Estimating illicit financial flows related to drug trafficking activities

General guidelines

1 September 2021
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National Kick-off Workshop of pilot activities for measuring Illicit Financial Flows (IFFs) in Egypt
Income generation and income management IFFs

ILLICIT FINANCIAL FLOWS are financial flows that are illicit in origin, transfer or use, that reflect an exchange of value and that cross country borders.

Total IFFs =

**income generation IFFs**
Cross-border transactions performed in the context of the production of illicit goods and services (...). In drug trafficking, transactions finalized to payments of illicit drug exported to another country

+ 

**income management IFFs**
Cross-border transactions finalized to use the (illicit) income for investment in (legal or illicit) financial and non-financial assets or for consuming (legal or illegal) goods and services. In drug trafficking: cross-border investments of proceeds of crime in legitimate businesses.
Example: IFFs emerging from drug trafficking

Drug importing and consumption country

Drug processing, wholesale and retail sale

Value is generated
Income generation IFFs and illicit drug market value

• IFF concept |- compatible with the framework of system of national account (SNA) and the balance of payments (BoP).

• **Drug trafficking**
  – productive activity (production of goods and provision of services)
  – Actors: play in an illegal market to make profits

• Measuring drug-related income generation IFFs requires to estimate the **economic value** of a number drug market components

• Three main economic components (or aggregates):
  – **Revenues:** Illicit gross output
  – **Costs:** (Illicit) intermediate expenditure or intermediate costs
  – **Profits:** Illicit net output/income (or value added)

**Illicit gross output – illicit intermediate expenditure = illicit net output/income**

• Revenues and costs: **domestic + cross-border**
Estimating illicit drug quantities

The demand-supply equation balance helps in the process of estimating drug quantities.

\[ \text{PRODUCTION}_t + \text{IMPORTS}_t - \text{SEIZURES}_t = \text{CONSUMPTION}_t + \text{EXPORTS}_t \]

*Losses and inventories* would be also part of the supply side of the equation. However, due to lack of information on such aggregates, these are not estimated.

Generate OUTWARD IFFs

Generate INWARD IFFs
Key data

For each illicit drug market selected, check availability of **data or qualitative information** on:

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**Geographical coverage:**
- national
- data from bordering countries or origin/destination countries -> drug trafficking routes analysis
- Sub-national, in case regional specificities are detected
Example

Estimating IFFs from cocaine trafficking in Mexico

Mexico:

- Transit country for cocaine destined (mostly) to North America and Europe
- Route: South America -> Central America -> Northern America
- Mexican cartels: actors of trafficking from origin to destination

Mexico:

- COCAINE IMPORT = outward IFFs
- COCAINE EXPORT = inward IFFs

Source: UNODC World Drug Report 2021
Methodology to estimate IFFs from cocaine trafficking activities in Mexico

**Mexico-US route**

Inward IFFs

*Demand-based approach*

\[
\text{Import US-Mex} = \text{exports Mex US}
\]

\[
\text{US consumption} + \text{US seizures} = \text{Total US imports} \rightarrow \% \text{imported from Mexico}
\]

**Mexico INWARD IFFs**
Methodology to estimate IFFs from cocaine trafficking activities in Mexico

Mexico-US route

Mexico seizures + Mexico consumption = Imports Mexico

Import US-Mex = exports Mex US

Outward IFFs
Results

Inward and outward IFFs from cocaine trafficking (in billions of USD)

- **2015**
  - Inward IFFs: $3.94 ± $0.33
  - Outward IFFs: $0.34 ± $0.33

- **2016**
  - Inward IFFs: $5.00 ± $0.38
  - Outward IFFs: $0.34 ± $0.38

- **2017**
  - Inward IFFs: $4.63 ± $0.30
  - Outward IFFs: $0.34 ± $0.30

- **2018**
  - Inward IFFs: $4.24 ± $0.30
  - Outward IFFs: $0.34 ± $0.30

Source: UNODC estimates.
Required data inputs

**Egypt case**

- ✔ Consumption
- ✔ Seizure data
- ✔ Drug prices
- ✔ % import
- ✔ % export

- ✔ Destination countries
  - ✔ Egypt
- ✔ Destination countries
  - ✔ Egypt
- ✔ Destination countries
  - ✔ Egypt
- ✔ Destination countries from Egypt
- ✔ Egypt to destination countries
  - ✔ Origin countries

Suggested method: demand-side approach
For more information:

UNODC-UNCTAD-ESCAP IFF Asia Project
UNODC-UNCTAD IFF Latin America project

Thank you!

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