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Measuring IFF for SDG 16.4.1

Developing a statistical framework



The Sustainable Development Goals

Sustainable Development Goals





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The Sustainable Development Goals



Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels



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Illicit financial flows in the Sustainable Development Goals

Target 16.4.

By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime

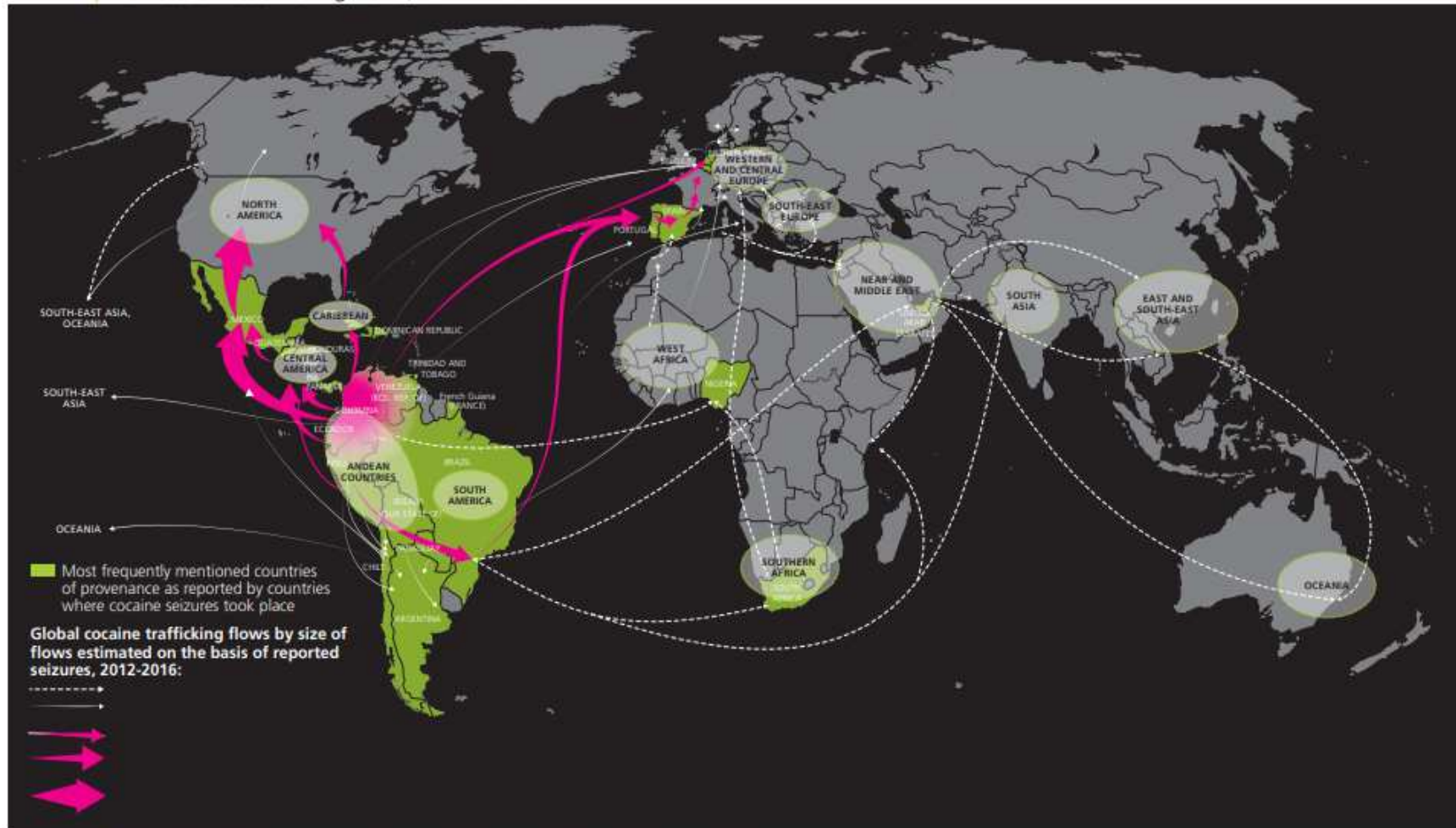
Indicator 16.4.1

Total value of inward and outward illicit financial flows (in current United States dollars)



Illicit financial flows from illegal markets

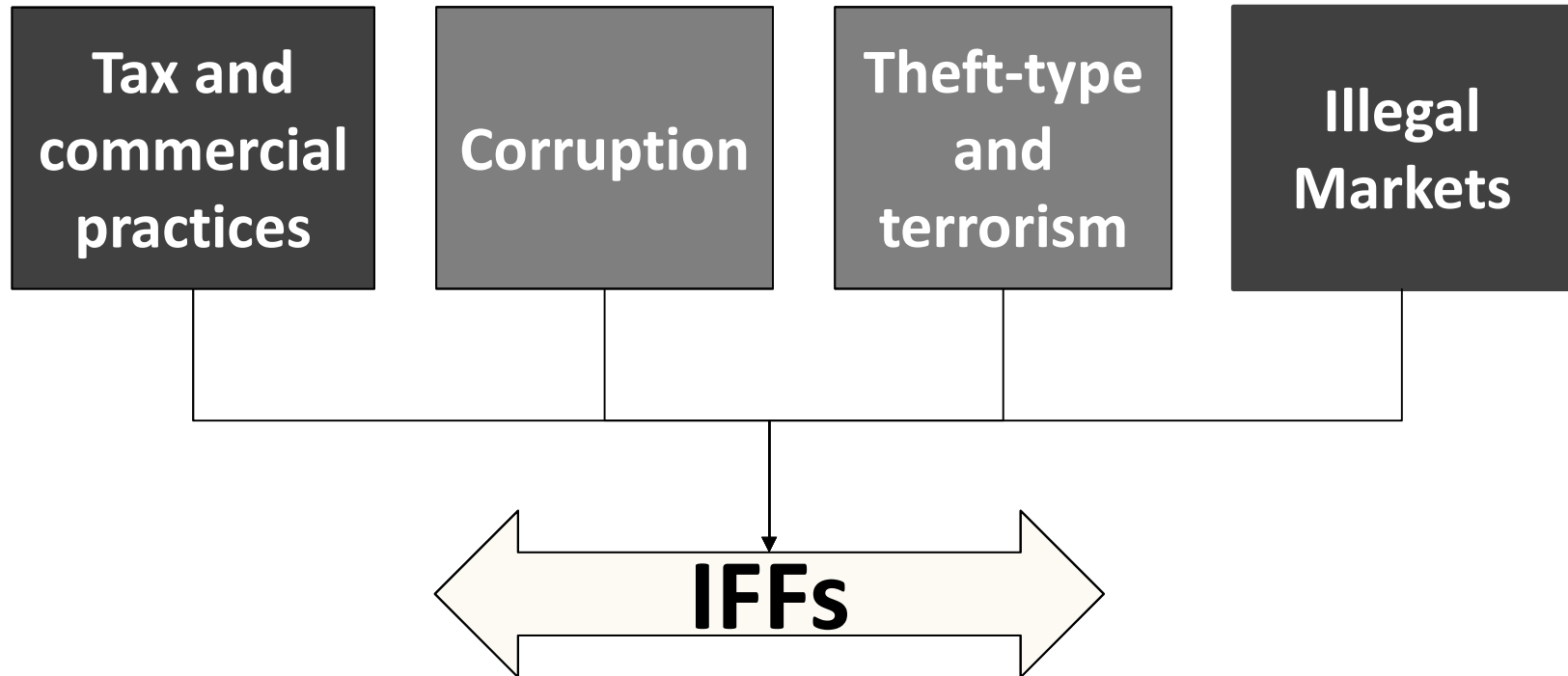
MAP 1 | Main cocaine trafficking flows, 2012–2016



Sources: UNODC, responses to the annual report questionnaire and individual drug seizure database.



Towards a classification of flows





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Illegal markets: trade with illicit goods and services (e.g., drugs, smuggling of migrants, wildlife trafficking)

Theft-type activities and terrorism financing

Voluntary or involuntary, illicit transfer of funds or services between actors (theft, TiP, Kidnapping, extortion)

Corruption list of activities as in UNCAC, includes bribery, embezzlement, abuse of functions

Tax and commercial practices (UNCTAD focus), tax evasion, trade misinvoicing, profit shifting.

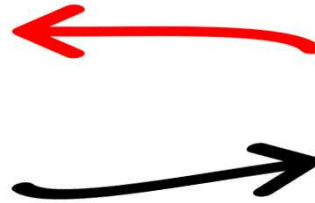
Defining IFF for Statistical Purposes

Core elements

- Illicit in origin, transfer or use
- The exchange of value (rather than purely financial flows)
- A flow of value over time (as opposed to a stock measure)
- Flows that cross a border
- Measurement at the country level

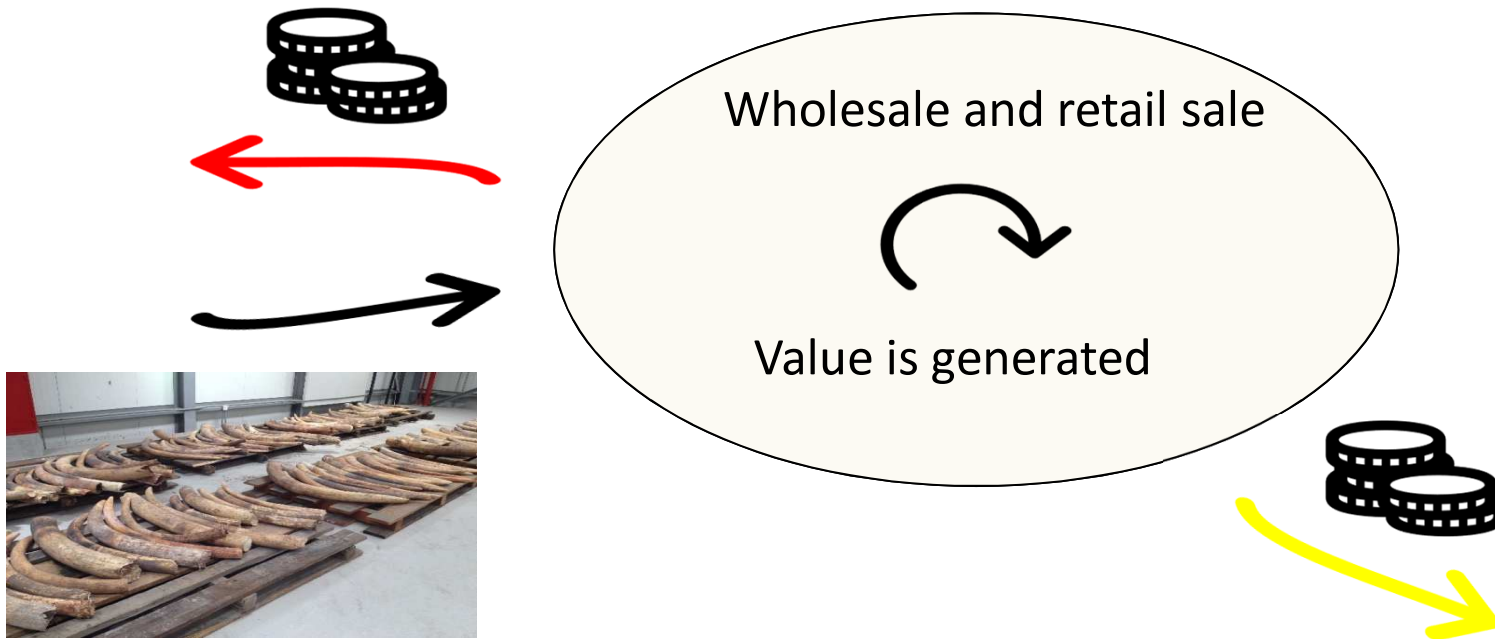


Resident country A
IFF inflow



Resident country B
IFF outflow

Financial flows are transferred in various ways, including cash, formal and informal banking systems (hawala, mobile payments) and more sophisticated methods like trade based money laundering and complex financial constructs



Illegal markets

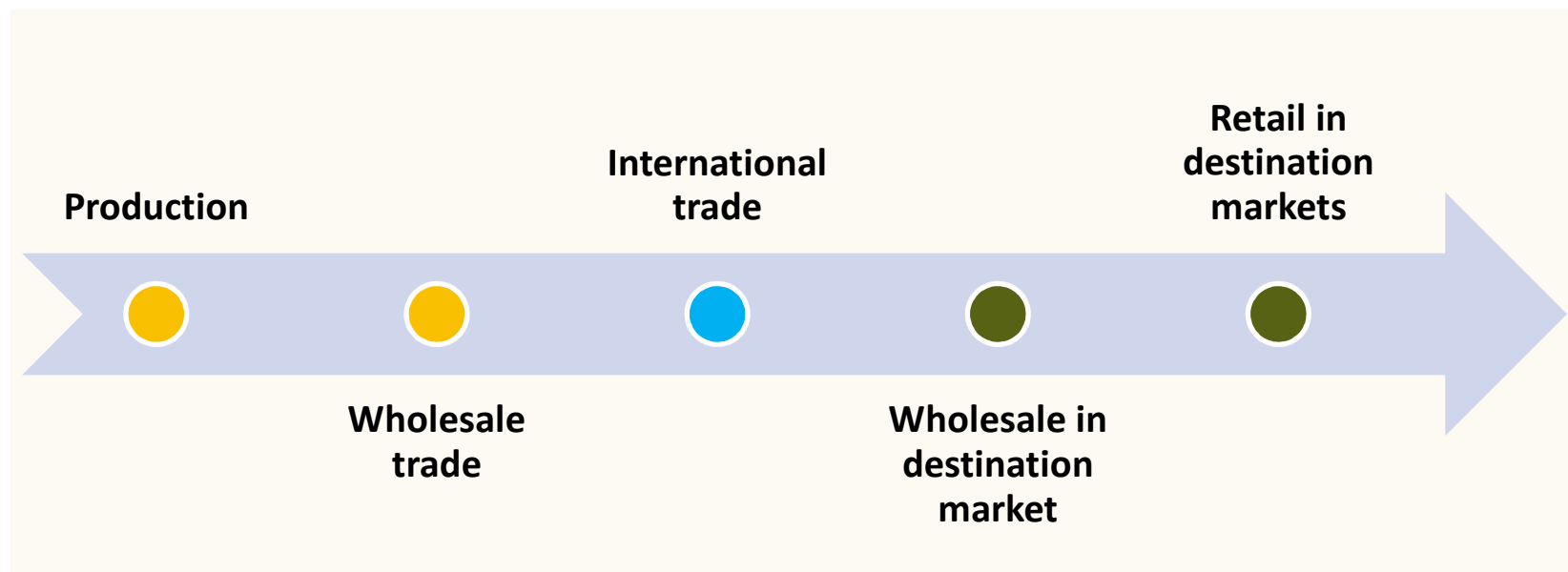
Income Generation

- Illicit financial flows connected to the supply chain of illegal goods
- Trade with illicit goods and services generate cross-border financial flows
- In- and outflows

Income Management

- IFF related to the management of illicitly generated income
- Consumption and investment patterns of illicit actors
- Illicit finance and wealth management
- In- and outflows

How to estimate income generation?





How to estimate?

- Understanding the volumes traded
 - Imports and exports
 - Origin and destination of flows
- Understanding the value of the flows
 - Import and export prices (prices in origin and destination prices)
 - Domestic prices (value of the retail market)

Example: drug trafficking

In an Andean country, an organised crime group produces cocaine. In a given year, the group sells 40% of production to the local retail markets for USD 35,000, and the other 60% directly to a destination country for USD 50,000. The group also imports precursors to produce cocaine from for USD 15,000. The group is moving USD 10,000 to off-shore accounts.

IFF during income generation

- Inward illicit financial flows of USD 50,000 (money received from the destination country in exchange for the drugs)
- Outward illicit financial flows of USD 15,000 (money used to purchase precursor substances under international control)

IFF during income management

- Outward illicit financial flows of USD 10,000, the amount of net income that is moved to off-shore accounts.



Trade flows of illicit drugs

- For all countries, the following holds

$$\textit{Production + imports = exports + seizures + consumption + losses}$$

With this drug flows can be estimated.

- Combining these with price data, yield income generation flows.
- Subtracting costs yield net income, which is relevant for income management



Measuring IFF from illegal markets – Pilot countries

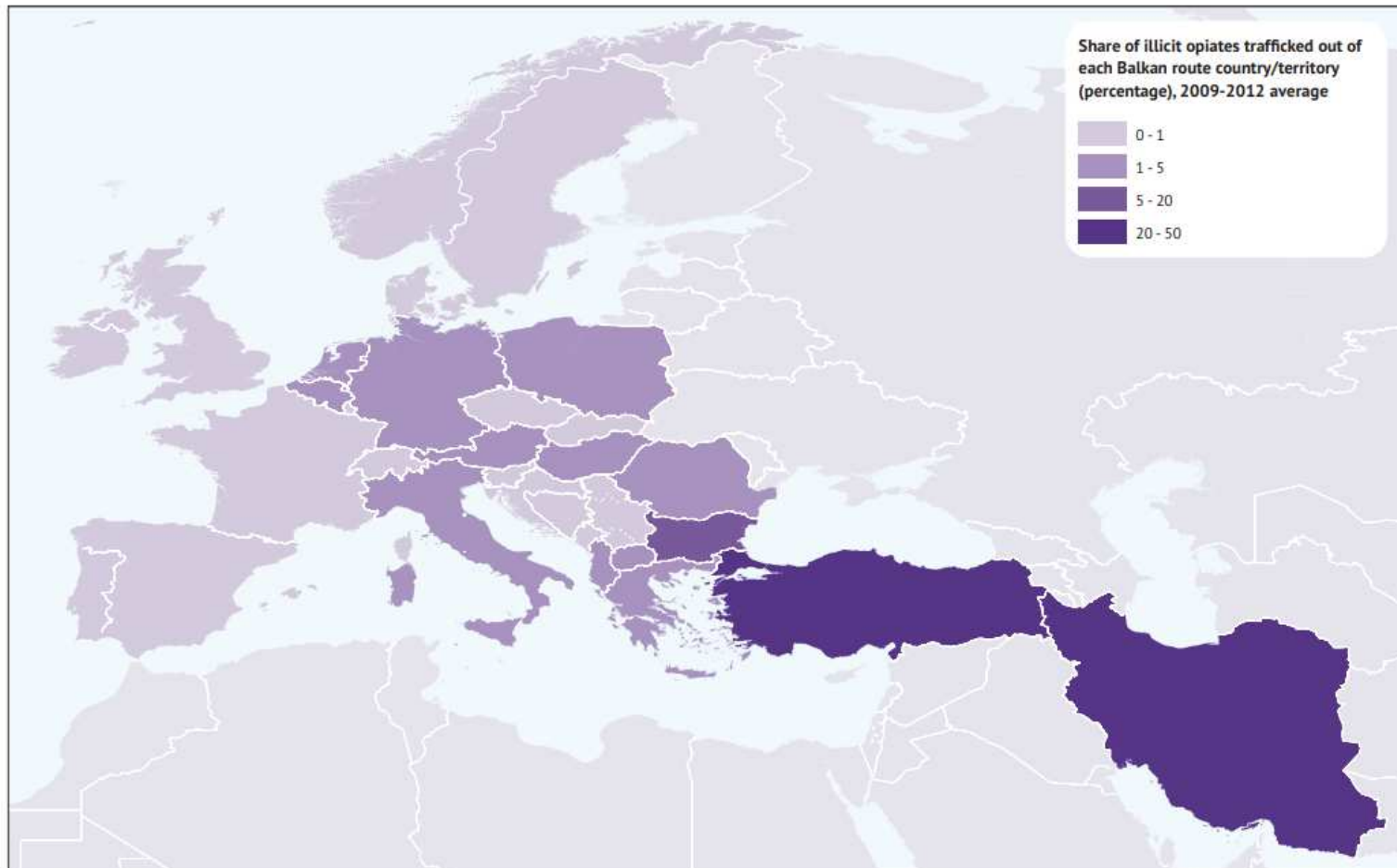


Soon to come:

- Afghanistan
- Central Asia
- Several countries in SEA (looking for volunteers)
- Africa (UNCTAD)



Trade flows of illicit drugs



Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. The map does not represent Afghanistan. Afghanistan is the source of several opiate trafficking routes⁵³ and the share of exports to the Balkan route countries is not representative of the country's actual export share. The map represents the best estimate.



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Illicit income management

- Cross-border trade and domestic retail trade generate illicit income
- After subtracting costs, a *net income* remains that is used either for consumption or investment/savings
- Some of this income is crossing a border – yielding income management IFF in both origin and destination countries
- To date, there is no standard methodology. UNODC is defining a risk factors and determinants that can be used to assess these flows: per-person income, opacity of the country, asset confiscations, etc., type of trafficking group (highly organized versus disorganized, small scale groups)

Illicit income generation

Challenge: Comprehensively measuring economic activities related to transnational, organized crime and similar

Data needs: demand and supply for illicit goods and services, trafficking and market prices

Illicit income management

Measuring international transfers and investments of illicit proceeds. estimates of per-person income, income distribution among actors

Data: case studies/investigations, qualitative and quantitative information on organized crime, data collected from financial investigations -> with the goal of a systematic data collection at the country level (e.g., ARQ)



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Next Steps

- Refinement of methodology and necessary adjustments based on piloting exercises
- On-going expert consultations with experts from NSOs, Central Banks and substantive experts on the methodologies to be developed
- Joint paper to the SDG-IAEG by the end of the year (detailing the general approach and methodology for specific activities)