Measuring illegal economic activities and illicit financial flows: challenges and progress

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD
Goal 16 Peace, Justice and strong institutions
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
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 (UNCTAD and UNODC)**
Total value of inward and outward illicit financial flows (in current United States dollars)
Defining IFF for statistical purposes

Core elements

IFFs are cross-border flows of resources that are illicitly generated (e.g., originating in criminal activities or tax evasion), illicitly transferred (e.g., violating currency controls), or illicitly used (e.g., for financing terrorism).

- IFFs concern the exchange of value.
- IFFs are to be measured at the country level.
Various activities can be at the origin of IFFs

- Tax and commercial practices
- Corruption
- Theft-type and financing of crime
- Illegal Markets

IFFs
Measurement framework – Illegal Markets

Country A

Drug processing, wholesale and retail sale

Income is generated

IFF
### IFFs can occur at 2 separate stages

<table>
<thead>
<tr>
<th>Income generation</th>
<th>Income management</th>
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<tbody>
<tr>
<td>- IFFs generated in connection with illegal trade of illicit goods and services</td>
<td>- IFFs generated when income is invested.</td>
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<td>Data needs:</td>
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<td>- Prices of illicit goods and services</td>
<td>- Investment patterns of illicit actors (percent invested abroad)</td>
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<tr>
<td>- Functioning of illicit value chains</td>
<td>- Destination of illegal funds transferred abroad</td>
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Country case: opiates trafficking from Afghanistan

Opium poppy cultivation in Afghanistan (by province), 2019

Source: Government of Afghanistan - National monitoring system implemented by UNODC/MCN

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 dotted line represents approximately the line of control in Jammu and Kashmir agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.
Afghanistan, opium production estimates (1994-2018)
Direct, bottom-up measurement approach

Necessary data requirements

- Opium production per year
- Amounts of heroin and opium consumed per year and domestic prices
- Amounts exported as heroin and opium per year: \( \text{Exports} = \text{Production} - \text{Seizures} - \text{Consumption} \)
  - Conversion rates
  - Purity
  - Shares exported as heroin/opium
- Export prices
Illicit financial flows: income generation

Gross income
1.2 – 2.2 billion (6 – 11% of GDP)

Domestic use market
90 million

Value of exports – IFF inflow
1.1 – 2.1 billion (5 – 10% of GDP)

Value of imports (precursors) – IFF outflow
USD 88 - 184 million
Illicit financial flows from opiates export in Afghanistan (income generation)
Recent and on-going work

- Statistical framework to measure SDG indicator 16.4.1 (IFFs) discussed and approved by SDG Inter-Agency Expert Group in October 2019

- On-going pilot studies in 5 countries in Latin America:
  - Colombia (cocaine trafficking, trafficking in persons, illegal mining)
  - Ecuador (cocaine, trafficking in persons)
  - Mexico (cocaine, heroine, Smuggling of migrants)
  - Panama (cocaine)
  - Peru (cocaine)
To conclude

- A disaggregated approach to measure activities leading to IFFs is appropriate and feasible

- Consistent with the approach recommended internationally (and already regulation in EU) to measure value generated by illegal activities and include them in national GDP

- Encouraging results from pilot studies, soon to be replicated in selected countries of Africa and Asia