

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.

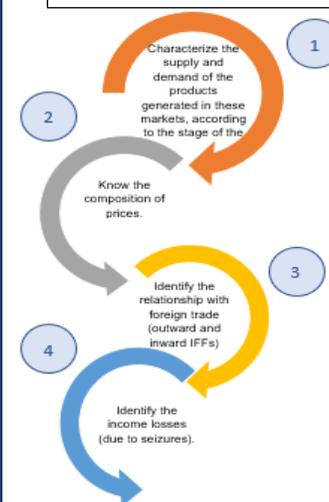
IFF methodological principle
Equilibrium Supply = Demand
generated by product and by agents



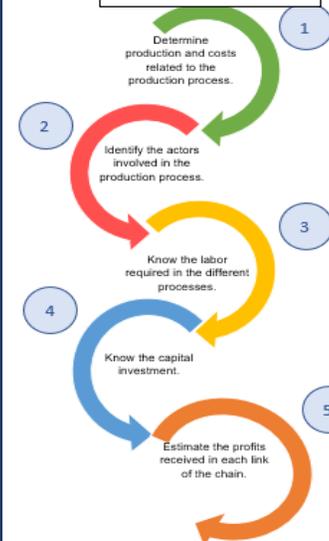
The available information was consolidated for the period 2015–2019.

Key information for the proposed analysis:

PERSPECTIVE OF THE PRODUCT



PERSPECTIVE OF THE PRODUCTION UNITS



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.

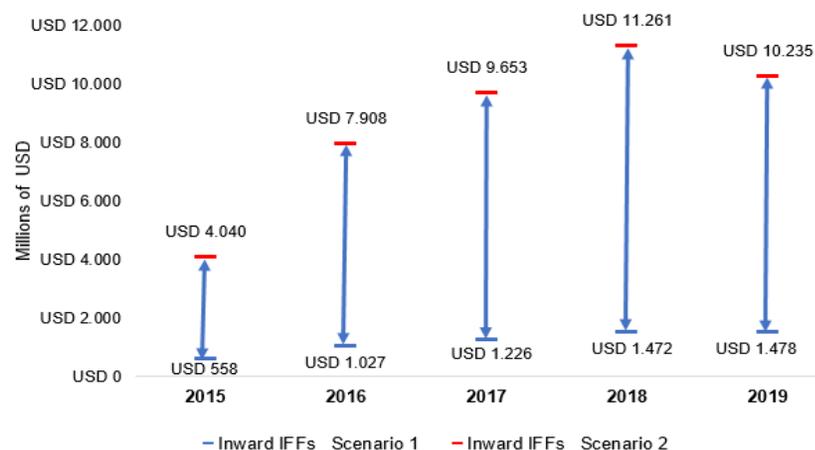
Product	Supply matrix				Use matrix				Inward IFFs vector	
	Production <small>(agricultural, agro-industrial, industrial activity, retail, other illicit factors)</small>	Imports Outward IFFs	Trading margin (seizures)	Total supply	Total demand	Intermediate consumption matrix		Demand vectors		
						Intermediate consumption <small>(agricultural, agro-industrial, industrial activity, retail, other illicit factors)</small>		Household consumption		Exportable cocaine hydrochloride Inward IFFs Scenario 1
Fresh coca leaves	USD 457			USD 457	USD 457	USD 457				
Cocaine paste	USD 439			USD 439	USD 439	USD 439				
Cocaine base	USD 733		-USD 48	USD 685	USD 685	USD 647	USD 39			
Cocaine hydrochloride	USD 1,877		-USD 280	USD 1,597	USD 1,597	USD 38	USD 81	USD 1,478	USD 10,235	
Agrochemicals	USD 20	USD 20		USD 47	USD 47	USD 47				
Chemical substances	USD 419	USD 235		USD 650	USD 650	USD 650				
Transport and security service	USD 131			USD 131	USD 131	USD 131				
Other inputs not completed	USD 51			USD 51	USD 51	USD 51				
Total	USD 4,180	USD 266	-USD 328	USD 4,067	USD 4,067	USD 2,468	USD 120	USD 1,478	USD 10,235	

Production and income generation accounts	Total production	USD 4,180
	Value added	USD 1,871
	Remuneration to the employees	USD 229
	Mixed income	USD 1,442

Outward IFFs (millions of USD), 2015–2019



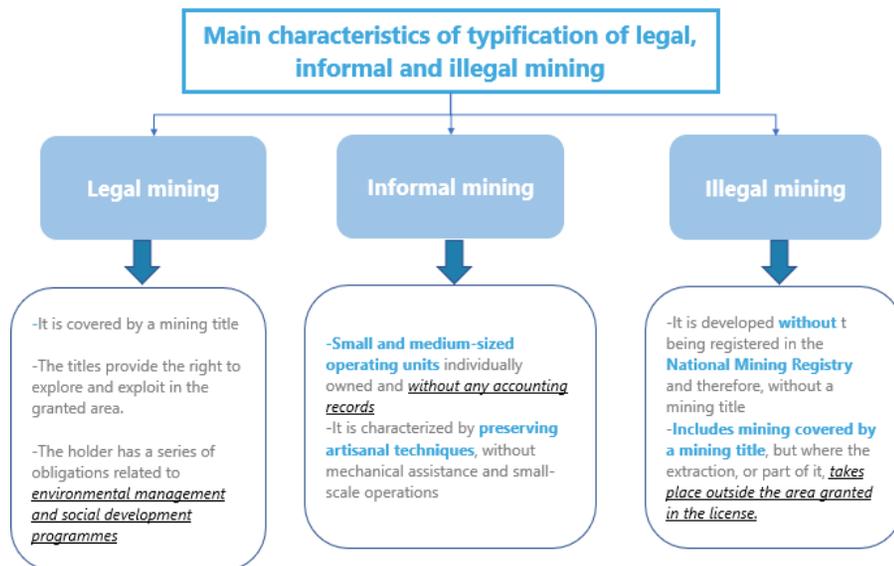
Inward IFFs (millions of USD), 2015–2019



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.

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.



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.

