Expert meeting on statistical methodologies for measuring illicit financial flows

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Advances in building a statistical framework to measure IFFs

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Defining IFFs for statistical purposes

Monetary measure of:
- International transfers of illicitly earned capital
- (Originally) legal capital transferred internationally for illicit purposes
- (Originally) legal capital transferred illicitly

Core Elements:
- Illicit
- Cross-Border (not domestic)
- Flows (not stocks)
**Case-based identification of IFFs**

**IN THE COUNTRY**
- Origin of assets
  - Legally generated profits, capital gains and income
    - Tax compliance
    - Lawful tax avoidance
  - Unlawful tax avoidance
    - Market/regulatory abuse
  - Tax evasion
    - Illegally transferred, and/or transferred for illegal purposes
  - Bribery
    - Illicit enrichment
    - Embezzlement
  - Corruption
    - "Theft*"-related
  - Illegal markets
    - Drug trafficking
    - Counterfeiting
    - Firearms trafficking
    - Trafficking in persons
    - Smuggling of migrants
    - Wildlife trafficking

**ABROAD**
- Result when transferred abroad
  - Licit
    - Legally generated, fully tax compliant and legally transferred assets abroad
  - Illicit?
    - Lawfully tax avoiding assets abroad
  - Illicit
    - Legally generated, but unlawfully tax avoiding assets abroad
    - Circumvention of regulations via hidden (offshore) ownership for unlawfully earned profit at home/abroad
    - Legally generated but violating regulations for cross-border transactions such as evading currency controls
  - Illegal
    - Legally generated, but criminally tax evading assets abroad, or transferred to fund illegal activities
    - Corruption-related illegal assets laundered domestically and transferred abroad
    - Theft-related illegal assets laundered domestically and transferred abroad
    - Theft-related illegal assets transferred abroad
    - Illegal assets (from illegal economic activities) laundered domestically and transferred abroad
    - Illegal assets (from illegal economic activities) transferred abroad
Distinguishing four types of IFFs:

- Tax Practices
- Corruption
- Theft-Type
- Illegal Markets

Challenge:
Moving from a case-based identification of IFFs to a comprehensive measurement framework for statistical purposes (country-based)
An example, drug trafficking

Country A

Drug processing, wholesale and retail sale

Value is generated
Conceptualizing a Statistical Framework for Measuring IFFs

Key requirements:

- **Country-Level**: Allows to measure IFFs at the level of countries (in line with SDG indicator framework)
- **Comprehensive**: Encompasses both IFFs and underlying illicit markets as well as all types of illicit activities that cause IFFs
- **Compatible**: Aligns to established concepts and standards from economics and accounting
Statistical Framework for Measuring IFFs at Country-Level

**Income Generation**

- **Illicit Intermediate Expenditure**
  - Domestic
  - Imports

- **Illicit Net Output**
  - Domestic
  - Exports

- **Non-Value Added Illicit Activities**

**IIFF - Outflows**

**Income Management**

- **Illicit Income**
  - Domestically generated illicit income
  - Illicit income from abroad

**IIFF - Inflows**

**IIFF - Outflows**

**IIFF (Final Goods/Services)**
**Example: Drugs**

**Illicit Gross Output**

- **Illicit Intermediate Expenditure**
  - Domestic (e.g.):
    - Logistics
    - Bribes
    - Protection/Sicariato
  - Imports (e.g.):
    - Drugs (wholesale)
    - Precursors
    - Machinery

**Illicit Net Output**

- Domestic:
  - Retail to domestic drug consumers
- Exports (e.g.):
  - Cross-border drug retail
  - Cross-border drug wholesale

**Illicit Income**

- Accumulated income of (e.g.):
  - Farmers
  - Wholesalers
  - Retailers
  - Corrupted officials
  - Sicarios

- Inflows of drug-related income from abroad
Example: Financing of Terrorism

Income Generation

Transferring money to fund terrorist activities

Income Management

Illicit Income

Domestic income for terrorist purposes

Foreign income for terrorist purposes

IFF - Outflows

IFF - Inflows
Dual Focus in Measuring IFFs

**Income Generation**
- Various types of illicit markets and activities
- Functioning of illicit value chains
- Supply and demand of illicit goods and services
- Prices of illicit goods and services

**Income Management**
- Distribution of income among different types of illicit actors
- Consumption and investment patterns of illicit actors
- Illicit finance and wealth management
Thank you.

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