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# 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



CONCEPTUAL FRAMEWORK FOR THE  
STATISTICAL MEASUREMENT OF  
ILLICIT FINANCIAL FLOWS

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## Income generation IFFs

Cross-border transactions that are performed in the context of the production of illicit goods and services (...).

Example on drug trafficking-related IFFs: transactions finalized to payments of illicit drug exported to another country

## Income management IFFs

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.

Example on drug trafficking-related IFFs: cross-border investments of proceeds of crime in legitimate businesses

## ILLICIT FINANCIAL FLOWS

are financial flows that are illicit in origin, transfer or use, that reflect an exchange of value and that cross country borders.



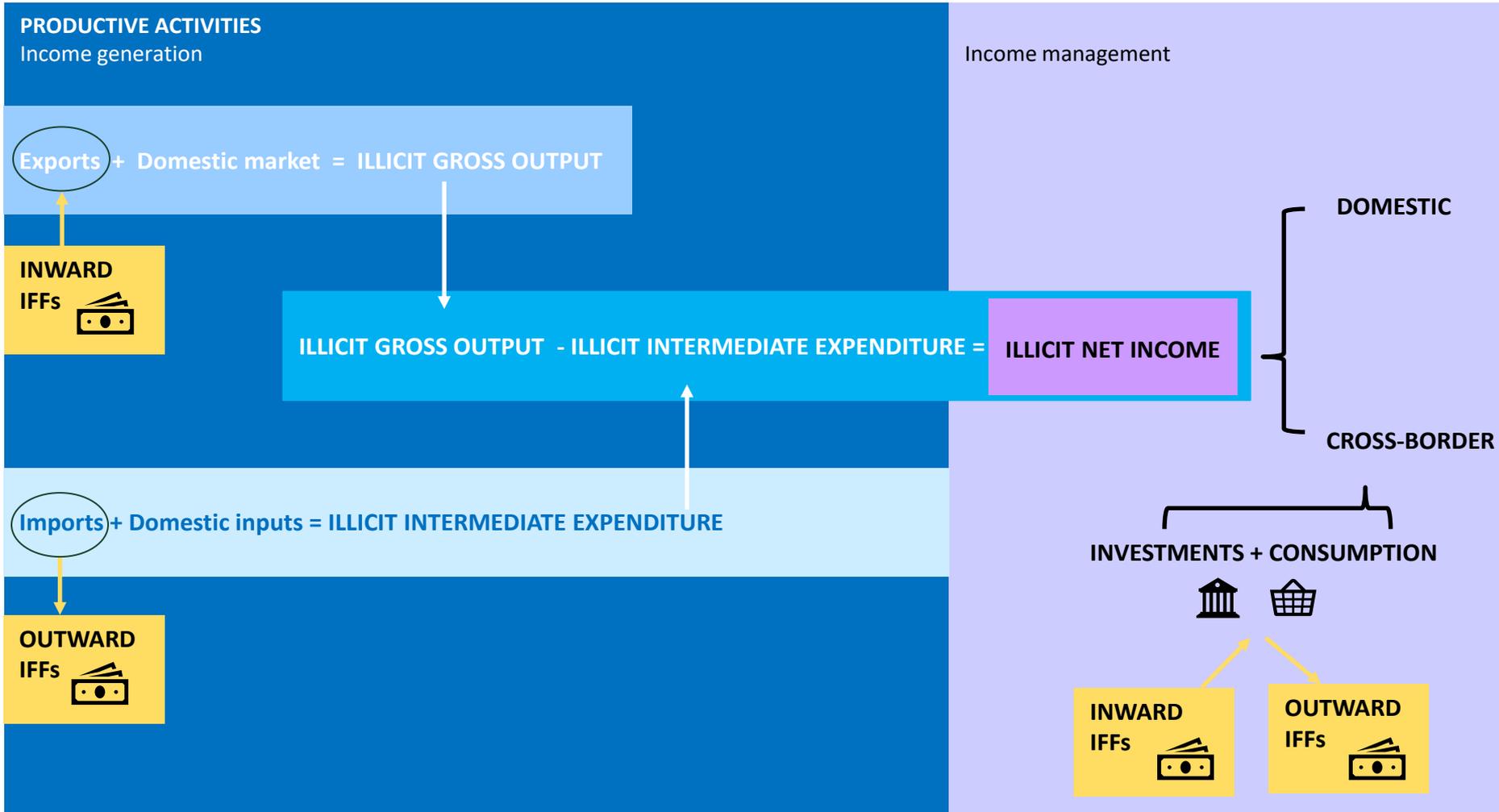
## **Income generation IFFs and illicit drug market value**

- 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.<sup>1</sup>
- 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





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## Illicit drug market value

Calculating the value of relevant aggregates





# 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

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



# 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)

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

## Number of users:

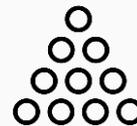
Estimating drug consumption make use primarily of survey data (survey among the general population). When these data are not available, in certain cases, data on drug registries or on people in treatment may be used.



Prevalence of illicit drug use

## 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.



Average amounts of used drugs per capita



Frequency of illicit drug use

## Key data

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

 Quantities	\$ Prices	 Actors	 Routes
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Cultivation or production	<input type="checkbox"/> Domestic wholesale prices	<input type="checkbox"/> Residence of traffickers	<input type="checkbox"/> Drug trafficking route (if any)
<input type="checkbox"/> Seizures	<input type="checkbox"/> Domestic retail prices	<input type="checkbox"/> Role of traffickers by residence	<input type="checkbox"/> Distribution of exports
<input type="checkbox"/> Consumption	<input type="checkbox"/> Export wholesale prices	<input type="checkbox"/> Modus operandi	<input type="checkbox"/> Distribution of imports
<input type="checkbox"/> Purities (wholesale and retail)	<input type="checkbox"/> Import wholesale prices		
	<input type="checkbox"/> Farmgate prices*		

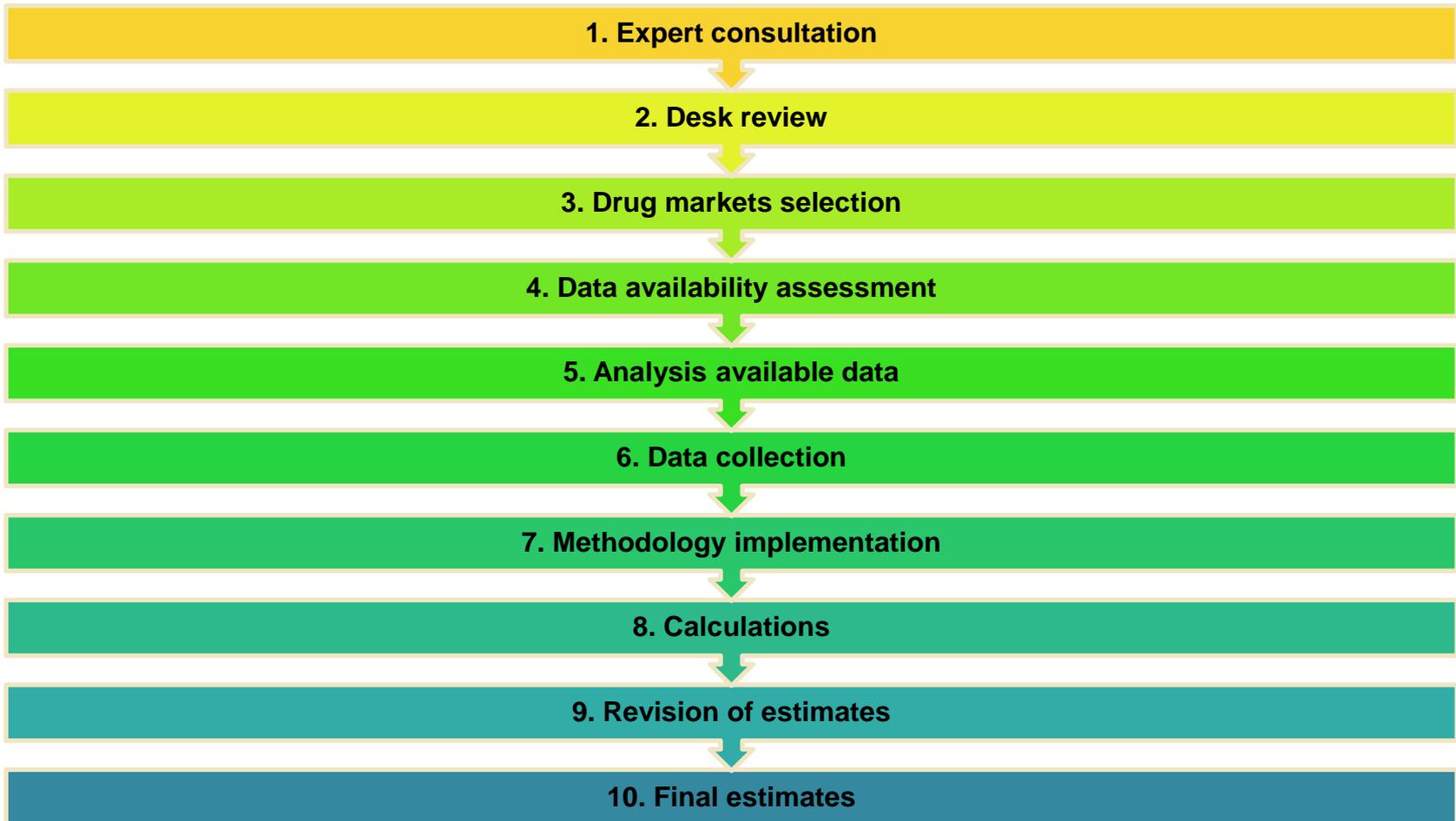
### Geographical coverage:



- national
- data from bordering countries or origin/destination countries -> drug trafficking routes analysis
- Sub-national, in case regional specificities are detected



# Estimation process





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**Thank you!**