

SNA/M1.06/28.2

**Fourth meeting of the Advisory Expert Group on National Accounts  
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Issue 33  
Illegal and underground activities

**REPORT ON e-DISCUSSION ON  
ILLEGAL ACTIVITIES IN THE 1993 SNA**

**United Nations Statistics Division**

**Update of the 1993 SNA – Issue No. 33  
Jan-Feb 2006 AEG meeting, Frankfurt**

**Report on e-discussion on Illegal Activities in the 1993 SNA**

United Nations Statistics Division

**Introduction**

1. Illegal activities that have the characteristics of transactions are included in the production boundary of the 1993 SNA. It is generally agreed that there is no need to make substantial changes relating to recording of illegal activities. Some clarifications (as discussed in the *NOE Handbook*) however, are required to be included in the updated version to help better implementation of SNA recommendations in this regard.

2. Accordingly, proposals have been made (document no. SNA/M1.06/28.1) to include clarifications on the following topics in the updated SNA:

- The scope of illegal activities included in the production boundary should be further clarified by examples.
- Recurrent thefts of significant value should be treated as transactions.
- Sales of stolen goods (fencing) should be recorded similar to the recording of second-hand goods.
- Bribery should be treated as a transaction as it can be assumed that individuals have a freedom of choice to enter into bribery.
- Extortion payment should be recorded as other change in the volume of assets, and
- For money laundering, the difference between the value of the illegal cash and the value of the legalized cash should be looked upon as a provision of services.

**Response received**

3. The aforesaid proposals were referred (document no. SNA/M1.06/28.1) to the AEG members soliciting their opinions through a questionnaire. The questions asked of AEG members and responses received through e-discussions have been summarized in the following table.

**Table: Questions asked of the AEG members and response received as on 24 January 2006**

No.	Question(s)	Response received			
		Total	Agree	Disagree	No opinion
1	Do you agree that the explanation of illegal activities in the 1993 SNA should be further clarified by providing examples based on those in the <i>NOE Handbook</i> ? These include such as production and distribution of illegal goods and counterfeit products, production of illegal services, production activities which are usually legal but which become illegal when carried out by unauthorized producers, theft and resale of stolen goods, bribery, extortion, money laundering, and forgery?	22	18	3	1

No.	Question(s)	Response received			
		Total	Agree	Disagree	No opinion
2	Do you agree that recurrent theft of significant value by employees should be recorded as compensation in kind of employees?	21	10	10	1
3	Do you agree that recurrent theft of water and electricity of significant value by households should be recorded as final household consumption expenditure? This treatment requires an imputation of a current transfer-in-kind from the producer (non-financial corporation sector) to the consumer (household sector).	21	11	8	2
4	Do you agree that sale of stolen goods (fencing) should be recorded similar to the recording of sales of second-hand goods – that is, recording the value added and trade margins of distribution activities?	21	21	-	-
5	Do you agree that in the provision of market goods and services, bribes taken by employees as an additional margin on the “official” price should be recorded as an increase in the value of output of market production matched by an identical increase in the compensation of employees?	21	16	5	-
6	Do you agree that if the bribery is accepted as standard practice in provision of non-market services, then the bribe should be recorded as additional compensation of employees and an increase in output of government?	21	12	7	2
7	Do you agree that bribes linked to the provision of non-market services that are not allowed or not publicly accepted should be recorded as current transfers? The same holds for payments to persons in privileged positions to obtain a contract?	21	18	2	1
8	Do you agree that extortion payment should be recorded as an other change in the volume of assets account?	21	19	1	1
9	Do you agree that the difference between the value of the illegal cash and the value of the legalised (laundered) cash should be looked upon as a provision of services.?	21	15	4	2

## Conclusions

4. The support of to proposals by AEG members participating in the e-discussion may be summarized as:

- Overwhelming support**
- Q1. Explanation of illegal activities in the 1993 SNA should be further clarified by providing examples based on those in the *NOE Handbook*.
  - Q4. Sale of stolen goods (fencing) should be recorded similar to the recording of sales of second-hand goods
  - Q7. Bribes linked to the provision of non-market services that are not allowed or not publicly accepted should be recorded as current transfers.
  - Q8. Extortion payment should be recorded as an other change in the volume of assets account.
- Less than overwhelming support**
- Q5. Provision of market goods and services, bribes taken by employees as an additional margin on the “official” price should be recorded as an increase in the value of output of market production matched by an identical increase in the compensation of

employees.

Q6. If the bribery is accepted as standard practice in provision of non-market services, then the bribe should be recorded as additional compensation of employees and an increase in output of government.

Q9. Difference between the value of the illegal cash and the value of the legalised (laundered) cash should be looked upon as a provision of services.

**Split of opinion**

Q2. Recurrent theft of significant value by employees should be recorded as compensation in kind of employees.

Q3. Recurrent theft of water and electricity of significant value by households should be recorded as final household consumption expenditure? This treatment requires an imputation of a current transfer-in-kind from the producer (non-financial corporation sector) to the consumer (household sector)

An extract of comments made by AEG members is annexed.

## Extract of Comments Made by AEG Members in the Questionnaire

The original response and full comments are available on the UN website<sup>1</sup>. The objective of this annex is only to give limited extracts to encourage readers to read the full comments of the AEG members.

### *Question 1*

- Present recommendations are sufficiently clear in SNA93. It is not necessary to introduce a full description of illegal activities in the SNA text. If felt necessary, a reference could be made to the NOE Handbook.
- Define the illegal activity as one being subject to Criminal Law.
- There is too much emphasis on "significant values" as the criterion for distinguishing treatments of similar phenomena. There would be need for further guidance on what this terms means to avoid the risk of multiple interpretations and implementations.
- A rather new and growing illegal activity not covered in the paper is the provision of temporary non-resident employees who not have a work permit for the country of employment.
- Most countries have very limited ability to measure illegal activities; it may not be helpful to most readers of the SNA to include an extensive discussion or prescriptive rules about the measurement of such activities.

### *Question 2*

- The problems to recognise and estimate
- The fact that theft may be recurrent does not make it a transaction.
- One would agree with the proposal only if this "theft" is condoned by the employer, which makes it doubtful whether the practice should still be seen as "theft."

### *Question 3*

- Thefts should be classified other volume changes; they are not transactions.
- The fact that it may be of 'significant value' does not change the fact that it is still theft and should be recorded that way.
- One would agree with the proposal if the theft would not only be "accepted practice," but also a practice accepted by the producers of the goods and services in question.

### *Question 5*

- Bribes taken by employees represent a transaction between the purchaser and the employee, and not the employer. As such, they should be recorded as a transfer (secondary income) and not compensation of employees.
- It is preferable to record the bribe as a (personal) service produced by the person accepting the bribe.

### *Question 6*

- Income derived from bribery should not affect the level of government output.
- It should be treated as a current transfer.
- We prefer to record the bribe as a (personal) service produced by the person that accepts the bribe. Increasing government output with the value of bribes accepted by officials is questionable.

### *Question 7*

- Recording bribe as a (personal) service produced by the person accepting the bribe is preferable.

### *Question 9*

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<sup>1</sup> <http://unstats.un.org/unsd/sna1993/viewvote.asp?tID=33&stID=0&sstID=0>

- Money laundering needs further elaboration. Money may be laundered in a manner that involves legitimate transactions, and service fees, from the viewpoint of the financial institution
- The issue seems to be more complex.