Conceptual framework for the statistical measurement of Illicit Financial Flows

Enrico Bisogno
Chief, Data Development and Dissemination Section
UNODC
IFFs at the crossroad of multiple policy agendas

- **Instrument for tax evasion or avoidance**: loss of public resources
- **Instrument for committing/facilitating corruption**: rule of law erosion
- **Vehicle to foster illegal markets or invest related proceeds**: weakening of justice system and rule of law
- **Vehicle to finance terrorism**: threat to state security
The framework: 2030 Agenda

Goal 16 – Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

• **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 US Dollars)

• UNODC and UNCTAD, as co-custodians of indicator 16.4.1, are mandated to develop the statistical methodology
IFFs for statistical purposes

Monetary measure of:

• International transfers of illicitly earned capital
• (Originally) legal capital transferred internationally for illicit purposes
• (Originally) legal capital transferred illicitly

Core Elements:

Illicit

Cross-Border
not domestic

Flows
no stocks
no net flows
Distinguishing four types of IFFs

LEGAL ACTIVITIES

- Illicit tax and commercial practices
- Aggressive tax avoidance

ILLEGAL ACTIVITIES

- Illegal markets
- Corruption
- Exploitation-type and terrorism financing

IFFs
IFFs from illegal markets/activities

Illegal markets
- Drug trafficking
- Firearm trafficking
- Illegal mining
- Smuggling of migrants
- Smuggling of goods
- Wildlife trafficking
- ...

Corruption
- Bribery
- Embezzlement
- Abuse of functions
- Trading in influence
- Illicit enrichment
- Other acts of corruption

Exploitation-type and terrorism financing
- Kidnapping
- Slavery and exploitation
- Trafficking in persons
- Sexual exploitation
- Extortion
- Robbery
- Burglary
- Theft
- Financing of terrorism

Productive activities
Non productive activities
Example: IFFs emerging from drug trafficking

Drug importing and consumption country

Drug processing, wholesale and retail sale

Value is generated
Dual Focus in Measuring IFFs

**Income Generation**
- Illicit financial flows connected to illicit markets and their functioning
- Linked to transnational supply and demand of illicit goods and services

**Income Management**
- Illicit financial flows to manage income generated from illicit activities
- Linked to consumption and investment patterns of illicit actors
IFF from opiates trafficking, Afghanistan
(income generation)

Value (in billion USD) of trade in agricultural products vs opiates trafficking Afghanistan (2018)

- **Agricultural products**: $3.24
- **Opiates precursors**: $0.088 - $0.184
- **Opiates**: $1.1 - $2.1
- **Agricultural products**: $0.66

**Source:** UNODC Estimates (Opiates trafficking), FAOStat (Trade in agricultural products)
Statistical Framework for Measuring IFFs

Key features:

- **Country-Level**: Allows to measure IFFs at the level of countries (in line with SDG indicator framework)
- **Disaggregated**: separate estimates for each IFF type
- **Comprehensive**: Encompasses main types of illicit activities that cause IFFs
- **Compatible**: Aligned to established concepts and standards from economics and accounting