Methodological proposal for the estimation of illicit financial flows associated with illicit cocaine markets and illicit gold mining in Colombia

Illicit financial flows (IFFs) are a threat to development. IFFs are the outcome of establishment of criminal economic activities that absorb the resources available in a country. Colombia is no stranger to this reality. The illicit markets for cocaine and gold (from the illegal exploitation of minerals) fuel vicious circles associated with violence and human rights violations, which limit the opportunities for progress among the population.

For the follow-up of the Sustainable Development Agenda, a proposal was made to measure indicator 16.4.1. — “Total value of inward and outward IFFs, in current United States dollars” — for the cocaine and illegal mining gold markets, under the measurement framework based on the System of National Accounts (SNA) recommended by the United Nations.

Methodology

IFFs refer to transactions carried out in the domestic and international trade of illicit goods and services, which involve criminal organization with the objective of creating profits. These transactions are related to illicit economic activities, which are directly connected to illegal markets, under a value chain structure. Countless transactions are carried out, which, in turn, involve different actors, generating and demanding different goods and services, both licit and illicit. IFFs are generated when these value chain cross a border. Thus, IFFs emerge in the form of illegal imports and exports of goods and services.

A methodology was proposed based on information that allows a special classification of its illicit structure, according to economic activity, step in the supply chain, process, actors, and their productive chains, as well as tradable products. This measurement is based on the construction of indicators that feed the national accounts under common methodologies standardized by the United Nations. Within this framework, its elaboration enables making the economies of different countries comparable. This included the adaptation to the Central Product Classification (CPC Ver. 2.0) and the Classification of Economic Activities (ISIC Revision 4) adapted for Colombia.

The fundamental principle is the economic balance between supply (available flows) and demand (flows that are used) in a territory. This is analyzed from two perspectives: that of the product, which analyses both supply and demand so as to ensure balance between them (defined as supply/demand balances); and that of the production units, which analyses how production and value added are generated according to the type of production link (called the production and income generation accounts). The consolidation of both results in the economic equilibrium is represented in the supply and demand table on the next page.

This proposal includes:

- Quantification of IFFs from a statistical synthesis.
- Description of IFFs using a coherent accounting table between supply and demand in the national and international market.
- Generation of an economic instrument for the analysis of these markets, which can be connected to the country’s macroeconomic analysis.

Given the connotations of the value chain of the gold and cocaine markets in Colombia, this approach is proposed because Colombia is a source of these products, which are exported illegally to the rest of the world.

In Colombia, a cocaine producer country, inward IFFs (payments received) are generated when the cocaine produced is exported-trafficked to the rest of the world, as well as from the income of resident citizens derived from their participation in the cocaine trafficking chain. Outward IFFs are generated when the intermediate inputs required to carry out the illicit economic activities associated with obtaining the drug are imported from abroad (mainly for the payment of the chemical substances used in the different production processes).

About the illicit gold market in the Colombian context, inward IFFs (payments received) are generated when gold produced outside of the legal regulatory framework is exported to the rest of the world. Otherwise, outward IFFs occur when the intermediate inputs required to perform illicit economic activities associated with gold exploitation, such as chemicals, explosives, machinery and equipment, among others, are imported from abroad.

The available information was consolidated for the period 2015–2019.
Results of the methodological proposal to estimate IFFs associated with the illicit cocaine market in Colombia

Synthesis of the supply and demand table of the illicit cocaine market, after the integration of the product supply matrix, intermediate consumption matrix, final demand table and production and income generation accounts, 2019.

<table>
<thead>
<tr>
<th>Product</th>
<th>Supply matrix</th>
<th>Total supply</th>
<th>Total demand</th>
<th>Intermediate consumption</th>
<th>Inward IFFs vector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fresh coca leaves</td>
<td>USD 497</td>
<td>USD 497</td>
<td>USD 497</td>
<td>USD 497</td>
<td>USD 497</td>
</tr>
<tr>
<td>Cocaine paste</td>
<td>USD 430</td>
<td>USD 430</td>
<td>USD 430</td>
<td>USD 430</td>
<td>USD 430</td>
</tr>
<tr>
<td>Cocaine base</td>
<td>USD 730</td>
<td>USD 730</td>
<td>USD 730</td>
<td>USD 730</td>
<td>USD 730</td>
</tr>
<tr>
<td>Cocaine hydrochloride</td>
<td>USD 1,477</td>
<td>USD 1,477</td>
<td>USD 1,477</td>
<td>USD 1,477</td>
<td>USD 1,477</td>
</tr>
<tr>
<td>Agrochemicals</td>
<td>USD 265</td>
<td>USD 265</td>
<td>USD 265</td>
<td>USD 265</td>
<td>USD 265</td>
</tr>
<tr>
<td>Chemical substances</td>
<td>USD 238</td>
<td>USD 238</td>
<td>USD 238</td>
<td>USD 238</td>
<td>USD 238</td>
</tr>
<tr>
<td>Transport and security service</td>
<td>USD 131</td>
<td>USD 131</td>
<td>USD 131</td>
<td>USD 131</td>
<td>USD 131</td>
</tr>
<tr>
<td>Other hours not contemplated</td>
<td>USD 51</td>
<td>USD 51</td>
<td>USD 51</td>
<td>USD 51</td>
<td>USD 51</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>USD 4,100</strong></td>
<td><strong>USD 268</strong></td>
<td><strong>USD 4,167</strong></td>
<td><strong>USD 2,468</strong></td>
<td><strong>USD 1,477</strong></td>
</tr>
</tbody>
</table>

Outward IFFs (millions of USD), 2015–2019

Inward IFFs (millions of USD), 2015–2019
Challenges in building the methodology to estimate IFFs related to the gold mining market.

In Colombia, gold is a licit tradable good that, according to the sources consulted, may come from licit, informal, or illicit exploitation.

Main characteristics of typification of legal, informal and illegal mining

- **Legal mining**
  - It is covered by a mining title
  - The titles provide the right to explore and exploit in the granted area
  - The holder has a series of obligations related to environmental management and social development programmes

- **Informal mining**
  - Small and medium-sized operating units, individually owned and without any accounting records
  - It is characterized by preserving artisanal techniques, without mechanical assistance and small-scale operations

- **Illegal mining**
  - It is developed without: being registered in the National Mining Registry and therefore, without a mining title
  - It includes mining covered by a mining title, but where the extraction, or part of it, takes place outside the area granted in the license

Given the connotation of the legality of gold, one of the challenges in measuring its illicit financial flows was to generate conceptual elements that help differentiate transactions done within the framework of Colombian law (whether formal or informal), from those that come from illicit exploitation or are traded outside the provisions established by the authorities.

The consolidation of the available official information revealed gaps in the indicators needed to estimate IFFs, according to the methodological proposal. As a result, it was not possible to fully analyze the perspective of the product and the economic unit that make up the illicit gold market, from the transactions of origin; that is, from the national supply and its trajectory towards illegal international markets.

In the methodological proposal, a route to follow was built for the generation of key indicators that help to estimate IFFs from illicit gold market activities in the medium term. The following outline summarizes the consolidation and implementation of an information system related to the illicit exploitation of gold.

1. Characterization of the value chains associated with illicit gold mining, by region, type and size of the mining operation.
2. Productivity studies by region, exploitation type and size
3. Characterization of the inputs, services and labour demanded in the development of illicit exploitation
4. Studies on prices and trends in the market of the illicit gold
   - Revenue generated in the development of illicit activities, estimation of outward and inward IFFs
   - Sources of financing
   - Gold production generated by the illicit gold market
   - Demand of chemical substances, explosives, machinery and equipment, among others