UNCTAD-UNODC
Conceptual framework for the statistical measurement of Illicit Financial Flows

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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
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

Example: IFFs emerging from drug trafficking
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)

IMPORTS = FINANCIAL OUTFLOWS

EXPORTS = FINANCIAL INFLOWS

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
IFF Project in Latin America

UNODC-INEGI Centre of Excellence, UNODC, UNCTAD

Project activities:

• Dec 2017 → Kick-off expert group meeting
• July 2018 → Second technical expert group meeting
• Nov 2018 → Regional meeting
• 2019-2020 → Pilot activities, including national workshops
• March 2021 → Final regional meeting to present results

Institutions/stakeholder involved

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<thead>
<tr>
<th>Institutions/stakeholder involved</th>
<th>Role/data collected</th>
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<tbody>
<tr>
<td>National statistical offices</td>
<td>Coordination, focal points for the project</td>
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<tr>
<td>Financial intelligence units</td>
<td>Data providers (STRs, financial transactions)</td>
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<tr>
<td>Law enforcement agencies</td>
<td>Data providers (Seizures, information on traffickers, trafficking routes…)</td>
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<tr>
<td>Think tanks/academia</td>
<td>Methodological development, expert information</td>
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Thank you.

For further info: