Illicit financial flows related to illegal activities

Irmgard Zeiler, UNODC
IFF from illegal activities – a disaggregated approach

IFF from illegal markets, e.g. the trade with illegal goods

- Identify the main illegal markets that produce relevant criminal proceeds
- For each illegal market identified, measure the monetary value in terms of:
  - Revenues
  - Intermediate costs
  - Profits
- Assess the amount spent or invested domestically and the amount (or share) that crosses the border (IFF)
Drug trafficking

- Each day, large quantities of illegal drugs are produced, trafficked and consumed world-wide
- At each of the steps IFF are potentially generated, some directly related to the international trade with drugs and some related to money laundering activities or other forms of cross-border transactions
- To estimate IFF related to drug trafficking a further breakdown is suggested
An illustrative example

- Drug trafficker in T2 purchases drugs in source for 1,000 and sells them for 10,000 in the destination country.
- 4 flows: Inflow to source (1,000), outflow of destination (10,000) and a net flow of 9,000 to T2 (10,000 in; 1,000 out).
- The trader accrues 9,000 of profits.
An illustrative example II

- Trader purchases drugs in the source country for 1,000 and sells them for 5,000 in the domestic market
- Inflow of 1,000 to source and outflow of 1,000 from T2
- Another 4,000 of profits generated for the trader (total of 13,000)
- The 13,000 are consumed, invested or moved abroad in form of money laundering activities or other illicit activities -> another IFF is generated
Figure 2 - Inwards and outwards illicit financial flows from drug trafficking

A: Inward IFFs associated with international illicit drug trade (export of illicit drugs)

B: Outward IFFs associated with international illicit drug trade (import of illicit drugs)

C: Inward IFFs associated with proceeds of drug trafficking

D: Outward IFFs associated with transfer abroad of proceeds of drug trafficking
Drug production of heroin and cocaine is relatively well studied, including the associated economy. Other drug types are much more difficult to estimate.

Domestic retail trade/domestic consumption, as well.
The economic value of the international trade component

- A demand-based network approach has been developed to assess the trade flows of heroin from Afghanistan using seizure and price data.
- Similar approaches are used for the cocaine trade.

Issues

- The financial component (where profits are realised) is much more difficult to capture.
- Furthermore, use of drug profits by `market operators` is not well known.
Illicit financial flows related to drug trafficking – Open questions

• International trade component: in any given country, are volumes traded/controlled by OCG in the country?
• How to determine the ‘base‘ or residency of drug traffickers?
• Consumption and investment patterns of OCG/dealers in the domestic market? And subsequently money laundering activities?
• To build comprehensive models on drug trafficking markets: national or international approach?