UNCTAD-UNODC
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
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 from illegal markets/activities

Illegal markets
- Drug trafficking
- Firearms 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
IFFs 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

Agricultural products, $3.24

Opiates - $1.1 - $2.1

Agricultural products, $0.66

Opiates precursors- $0.088 - $0.184

Source: UNODC Estimates (Opiates trafficking), FAOStat (Trade in agricultural products)
IFFs from drug trafficking*, Mexico
(income generation)
* cocaine, heroin and methamphetamine trafficking

Value (in billion US Dollars) of agricultural exports vs export of illicit drugs (average 2015-2018)

Illicit drugs, $8.12 - $17.20
Agricultural exports, $12.63

Sources: INEGI, Cuentas Nacionales (agricultural exports) and UNODC Estimates (illicit drugs)
Inward IFFs from smuggling of migrants include two services: i) cross the Mexican territory, ii) irregularly enter the US.
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
Thank you.

For further info: