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United Nations Office on Drugs and Crime

## **Building a statistical framework to measure Illicit Financial Flows**

Enrico Bisogno



## IFF, what are we talking about?

Current understanding is to refer to value illicitly generated, transferred or utilised that is moved from one country to another.

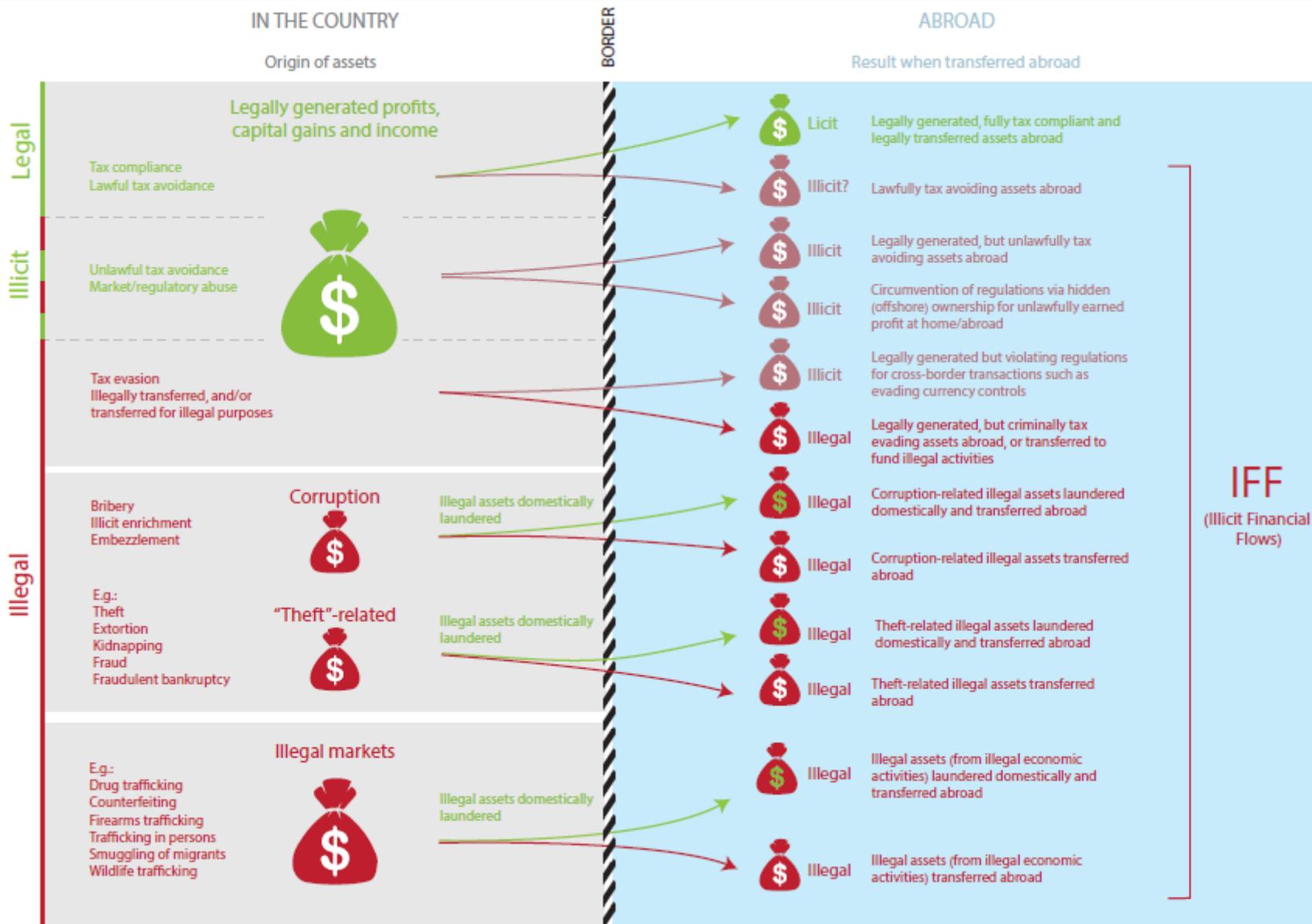
‘Some’ challenges remain, for example:

- Flow (not stock), but when do we have a cross-border flow?
- Financial: money and other financial assets, or more comprehensive?
- Illegal vs illicit: the former term highlights practices not abiding by the law and the latter focuses on flows not complying with social or other norms (which may or not be illegal).



## IFFs at crossroads of different policy needs

- identify and combat laundering of criminal proceeds of OCGs
- reduce financial outflows from developing countries, especially in relation with corruption, stolen assets and other criminal proceeds
- identify and combat channels of terrorism financing and other illegal activities
- interest of national governments to curb tax evasion (and tax avoidance)





## IFF types

1. Cross-border flows of funds that have been generated legally but then become illegal assets because of illegal (e.g. tax evasion) or illicit (e.g. tax avoidance) activities
2. Cross-border flows of funds that have been generated illegally (e.g.: from illegal markets or illegal activities)
3. Cross-border flows of funds that are illegally transferred and/or transferred abroad for illegal purposes (eg financing of terrorism, drug trafficking, etc.)



## Measuring IFF: metrics requirements

Use of transparent statistical methodology, i.e. based on statistical evidence of good quality which is treated on the basis of transparent assumptions

Suitable for monitoring: based on data and methodology that can be replicated regularly to assess trends

Able to produce national estimates, i.e. built taking into account data referring to individual countries, which can be combined with data from other countries

Internationally comparable: national data can be compared with those produced by other countries

Able to provide a 'qualified' description of IFF; while aiming for comprehensive quantification of IFFs, a stepwise approach is proposed where focus is initially on measurable components



## Existing statistical frameworks, can they help?

Two established statistical frameworks could assist in building IFFs framework and estimation methods?

National accounts: for example, could GDP-related estimates be a starting point to determine certain aggregates subject to being transferred abroad (and be IFFs)?

Balance of payments: all cross-border financial flows should appear in the BoP, either in financial or current accounts.

However, problems arise as the illicit/illegal nature is difficult to ascertain and/or because of lack of statistical tools to cover certain IFFs.



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## To discuss at this meeting

- What to measure
- How to measure
- What statistical sources are available



## To discuss at this meeting (cont)

- Discuss and refine the statistical framework, where the idea is to disaggregate IFFs and build estimates for various IFF types. Issues:
  - Is the framework comprehensive and consistent?
  - Criteria (what to account for) to determine statistical definitions of various IFFs types
  - Flows: determining origin and destination of flows
  - Financial flows only or other transfers should be included as well



## To discuss at this meeting (cont)

- Workshops 1 and 2
  - Which challenges to apply the framework in the two areas
  - In practical terms, what types of financial flows should be included, respectively from legal/illicit and illegal activities
- Workshops 3 and 4
  - which data sources and statistical methods are promising and should be tested (respectively for the two areas)
  - For the various IFF types, which data are available, which analytical methods
  - National and/or international models to produce IFF estimates?
- Future steps: testing of methodologies and identification of relevant data sources for selected IFFs types (respectively for the two areas)



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Thank you

