

MEASUREMENT OF THE GENERATION OF ILLICIT FINANCIAL FLOWS IN NATIONAL ACCOUNTS IN PERU

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MEASUREMENT OF THE GENERATION OF ILLICIT FINANCIAL FLOWS IN NATIONAL ACCOUNTS

- 1) Background
- 2) Measurement of Generation of Illicit Financial Flows
- 3) Challenges
- 4) Conclusions

BACKGROUND

- 2017, 12 -14 December – Viena

UNODC - UNCTAD Expert Consultation on SDG indicator of illicit financial flows.

- A comprehensive statistical and measurement framework on IFFs
- Possible approaches for estimating the various IFFs components, including data sources and statistical methods.
- Strategies and approaches to test the discussed methodology.

- 2018, 20 – 22 November, México

Meeting on Measurement of Illicit Financial Flows.

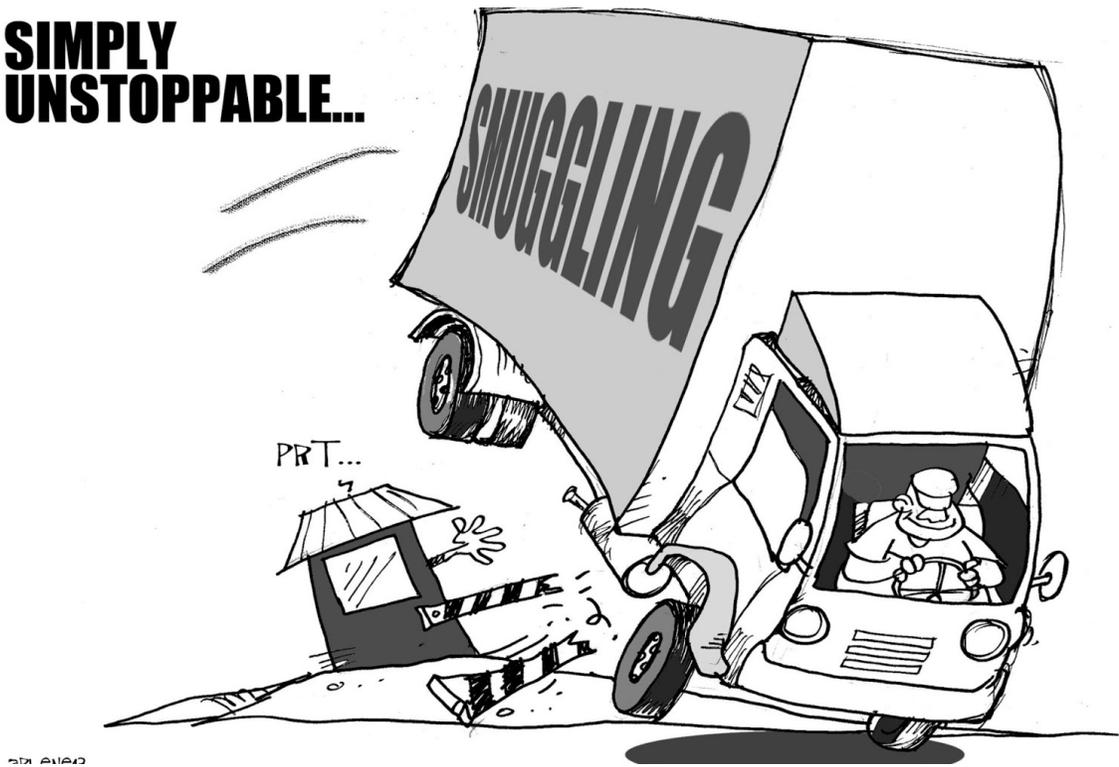
- Draft statistical framework to measure FFIs related to criminal activities
- Methodological guidelines to measure the FFIs related to specific illegal activities.
- National work plans to conduct pilot activities.

MEASUREMENT OF THE GENERATION OF ILLICIT FINANCIAL FLOWS IN NATIONAL ACCOUNTS

In 2007, special researches have been conducted to include these illegal activities in the national accounts

- 1) Smuggling
- 2) Coca leaf and its derivatives
- 3) Illegal Mining

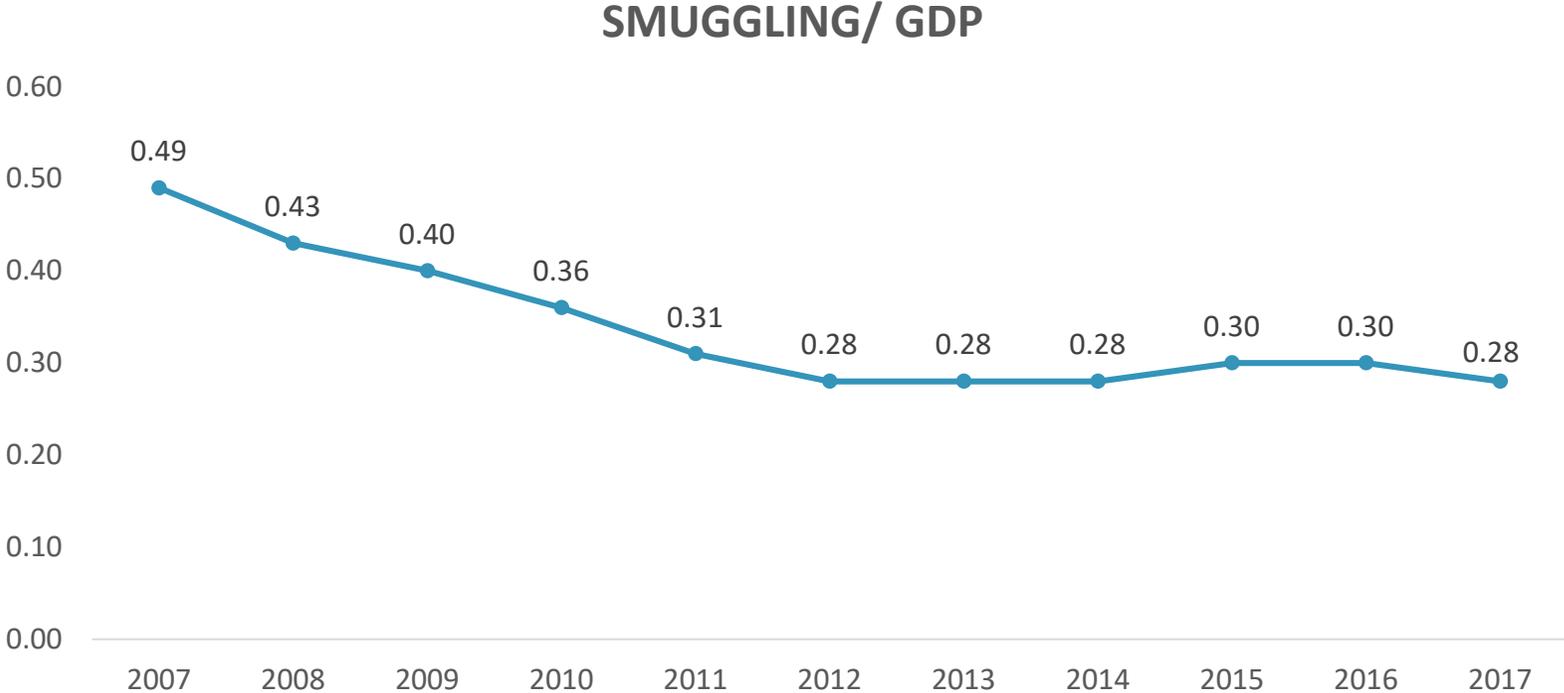
**SIMPLY
UNSTOPPABLE...**



SMUGGLING

Criminal activity that avoids customs control and affects the productive sectors by limiting the growth of production due to unfair competition that occurs with the loss of work and tax revenues.

SMUGGLING ESTIMATE



Source: INEI - SUNAT

SMUGGLING SOURCES

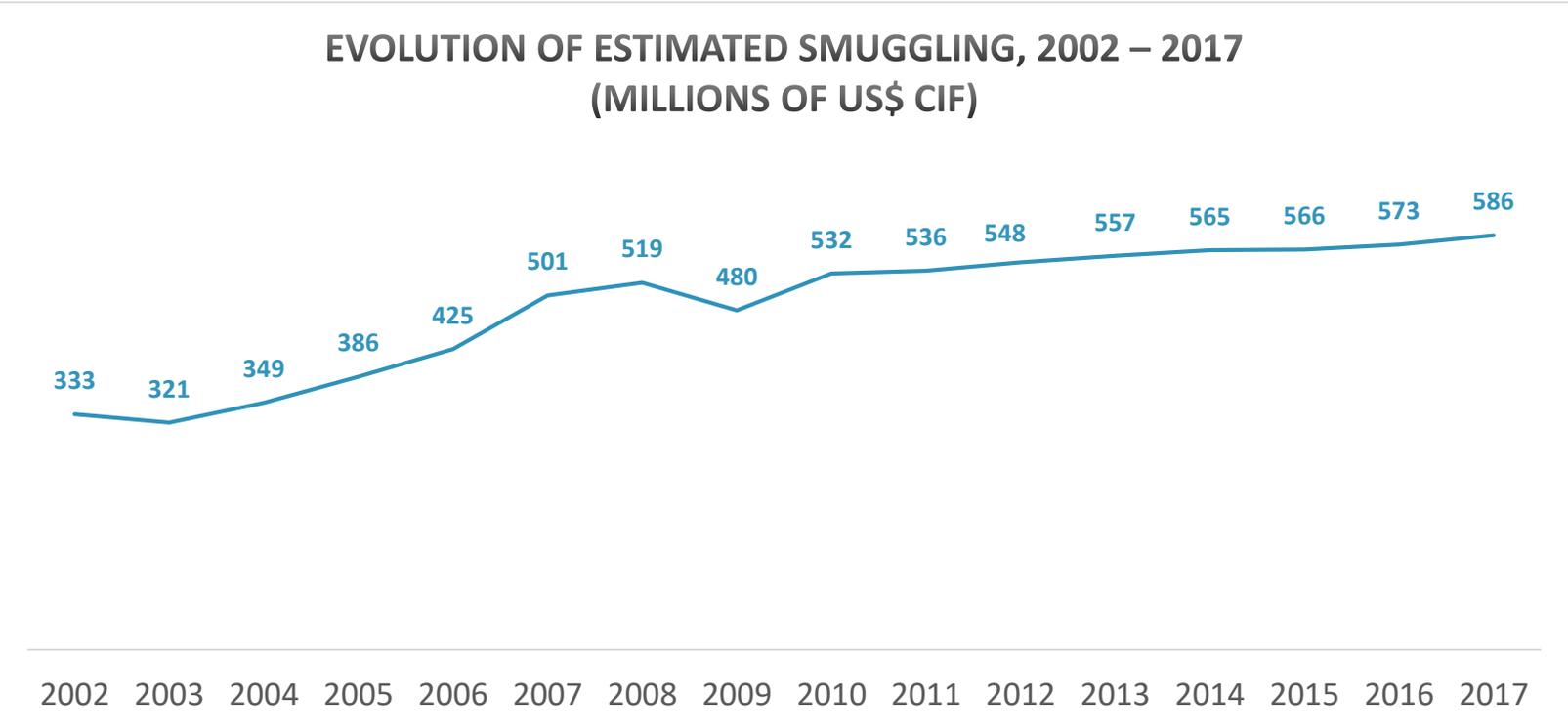
- Direct entry by borders (Puno and northern border– Tumbes y Piura)
- Direct entry by borders and with tariff benefits (Tacna)
- Preferential treatment area (Peruvian - Colombian Agreement, PECO)
- Other sources : Callao – Customs Maritime of Callao and Air Customs of Callao.

METHODS OF SMUGGLING ESTIMATION

Given the nature of this activity, framed within the illicit trade, not available in a specific, accepted manner and from the administrators, the Tax Administration (SUNAT) calculates the smuggling methodologies according to the sources of information and the reality of each territorial area.

- 1) Estimation of inconsistencies at apparent consumption level
- 2) Surveys, the expert judgment of the customs officers is considered.
- 3) Deductive method - Inductive, based on seizures and unreported goods.

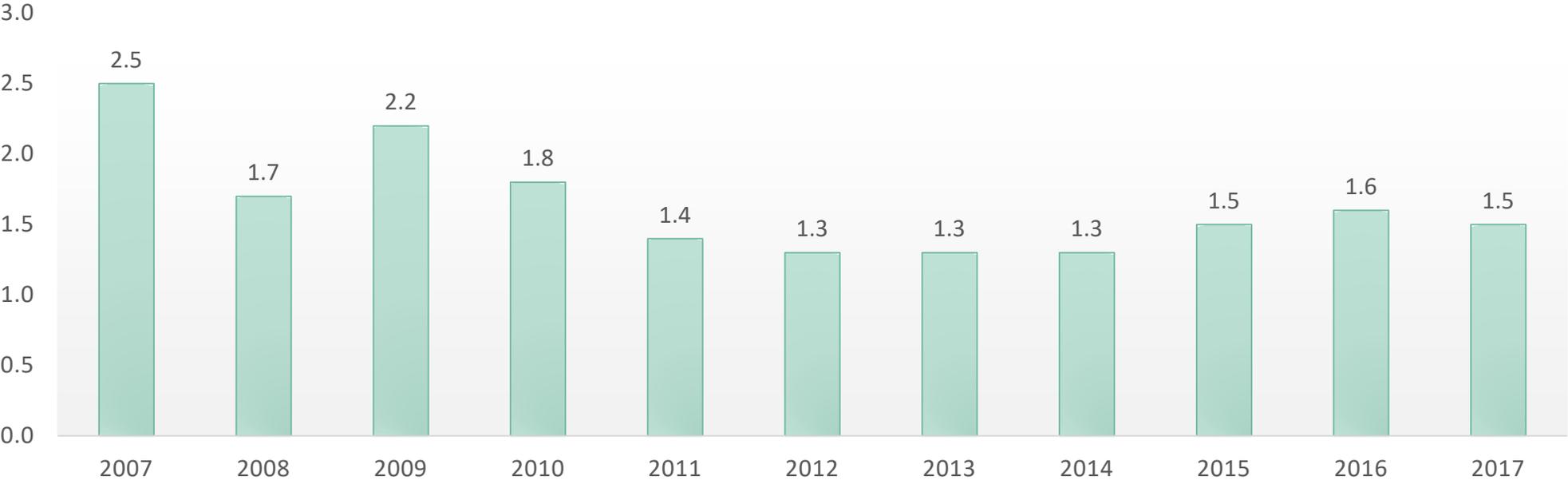
SMUGGLING ESTIMATE



Source: SUNAT

SMUGGLING ESTIMATE

SMUGGLING AS A PERCENTAGE OF IMPORTS, 2007 -2017



Source: SUNAT



COCA LEAF AND ITS DERIVATIVES



COCA LEAF AND ITS DERIVATIVES– BACKGROUND

- In 1978, the General Law of Drugs was enacted, in order to control the expansion of the agricultural frontier of coca. The National Company of Coca - ENACO is created, with exclusivity to commercialize and industrialize the coca leaf. The sale that is not made to ENACO, is considered illegal
- In 1996, the Commission to Combat Drug Consumption - CONTRADROGAS was created to design and implement policies and activities that allow drug control.
- In 2002, CONTRADROGAS was renamed the National Commission for Development and Life without Drugs - DEVIDA, in whose context the United Nations Office on Drugs and Crime - UNODC, has been supporting the quantification of the planted area of the cultivation of the leaf of coca, through the use of satellite images that allow detection and measurement (with an error margin of 10%)

COCA LEAF AND ITS DERIVATIVES– TARGET

Quantify the production, intermediate consumption and added value of illicit coca leaf and its derivatives, to be incorporated into national accounts

SPECIFIC TARGETS

- Have the production and income generation account of the coca leaf and its derivatives
- Know the impact of the coca leaf and its derivatives in the country's economy.

COCA LEAF AND ITS DERIVATIVES– SOURCES

- National Commission for Development and Life without Drugs (DEVIDA), with information on harvested area and prices
- United Nations Office on Drugs and Crime (UNODC), entity, provides the total area sown and the volume of coca leaf destined for illicit purposes
- Anti-Drug Directorate of the National Police of Peru (DIRANDRO), price information and conversion factors of coca leaf derivatives.
- National Company of Coca S.A. (ENACO S.A.), production information and prices of the coca leaf destined for legal purposes.
- Institute of International Studies - Pontificia Universidad Católica del Perú, IDEI - PUCP
- Special Project for the Control and Reduction of Coca Crops in Alto Huallaga - CORAH
- Center for Information and Education for the Prevention of Drug Abuse - CEDRO
- Interview and professionals who have their headquarters in the Alto Huallaga, VRAE (Valley of the Apurímac River - Ene)
- Interview with the Presidents of the Associations of the CONPACCP (National Confederation of Agricultural Producers of the Coca Basins of Peru)
- Ministry of Agriculture – MINAG
- Novak F. and García J. 2007. The problem of drug trafficking in the region - Serie 3. Ayacucho
- Methodology of calculation of Illicit in Colombia - Jorge Centenaro

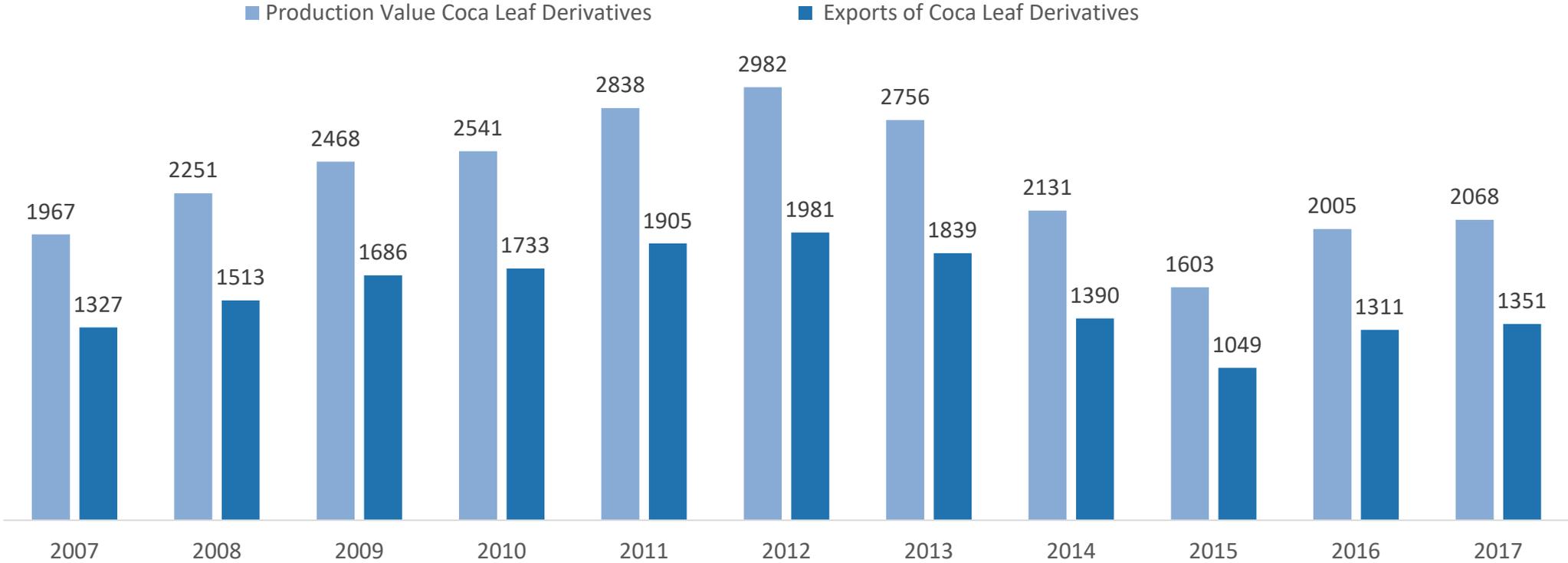
COCA LEAF AND ITS DERIVATIVES - METHODOLOGY

- For the present study, statistical information was collected from institutions and professionals linked to this activity: DEVIDA, DIRANDRO, CORAH, UNODC, among others
- To calculate the production of coca leaf and derivatives was carried out through the production chains, considering the yields for production volumes and basic prices.
- The preparation of basic cocaine paste and cocaine hydrochloride is an integral process and is considered as an economic activity.
- The estimate of the production of illegal coca leaf, it was assumed that in its entirety is destined to illicit activities (elaboration and commercialization of drugs, punished by Peruvian laws).

PRODUCTION OF COCA LEAF AND DERIVATIVES / GDP EXPORT OF COCA LEAF AND DERIVATIVES / TOTAL EXPORTS



PRODUCTION AND EXPORTS OF COCA LEAF DERIVATIVES, 2007 - 2017 (MILLIONS OF US \$)



ILLEGAL MINING

$$\textit{Formal Mining} + \textit{Informal Mining} = \textit{Total Mining}$$

Where the sources for the estimates are::

Formal Mining: Ministry of Energy and Mines

Informal Mining: Special research(2007), Ministry of Energy and Mines

Comparison of informal mining production with Informal Employment and differences that are determined as *Illegal Mining*.

NOTES:

The Ministry of Energy and Mines has the following definitions

- Informal Mining (Process of being formal - Temporary permission)
- Illegal Mining (Not observed)

CHALLENGES

- In Peru, the project will develop a valid methodology for measuring illicit financial flows and will test statistical tools by conducting pilot exercises with relevant institutions
- The illicit markets to be measured are *drugs, human trafficking, migrant smuggling and illegal mining*, depending on the availability of data.
- The duration of the pilot exercises is from May to October 2019.
- Write a report describing the proposed measurement methodology, the data collected, the participating institutions in the pilot workshop, and the results obtained from the FFIs as a result of the pilot exercise carried out by the consultant (Carlos Carré) based on the available data..

CHALLENGES - PROGRESS

METHODOLOGY TO MEASURE THE IFFs GENERATED BY COCAINE

The quantities of cocaine are calculated from the equation of supply and demand

$$Production + Imports = Consumption + Exports + Confiscation$$

Where the sources for the estimates are:

Production: UNODC, ENACO, DIRANDRO, otras

Confiscation: DIRANDRO

*Consumption: Prevalence rate(%) (**Research**)*

Imports : 0 (For being an exporting country)

Exports: Obtained by difference

Export Prices: Wholesale prices of destination countries – Wholesale prices of Peru

CHALLENGES - PROGRESS

METHODOLOGY TO MEASURE THE IFFs GENERATED BY TRAFFICKING OF PEOPLE

For trafficking in persons, there are no or few international transactions (inflows and outflows)

It can proceed as follows:

- a) Estimate domestic earnings
- b) Estimate the proportion of earnings that leave the country

Sexual Exploitation = # of victims × # of transactions per victim per month × Service price × 12

Forced labor = Minumin Wage of the economic sector × # of people X exploited time

Note: The main question is to estimate the number of alleged victims of human trafficking. For this, the Multi-System Estimation statistical method should be used, using three lists of persons reported as victims of human trafficking.

CONCLUSIONS

- Currently, national accounts include the measurement of the generation of illicit financial flows such as smuggling within total imports. Estimation made by the tax administration, SUNAT
- The illegal production of coca leaf and its derivatives for the current years is estimated from the production volumes of dry coca leaf (Source UNODC)
- The methodology of the pilot exercise will help to better estimate the production generated by illicit financial flows that will be incorporated into the national accounts within the framework of a new base year..