

## Seventh IMF Statistical Forum

### Measuring the Informal Economy

#### SESSION IV: MEASURING ILLICIT FLOWS

November 15, 2019

Chair: Mr. Ceda Ogada (Legal Department, IMF)

Presenters: Ms. Irmgard Zeiler (UN Office on Drugs and Crime)  
Mr. Sugata Marjit (Indian Institute of Foreign Trade)  
Ms. Rachel Soloveichik (U.S. Bureau of Economic Analysis)  
Ms. Sarah Atkinson (U.S. Bureau of Economic Analysis)

#### SUMMARY OF PRESENTATIONS

**1. *Measuring Illegal Economic Activities and Illicit Financial Flows: Challenges and Possible Solutions* (Irmgard Zeiler, Federico Sallusti, Alexander Kamprad, Enrico Bisogno)**

The authors present a statistical framework for measuring Illicit Financial Flows (IFFs) using (i) value of illicit goods and services produced in a time and territory; (ii) value of inputs acquired for the production, and (iii) gross output minus intermediate expenditure. They apply the framework for drug trafficking in Afghanistan and conclude that illicit financial flows that are originating directly in the trade with illegal goods and services can be estimated using statistics and estimates on illicit markets, such as supply, demand, price and seizure data. However, challenges remain in data availability to measure net income in a comprehensive way and in estimating the shares that remain within an economy and those that are invested abroad. More work is needed to develop a suitable database and suitable methodologies that can assess these illicit financial flows.

**2. *Misinvoicing Trade & Informal Capital Movements: The USA—India Case* (Sugata Marjit, Amit Biswas, Sandip Sarkar)**

The authors utilize ‘mirror’ trade and international investment data to examine and analyze the motivated mis-reporting of foreign trade and investment data by taking up the long bilateral export and import data (1960–2017) between India and the USA which are supplemented by a small time series data on FDI movement between same bilateral partners (2000–2017). Their results show that misreporting exists in exports, imports, and FDI. In particular, under-invoiced export from India seems to finance imports as imports are also under-invoiced, generally in contrast with the Chinese case which has been discussed elsewhere. They use a VAR analysis of such a phenomenon and a simple analytical model which traces the incentives behind such

misreporting. Then they estimate unrecorded capital flows and misreported FDI flows from USA and Mauritius to India.

### **3. *Including Illegal Activity in the U.S National Economic Accounts* (Rachel Soloveichik)**

This paper presents a methodology to measure three categories of illegal activity in the U.S.: (i) illegal drugs, prostitution, and gambling; (ii) theft from businesses; and (iii) unlicensed legal activity. Results show that in 2017, the level of nominal GDP rises by more than 1 percent when illegal activity is tracked in the U.S. national accounts. By category, illegal drugs add \$111 billion to measured nominal GDP in 2017, illegal prostitution adds \$10 billion, illegal gambling adds \$4 billion, and theft from businesses adds \$109 billion. Real GDP and productivity growth also change after inclusion of these illegal activity. Real illegal output grew faster than overall GDP during the 1970s. Tracking illegal activity ameliorates the 1970s slowdown in measured productivity growth and partially ameliorates the post-2008 slowdown in measured productivity growth.

### **4. *Toward developing estimates of U.S imports of illegal drugs* (Sarah Atkinson)**

This paper builds on the initial exploration of this topic by the Bureau of Economic Analysis (BEA) which presents experimental estimates of U.S. domestic consumption of illegal drugs and import of illegal drugs into the United States. The author extends previous research by exploring the feasibility of developing estimates of imports of methamphetamines and marijuana using seizure data and evaluates the extent to which source data can provide estimates of heroin and cocaine imports by geography. Preliminary calculations by BEA suggest that illegal imports account for 82 percent of the domestic wholesale value for illegal drugs. Roughly \$29.9 billion in illegal drugs entered the United States in 2017. If these illegal imports were included in the U.S. BOP, these transactions would raise imports of goods by 1.3 percent. The author's research provides additional detail and context by developing supply-side estimates of the share of consumption that is imported to provide a reference point for evaluating BEA's previous demand-side estimates. Providing geographic detail could help data users understand where illegal drugs consumed in the United States originate and improve the accuracy of the U.S. BOP. While the United Kingdom and Canada have already begun including estimates of illegal drugs in their national and international accounts utilizing recommended compilation practices, no geographic detail for imports is provided because of source data limitations in those countries. The author's analysis suggests that the currently available source data for the United States can be used to provide detail by drug type and geography.

## **SUMMARY OF COMMENTS, QUESTIONS, AND ANSWERS**

Questions focused on (i) what the illicit flows of greatest concern and what are we missing in the measurement;(ii) the role of money laundering; (ii) the inconsistencies in international trade and investment data and who would facilitate to resolve them; and (iii) the inclusion of pain killers in estimates of illegal drugs.

Comments from the audience: there are many inconsistencies in bilateral data international trade and investment. These discrepancies are due to a range of factors and researchers should be cautious in how they interpret these discrepancies.

There is data on the supply of pain killers by doctors and these data have been used in cases against manufacturers of pain killers.

Responses of presenters:

- Money laundering is supporting the payments of the illicit flows.
- Cross-country coordination and more research are required to address the discrepancies in international trade and investment data. Researchers recognize that the discrepancies may be due to a range of measurement factors; however, it is noted the discrepancies are responding to a range of theoretical outcomes then it should be ruled out that the gap may be due—in part—to illicit flows.
- Legally prescribed pain killers are already included in the national accounts as well as legal erotic activity. Therefore, including them in the estimates of illegal activity may require first adjusting the national accounts. This is not necessary.