UNODC-UNCTAD Regional Technical Meeting
Measuring Illicit Financial Flows related to criminal activities
for SDG Indicator 16.4.1

IFFs Related to Income Management Activities

Alberto Aziani - alberto.aziani@unicatt.it

Mexico City

21 November 2018
Outward IFFs from IMOs - General Understanding

\[ IFFs = IFFs_{ig} + IFFs_{im} \]  \hspace{1cm} (1)

\[ IFFs_{im} = \alpha \text{ (Illicit Income)} \]  \hspace{1cm} (2)

- Illicit net output and costs refer to the entire illicit industry under analysis.
- Focus on the **added value in the country** (for value added activities).
What are the IFFs_{im}?

**IFFs related to the income management** are the share (i.e., \( \alpha \)) of **illicit income** that is **transferred abroad** to purchase a foreign asset for consumption or investment purposes.
Is it an IFF? - Investments

An Italian criminal investing in:

(a) AC Milan → NO IFF
(b) Swiss chalet → IFF
Is it an IFF? - Consumption

An Italian criminal consuming a:

(a) Pizza in Naples → NO IFF
(b) Sushi in Tokyo → IFF
What is $\alpha$?

- $\alpha$ is the criminals’ *propensity to invest/consume oversea* rather than investing and consuming domestically.
What does $\alpha$ depend on?

- Criminals, as other agents, decide to transfer money abroad on the basis of:
  a. criminal’s personal characteristics/attitudes/preferences;
  b. country’s structural characteristics.
How to Estimate $\alpha$? — Baseline Scenario

Criminals behave as any other resident of a country.

- Criminals’ propensity to invest/consume abroad can be assumed to be the same of any other resident individual.

↓

- Use data provided by central banks and/or statistical offices on the share of resources that households invest and consume abroad (if available).

$$\alpha_{\text{baseline scenario}} = \alpha_{\text{general population}} \quad (3)$$
How to Estimate $\alpha$ — Criminals’ Specificities Scenario

Criminals act differently from the general population because of:

a different socio-demographic characteristics, i.e.:

- age,
- nationality,
- level of education,
- income,
- higher risk propensity,
- etc.

b the need of **laundering** their criminal proceeds.

↓

Adjust—upward or downward—the figures referring to the general population.
What to base the adjustment on?

Operationalize & Model:

a Individuals’ characteristics, e.g.:
- nationality;
- level of education;
- income.

b ML-related country’s characteristics, e.g.:
- the level of transparency of information on owners and beneficial owners of legal businesses;
- the level of controls on suspicious transactions by public authorities and the private sector.

$$\alpha_{\text{criminals}} = \alpha_{\text{general population}} \cdot (i + c) \tag{4}$$
Data Sources

a National / International Statistical Institutions;
b Criminal Statistics;

Micro-level analysis on criminal actors might be challenging
c Survey among prisoners;
d Collection of information from experts (e.g., LEA, scholars);
e Case studies from:
   ■ Criminal Intelligence Units;
   ■ Judiciary Cases;
   ■ Financial Investigation Units (FIUs);
   ■ Asset Recovery Agencies...
Inward IFFs from IMOs

Pending issue: the estimate of *inflows* of IFFs related to IMOs

Def.: Inflows of IFFs related to IMOs = exported consumption and the acquisition of domestic assets using illicit income generated abroad.

- outflows depends on the generated illicit income;
- inflows do NOT.

⇓

Inflows are not directly measured by bottom-up approaches focused on a country-based perspective.
Inward IFFs from IMOs, 2 possible strategies

**Inflow/Outflow Ratio Approach**

*Build a coefficient to define inflows (IMOs) starting from the estimate of the outflows (IMOs), which is known.*

Grounding on the information provided by inconsistencies in mirror trade statistics or capital account or relying on the data about suspicious transactions, define a ratio of inflows with respect to outflows in order to obtain a coefficient to be applied to the amount of estimated outflows of IFFs.

**Mirror Approach**

*Use information on outflows as estimated by other countries.*

If a geographical breakdown of outflows is available for a given number of countries—e.g., through gravity models—, each country can define total inflows by adding-up the (country-related) outflows estimated by other countries.
UNODC-UNCTAD Regional Technical Meeting
Measuring Illicit Financial Flows related to criminal activities
for SDG Indicator 16.4.1

Thanks for Your Attention!

Alberto Aziani - alberto.aziani@unicatt.it
Università Cattolica del Sacro Cuore and Transcrime