

2.1 An introduction to the non-observed economy

Tim Jones
SIAP consultant/lecturer

Objectives

After this session, participants will be aware of:

- The duality of our work
- The (OECD) definition of the NOE
- The need to consider deficiencies in data collection
- Issues in the observation of agricultural activity
- Challenges of informal sector measurement
- The extent of the NOE in their country

Duality in our work

- The level and structure of the economy (GDP) in a given year
 - Coverage in principle & in practice (exhaustiveness)
- Measuring changes in the economy every period
 - Assumptions made to do so with limited timely data
 - Extrapolation can go off-track
- Both aspects to be considered when planning effective improvements (course objective)

What is the non-observed economy (NOE)?

Problem areas (OECD Handbook):

- Activities within the SNA production boundary that are:
 - Legal, but hidden to avoid tax or regulation
 - Illegal
 - Informal
 - Performed for the producer's own use
- Deficiencies in the data collection programme

Data collection deficiencies?

- Some of the problem areas may be observed to some extent (perhaps indirectly)
- But “deficiencies in data collection” widens the scope: What aspects of the “formal” economy are not well covered?
- When considering priorities:
 - It may be necessary to focus on the most serious data deficiencies before tackling the other “problem areas”
 - But if you can do both, that’s great!

Some areas to consider

- How long is it since you “observed”...
 - Household expenditure (including consumption of own produce and owner-occupied dwellings)
 - Visitors’ expenditure in total and by product
 - Input-output ratios for all formal activities
 - Trade margins of formal traders
 - Business purchases in detail
 - Rents received by real estate (& other) companies
 - The accounts of larger NGOs - and UN agencies

Agriculture

- How far is agricultural activity “observed”?
 - What are the sources of data?
 - How accurate are the estimates?
 - How is the production valued?
 - Does it include food consumed by the producer?
 - If so, how much is marketed?
- If the estimates are extrapolated, when was the last benchmark?

Other informal activity

- In my view the biggest problems are:
 - Estimating the total number of businesses on a regular basis by activity:
 - High birth and death rates, new areas develop
 - Often similar businesses are clustered in one area
 - A sufficient sample for measuring change by activity
- Labour Force Surveys are a recommended source
 - But I have no experience of using these
- We return to this topic in Session 2.2

Other problem areas

- Own account capital formation
 - Construction by utility companies
 - Mineral exploration
 - Software development
 - Research and development expenditure
- Unrecorded sales by formal businesses
- Transfer pricing by multi-national enterprises
- The value added of “facilitators”
- Illegal drug production and trafficking
- Prostitution (whether legal or not)

Discussion

- The NOE varies from country to country
- Questions:
 - What is not observed in your country?
 - How important is it? (Scale 1 to 5)
 - How difficult to measure? (Scale 1 to 5)