THE NON-OBSERVED ECONOMY (NOE) IN MONGOLIA:

CONTENT

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I. Background

Methodologies:

• “Handbook for Measurement of the Non observed Economy, 2002”, CIS-STAT, ILO, IMF, UNSD, WB

• “System of National Accounts, 2008”

• "Handbook for Non observed economy in National Accounts” includes the UN and EU countries practices

II. The Framework and Production Boundary

The N1-N7 framework of the Non-observed economy

<table>
<thead>
<tr>
<th>CLASSIFICATION OF NOE</th>
<th>FRAMEWORK</th>
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</thead>
<tbody>
<tr>
<td>1. Underground production</td>
<td>N6 - Producers deliberately misreporting</td>
</tr>
<tr>
<td>2. Illegal production</td>
<td>N2 - Producers deliberately not registering – illegal</td>
</tr>
<tr>
<td>(drugs, prostitution etc)</td>
<td></td>
</tr>
<tr>
<td>3. Informal sector production</td>
<td>N1 - Producers deliberately not registering – underground</td>
</tr>
<tr>
<td></td>
<td>N5 - Registered entrepreneurs not surveyed</td>
</tr>
<tr>
<td>4. Household production for own final use</td>
<td>N3 - Producers not required to register</td>
</tr>
<tr>
<td>5. Other missed productive activities</td>
<td>N4 - Legal persons not surveyed</td>
</tr>
<tr>
<td></td>
<td>N7 - Other statistical deficiencies</td>
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</tbody>
</table>
III. Survey and measurement

The NSO conducted the following surveys in accordance with the framework (N1-N7) of the NOE.

1. HUEMs (N1, N3, N5)
   - Survey of HUEM cover non-agricultural and non-mining
   - Survey of artisanal mining

2. Survey on Experts opinion of intentional distortion of business accounting (N6)

3. Estimation of illegal production (N2)

4. Establishment census, 2011 (N4)

3.1. HUEMs (N1, N3, N5)
3.1. HUEMs (N1, N3, N5)

A. SURVEY OF HUEM (non-agricultural and non-mining)

Survey approach: The survey was conducted through “1-2-“method which was recommended by UNESCAP and DIAL

In phase 1: Informal employment data is collected, using Labour Force Survey.

Questions for identified HUEM:
1. Worked hours in the last 7 days
2. Regular work
3. Employment status
4. Economic activity
5. Type of enterprises
6. Private sector of employment
7. Activity of enterprise
8. Sell or barter its goods, services

In phase 2: Informal sector enterprise data is collected by module of the questionnaire.

Main indicators:
- Organization and status of the business
- Employment
- Production and sales
- Business expenditures
- Information of transportation and owner occupied dwellings

We estimated the number of employment, turnover and VA
B. ARTISANAL AND SMALL-SCALE MINERS’ SURVEY

NSO conducted a survey on artisanal and small scale miners in mining sector.

**Totally 13.4 thousand citizens were involved.**

3.1. HUEMs (N1, N3, N5)

3.2. Illegal Production (N2)

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:

1. To produce, transport, sell, store and transfer the goods and services which are out of law

2. To run the activities illegally or without permissions even though the activities are legally accepted

*The drug trade and prostitutions which are dominated in the illegal activities were included in current estimations.*
3.2. Illegal Production (N2)

**Data source:**

1. Administrative data and surveys (*Police organization, Customs office and Health organizations*)
   - The share of the drug users to the total population
   - The number of patients
   - The number of crimes
   - The size of seizure drug
   - The market price of drugs /the neighboring countries’ price information was used for this calculation/

2. “Survey on sex workers and sexually exploited children-2010”, MNSO
   - The number of total prostitutes of which the number of prostitutes who serves to the foreigners
   - The monthly average income

3.3. Underground Production (N6)

**The underground production:**

The underground production shows the N6 framework of the non observed economy.

- The goods and services that produced legally but not misreported in official statistics;
- Avoid the income tax, value added tax and other taxes;

**Data source:**

- The amount of tax that levied on partly paid income of the entities
- The number of inspected entities
- The number of registered establishments that carried out their activities in reference period.
IV. Result of NOE, 2010

In the calculation of GDP by the production method, adjustments are made for related sectors.

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>9 746 597.6</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>

V. Future Activities

• The NUEMs would be conducted in every 5 years;

• The VA 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 LFS;

• Illegal production and underground production would be estimated in every year.
THANK YOU FOR YOUR ATTENTION

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