First National Workshop on Measuring Illicit Financial Flows Associated with Drug Trafficking in Nepal

21 March 2022 – Radisson Hotel Kathmandu

Group Exercise 1 – Understanding the statistical definition of illicit financial flows (IFFs) and the Conceptual Framework, with an application to drug trafficking activities

<u>Exercise 1.1 – Definition of IFFs for statistical purposes and income generation/income management IFFs</u>

For each scenario described below, please indicate if the transaction entails an IFF (by marking the "IFF" or "No IFF" column). If YES, please indicate in the last column ("IGO/IMO") if the IFF represents a flow associated with an Income Generation Operation ("IGO") or an Income Management Operation ("IMO").

Scenario	IFF	No IFF	IGO/IMO
1. Example: To produce methamphetamine, an organised crime group based in the US purchases precursors worth USD 6,000 from China.	*X*		*IGO*
2. Once a heroin shipment from India arrives in Bangladesh, the importers based in Bangladesh make a payment worth USD 15,000 to the India-based traffickers.	X		IGO
3. Heroin producers in Myanmar purchase precursor chemicals from a local seller worth USD 5,300.		X	
4. An organized group based in Nepal export 10 kg yaba to India, receiving 10 million NPR.	X		IGO
5. A drug criminal group based in Italy deposits illicit cash proceeds on a bank account in Switzerland.	X		IMO
6. A drug addict in Bangladesh buys drugs from a local retailer.		X	
7. A Mexican criminal group engaged in methamphetamine trafficking invests its criminal proceeds in the real estate market of the USA.	X		IMO
8. A criminal group based in Nepal corrupts public officials of a foreign country paying them 16,000 USD to smuggle cannabis into this country.	X		IGO

Exercise 1.2 - Case study

Scenario 1:

In Italy, the Aziani group is producing cocaine. The group imports precursors for the production of cocaine from Mexico for 3,000 USD. The Aziani group also sells directly 40% of the production to the local retail markets for 35,000 USD, whereas the other 60% is directly exported to Germany for 51,000 USD.

In Germany, the Kamprad group is importing all cocaine from Italy for 51,000 USD. All cocaine imported is directly re-exported to Mexico for 63,000 USD. The Kamprad transportation costs within the country amount to 1,000 USD.

In Mexico, the Solís group imports all cocaine for 63,000 USD and resells to the local retail market for 80,000 USD. Mexico exports to Italy precursors for the production of cocaine for 3,000 USD.

Scenario 2:

In Nepal, there is one organised crime group, the Smith group. The Smith group is active in trafficking of cannabis to India for 60,000 USD. For their activities, they buy a truck from a local (Nepali) dealer for 16,000 USD. The group also imports ecstasy from India for 40,000 USD.

The Saudulla group is active in India, importing ecstasy from the Netherlands for 30,000 USD and selling it in the local retail markets for 70,000 USD. At the same time, the group exports ecstasy for 40,000 USD to Nepal. To protect their cargo, the Saudulla group buys firearms in the Netherlands for 5,000 USD. Please remind that they imported cannabis from Nepal for 60,000 USD.

The Horby group is based in the Netherlands to produce ecstasy where 50% of their production is sold in the local retail markets for 90,000 USD. They export ecstasy also to India for 30,000 USD, but they need to bribe the local (Dutch) authorities for 7,000 USD. Please remind that the Saudulla group buys buys firearms in the Netherlands for 5,000 USD.

A. IDENTIFY THE ILLICIT FINANCIAL INFLOWS AND OUTFLOWS

Based on scenarios 1 and 2 above, fill in the below tables with the illicit financial flows (outflows and inflows) taking place between the 3 countries of each scenario. Please only fill in the white cells of the tables below.

Scenario 1:

		Outflows		
		Italy	Germany	Mexico
Inflows	Italy		$51,000	
	Germany			$63,000
	Mexico	$3,000		

Scenario 2:

		Outflows		
		Nepal	India	Netherlands
Inflows	Nepal		$60,000	
	India	$40,000		
	Netherlands		$30,000 + $5,000 = $35,000	

Guidance note:

• **Illicit Financial Outflows** correspond to the import of illicit goods and services that are used for generating illicit final products.

• **Illicit Financial Inflows** correspond to the export of final goods and services.

B. IDENTIFY THE MAIN ECONOMIC AGGREGATES OF THE CONCEPTUAL FRAMEWORK

For scenarios 1 and 2, for each country, please identify:

• *Illicit gross output:*

Value of the illicit goods or services produced in a given period. The value is determined as quantity-times-price (where the price is, for example, the retail price in the domestic market, or the export price if goods are exported).

• *Illicit intermediate expenditure:*

Value of (licit and illicit) inputs acquired to produce illicit goods and services over a given period. The value of inputs is determined as quantity-per-price (where the price is, for example, the domestic price if the goods are bought from a resident, or the import price if the goods are bought from a non-resident).

• *Illicit net output (or value added or illicit net income)*

The economic result of the productive process. It is determined as gross output-minus-intermediate expenditure. It also represents the net income (income after accounting for costs) earned by all actors carrying out the illicit activity.

Fill out the tables below of scenario 1 and 2 according to the conceptual framework illustrated in Figure 1 and 2 (below).
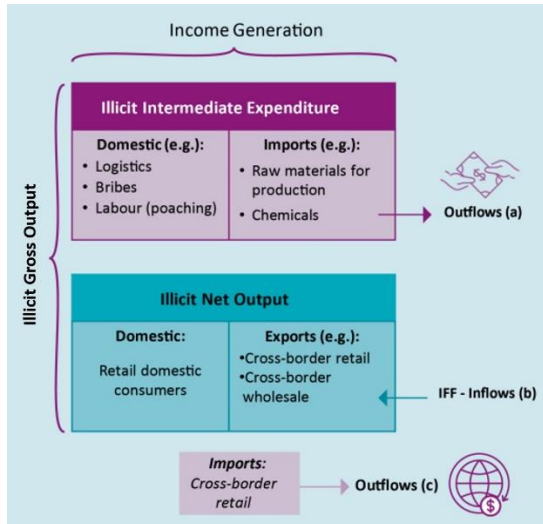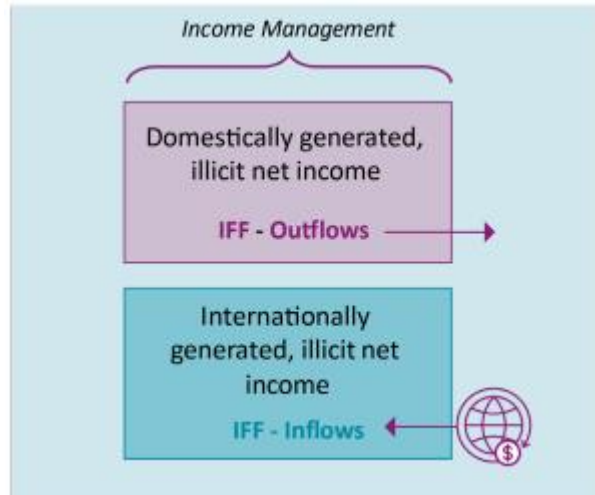
Figure 1   *Figure 2*

Source: UNCTAD and UNODC, Conceptual Framework for the Statistical Measurement of Illicit Financial Flows (Vienna, 2020)

Scenario 1

Italy

	Domestic	Imports/outflows	Exports/inflows	TOTAL
Illicit gross output	$35,000		$51,000	$86,000
Illicit intermediate expenditure		$3,000		$3,000
Illicit net output				$83,000

Germany

	Domestic	Imports/outflows	Exports/inflows	TOTAL
Illicit gross output			$63,000	$63,000
Illicit intermediate expenditure	$1,000	$51,000		$52,000
Illicit net output				$11,000

Mexico

	Domestic	Imports/outflows	Exports/inflows	TOTAL
Illicit gross output	$80,000		$3,000	$83,000
Illicit intermediate expenditure		$63,000		$63,000
Illicit net output				$20,000

Scenario 2:

Nepal

	Domestic	Imports/outflows	Exports/inflows	TOTAL
Illicit gross output			$60,000	$60,000
Illicit intermediate expenditure	$16,000	$40,000		$56,000
Illicit net output				$4,000

India

	Domestic	Imports/outflows	Exports/inflows	TOTAL
Illicit gross output	$70,000		$40,000	$110,000
Illicit intermediate expenditure		$30,000 + $5,000 + $ 60,000		$95,000
Illicit net output				$15,000

The Netherlands

	Domestic	Imports/outflows	Exports/inflows	TOTAL
Illicit gross output	$90,000		$30,000 +$5,000	$125,000
Illicit intermediate expenditure	$7,000			$7,000
Illicit net output				$118,000

---End of Group Exercise 1---