UNODC
United Nations Office on Drugs and Crime

UNODC Research

Estimating illicit financial flows related to drug trafficking activities

General guidelines

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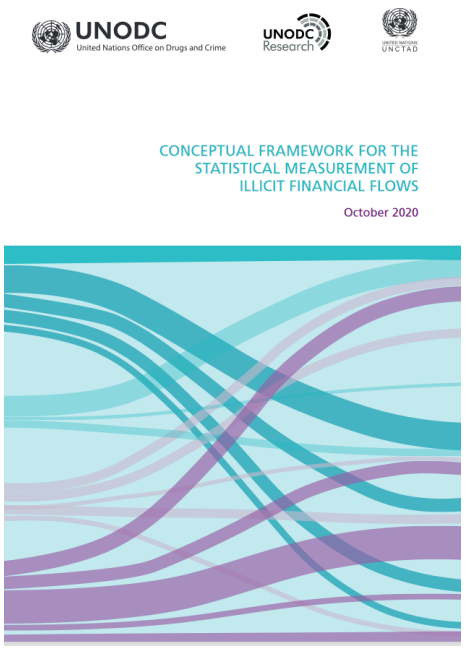
National Kick-off Workshop of pilot activities for measuring Illicit Financial Flows (IFFs) in Egypt

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

+

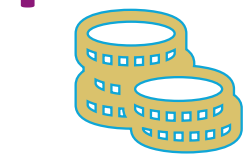
income management IFFs

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

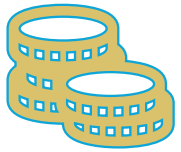
IFF



Drug processing, wholesale and retail sale

Value is generated

IFF



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**

SUPPLY-DEMAND EQUATION BALANCE

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

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:

Quantities

- ☐ Seizures
- ☐ Consumption
- ☐ Purities

$ Prices

- ☐ Wholesale prices
- ☐ Retail prices

Routes

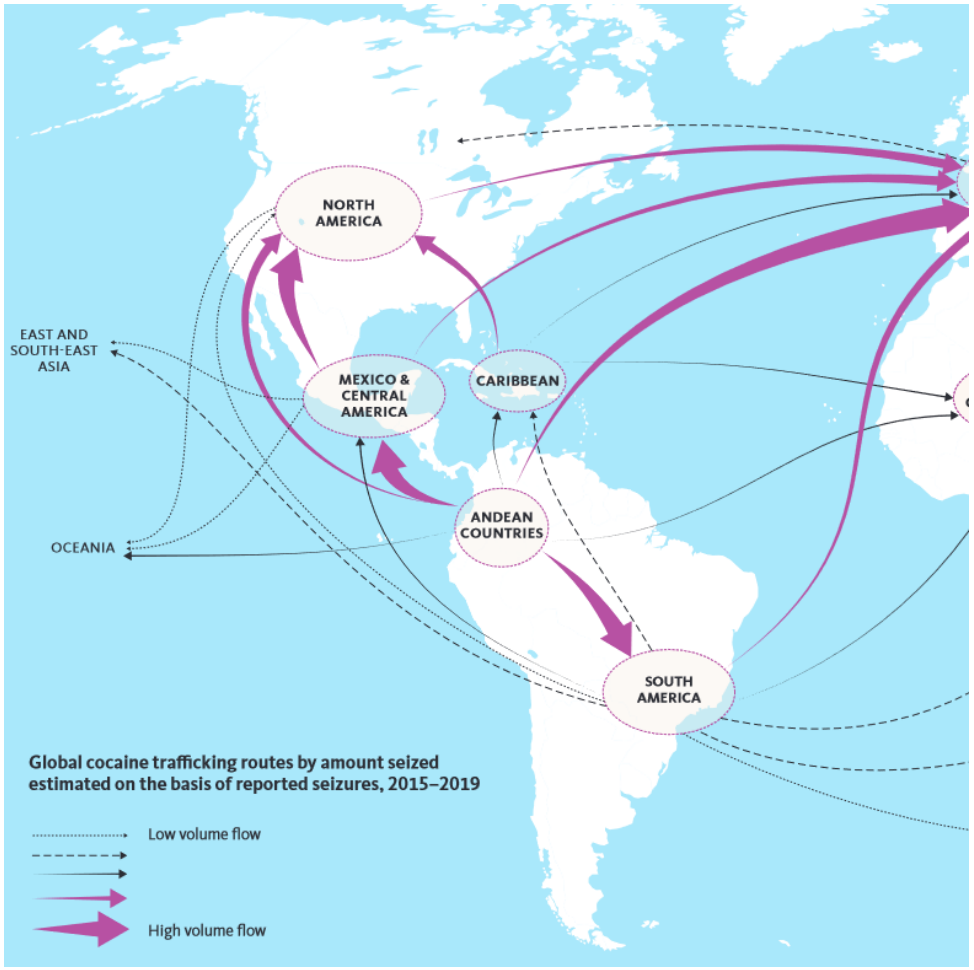
- ☐ Drug trafficking routes
- ☐ Distribution of exports
- ☐ Distribution of imports

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



Source: UNODC World Drug Report 2021

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:

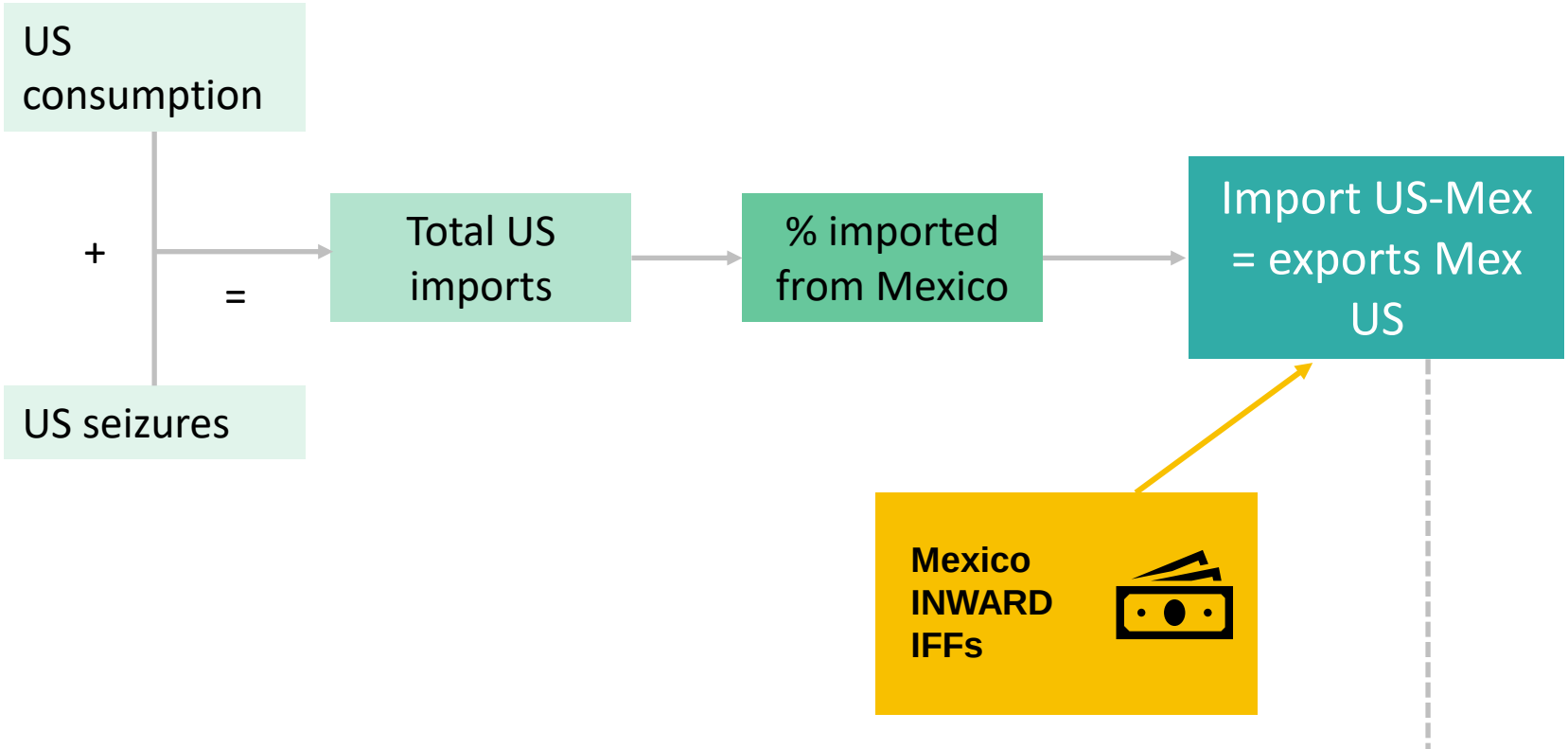
✓ **COCAINE IMPORT = outward IFFs**
✓ **COCAINE EXPORT = inward IFFs**

Methodology to estimate IFFs from cocaine trafficking activities in Mexico

Mexico-US route

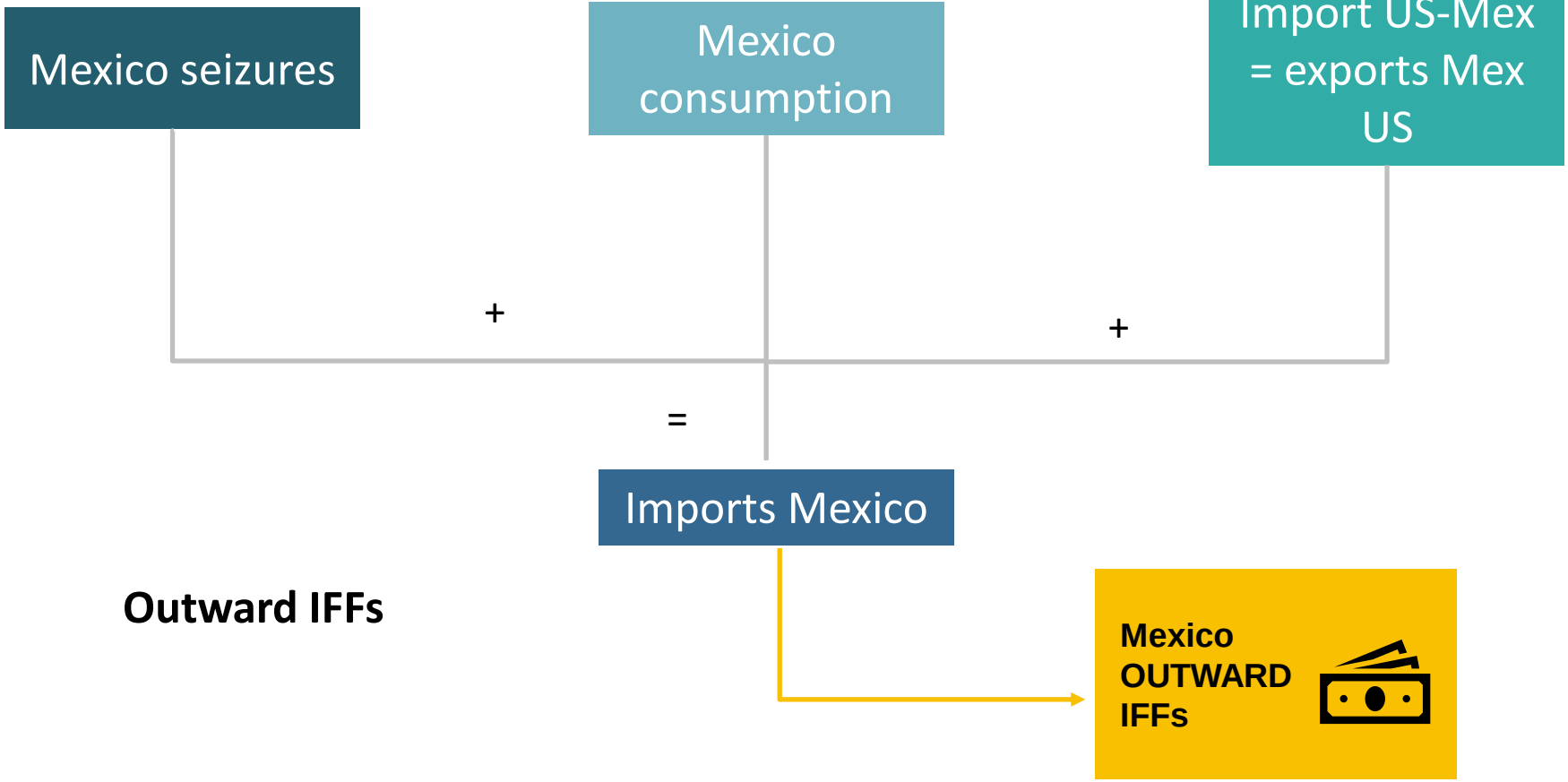
Inward IFFs

Demand-based approach

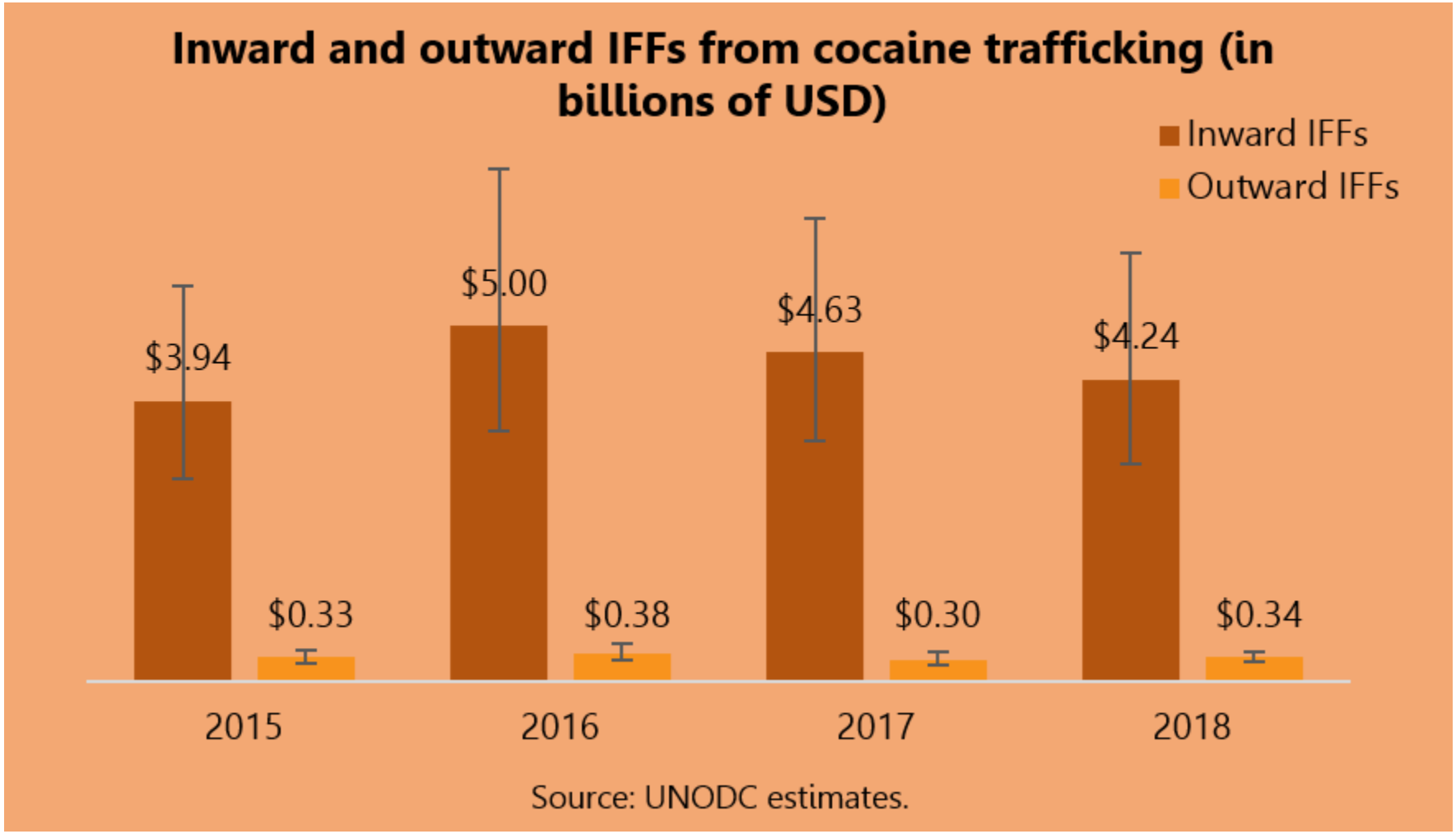


Methodology to estimate IFFs from cocaine trafficking activities in Mexico

Mexico-US route



Results


Inward and outward IFFs from cocaine trafficking (in billions of USD)
Inward IFFs
Outward IFFs
$3.94
$0.33
$5.00
$0.38
$4.63
$0.30
$4.24
$0.34
2015
2016
2017
2018
Source: UNODC estimates.

Required data inputs

Egypt case

Data checklist

- ✓ Consumption
  - ✓ Destination countries
  - ✓ Egypt
- ✓ Seizure data
  - ✓ Destination countries
  - ✓ Egypt
- ✓ Drug prices
  - ✓ Destination countries
  - ✓ Egypt
- ✓ % import
  - ✓ Destination countries from Egypt
- ✓ % export
  - ✓ 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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