and the nature of their activities;
- (i) And use of short reference periods which enable respondents to provide the required information with sufficient accuracy.

20. In most circumstances, the maximum length of the reference period will be one month; in some cases, one may even have to use a shorter reference period, such as one week or one day. If respondents are given the possibility to choose the reference period for which they can best provide the requested data, auxiliary information has to be collected, which will make it possible to convert the data obtained to a standard reference period. When using short reference periods such as one month for the collection of data on output, intermediate consumption, value added, and operating surplus (mixed income) of informal sector enterprises, one should be aware that the data obtained on sales during the reference period may not match the data obtained on the purchase of raw materials, resale goods, and other inputs during the reference period. This is because the frequency of purchases may not coincide with the frequency of sales. In order to avoid obtaining extremely high or extremely low (or even negative) values for value added and operating surplus in respect of some enterprises, it has been proven to be useful to collect auxiliary information on the frequency of purchases of raw materials and resale of goods, as well as other business expenses.

21. Many informal sector activities are subject to seasonal and other variations over time; hence the question arises of how to capture such variations, and to estimate annual values as needed for national accounting and other purposes, through an informal sector survey. As the use of short reference periods is imperative, and repeated interviews with the same respondents at different times of the year are hardly possible, such variations are captured most accurately at the aggregate level, in spreading data collection over a period of a whole year by dividing the survey sample into independent sub-samples for different parts of the year.

22. Once the data of an informal sector survey have been collected, they need to be edited thoroughly in order to remove inconsistencies, to correct implausible data, and to impute missing values. A sufficient amount of time and resources should be allocated for these activities. It is also important to compare the data obtained from the survey with data from other sources, and to make benchmark adjustments to the survey data, if necessary.

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