Estimating illicit financial flows related to drug trafficking activities

General guidelines

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UNODC-ESCAP-UNCTAD
Kick-off meeting of pilot activities for measuring illicit financial flows in Asia-Pacific countries
### Income generation vs income management IFFs

<table>
<thead>
<tr>
<th>Income generation IFFs</th>
<th>Income management IFFs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-border transactions that are performed in the context of the production of illicit goods and services (…).</td>
<td>Cross-border transactions finalized to use the (illicit) income for investment in (legal or illicit) financial and non-financial assets or for consuming (legal or illegal) goods and services.</td>
</tr>
</tbody>
</table>

**Example on drug trafficking-related IFFs:**
- Transactions finalized to payments of illicit drug exported to another country
- Cross-border investments of proceeds of crime in legitimate businesses
Income generation IFFs and illicit drug market value

• IFF concept -> compatible with the framework of system of national account (SNA) and the balance of payments (BoP).

• The **economic value of an illicit drug market** ("market size") measures the income generated by drugs trafficking.¹

• Drug trafficking -> productive activity (production of goods and provision of services) aimed at **making profits**

• Three main economic aggregates:
  – **Revenues**: Illicit gross output
  – **Costs**: (Illicit) intermediate expenditure or intermediate costs
  – **Profits**: Illicit net output/income (or value added)

Illicit gross output – illicit intermediate expenditure = illicit net output/income
Main estimation aggregates and IFFs

PRODUCTIVE ACTIVITIES
Income generation

- Exports + Domestic market = ILLICIT GROSS OUTPUT

Income management

Imports + Domestic inputs = ILLICIT INTERMEDIATE EXPENDITURE

ILLICIT GROSS OUTPUT - ILLICIT INTERMEDIATE EXPENDITURE = ILLICIT NET OUTPUT

INWARD IFFs

DOMESTIC

CROSS-BORDER

INVESTMENTS + CONSUMPTION

OUTWARD IFFs

INWARD IFFs

OUTWARD IFFs
Illicit drug market value

Calculating the value of relevant aggregates

Value = Quantity × Price
Estimating illicit drug quantities

The demand-supply equation balance helps in the process of estimating drug quantities.

SUPPLY-DEMAND EQUATION BALANCE

\[
\text{PRODUCTION}_t + \text{IMPORTS}_t - \text{SEIZURES}_t = \text{CONSUMPTION}_t + \text{EXPORTS}_t
\]

Losses and inventories would be also part of the supply side of the equation. However, due to lack of information on such aggregates, these are not estimated.

Generate OUTWARD IFFs

Generate INWARD IFFs
Estimating illicit drug quantities - examples

<table>
<thead>
<tr>
<th>Cases</th>
<th>Relevant income generation IFFs</th>
<th>Relevant income generation IFF equation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Illicit drugs are produced in the country, there is a moderate domestic consumption, high exports, no imports</td>
<td>Inward IFFs</td>
<td>Exports = production – seizures - consumption</td>
</tr>
<tr>
<td>2. Illicit drugs are produced in the country, no imports, no domestic consumption, only exports</td>
<td>Inward IFFs</td>
<td>Exports = production – seizures</td>
</tr>
<tr>
<td>3. No production, drugs mostly in transit, resident actors involved, moderate domestic consumption</td>
<td>Outward IFFs, Inward IFFs</td>
<td>Imports = seizures + consumption + exports, Exports = Imports – seizures -consumption</td>
</tr>
<tr>
<td>4. Destination country, high local consumption, no exports</td>
<td>Outward IFFs</td>
<td>Imports = seizures + consumption</td>
</tr>
<tr>
<td>5. Illicit drugs are produced in the country, domestic consumption high, no exports, no imports</td>
<td>No income generation IFFs, but income management IFFs are possible</td>
<td>-&gt; illicit net output/income = domestic output – domestic costs</td>
</tr>
</tbody>
</table>
### Estimating illicit drug production

#### Agricultural sector - cultivation

**Key indicators**
- Area under illicit crops cultivation
- Crop yield
- Production = yield x cultivated area

**Illicit products**
- Coca leaves
- Opium gum
- Cannabis herb or hashish
- Other (e.g. khat)

#### (Agro-)industrial sector - manufacturing

**Key indicators**
- Chemical inputs
- Chemical process yield

**Illicit products**
- Coca paste/Coca base/Cocaine salts (pure)
- Synthetic opioids/morphine/heroin (pure)
- Amphetamine-type substances (pure)
- Other

#### Wholesale and retail trade sector - adulteration

**Key indicators**
- Cutting agents
- Purity (wholesale and retail)

**Illicit products**
- Cocaine salts/pasta base (impure)
- Synthetic opioids /Morphine/heroin (impure)
- Amphetamine-type substances (impure)
- Other
Estimating illicit drug consumption

(For each relevant illicit drug, annual consumption)

Consumption\(_t\) = \text{number of users}\(_t\) \times \text{amount used per capita}\(_t\)

**Number of users:**
Estimating drug consumption make use primarily of survey data (survey among the general population). When these data are not available, in certain cases, data on drug registries or on people in treatment may be used.

**Amounts used per capita:**
Amounts consumed: most challenging indicator. Sometimes surveys collect such data, but often they have limited reliability. Data on amounts spent on drugs use per capita may be more reliable.
Key data

For each illicit drug market selected, check availability of **data or qualitative information** on:

<table>
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<tr>
<th>Quantities</th>
<th>$ Prices</th>
<th>Actors</th>
<th>Routes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultivation or production</td>
<td>Domestic wholesale prices</td>
<td>Residence of traffickers</td>
<td>Drug trafficking route (if any)</td>
</tr>
<tr>
<td>Seizures</td>
<td>Domestic retail prices</td>
<td>Role of traffickers by residence</td>
<td>Distribution of exports</td>
</tr>
<tr>
<td>Consumption</td>
<td>Export wholesale prices</td>
<td>Modus operandi</td>
<td>Distribution of imports</td>
</tr>
<tr>
<td>Purities (wholesale and retail)</td>
<td>Import wholesale prices</td>
<td></td>
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<td></td>
<td>Farmgate prices*</td>
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</tbody>
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**Geographical coverage:**
- national
- data from bordering countries or origin/destination countries -> drug trafficking routes analysis
- Sub-national, in case regional specificities are detected
Estimation process

1. Expert consultation
2. Desk review
3. Drug markets selection
4. Data availability assessment
5. Analysis available data
6. Data collection
7. Methodology implementation
8. Calculations
9. Revision of estimates
10. Final estimates
Thank you!