



UNIVERSITÀ
CATTOLICA
del Sacro Cuore

transcrime
Research Centre on Transnational Crime

UNODC-UNCTAD Regional Technical Meeting
Measuring Illicit Financial Flows related to criminal activities
for SDG Indicator 16.4.1

IFFs Related to Income Management Activities

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Outward IFFs from IMO's - General Understanding

$$IFFs = IFFs_{ig} + IFFs_{im} \quad (1)$$

$$IFFs_{im} = \alpha (\text{Illicit Income}) \quad (2)$$

- Illicit net output and costs refer to the entire illicit industry under analysis.
- Focus on the **added value in the country** (for value added activities).

What are the $IFFs_{im}$?

IFFs related to the income management are the share (i.e., α) of **illicit income** that is **transferred abroad** to purchase a foreign asset for consumption or investment purposes.

Is it an IFF? - Investments

An Italian criminal investing in:



(a) AC Milan → NO IFF



(b) Swiss chalet → IFF

Is it an IFF? - Consumption

An Italian criminal consuming a:



(a) Pizza in Naples → NO IFF



(b) Sushi in Tokyo → IFF

What is α ?

- α is the criminals' **propensity to invest/consume overseas** rather than investing and consuming domestically.

What does α depend on?

- Criminals, as other agents, decide to transfer money abroad on the basis of:
 - a **criminal's personal characteristics**/attitudes/preferences;
 - b **country's structural characteristics**.

How to Estimate α ? – Baseline Scenario

Criminals behave as any other resident of a country.

- Criminals' propensity to invest/consume abroad can be assumed to be the same of any other resident individual.



- Use data provided by central banks and/or statistical offices on the share of resources that households invest and consume abroad (if available).

$$\alpha_{\text{baseline scenario}} = \alpha_{\text{general population}} \quad (3)$$

How to Estimate α – Criminals' Specificities Scenario

Criminals act differently from the general population because of:

a different socio-demographic characteristics, i.e.:

- age,
- nationality,
- level of education,
- income,
- higher risk propensity,
- etc.

b the need of **laundering** their criminal proceeds.



Adjust—upward or downward—the figures referring to the general population.

What to base the adjustment on?

Operationalize & Model:

a Individuals' characteristics, e.g.:

- nationality;
- level of education;
- income.

b ML-related country's characteristics, e.g.:

- the level of transparency of information on owners and beneficial owners of legal businesses;
- the level of controls on suspicious transactions by public authorities and the private sector.

$$\alpha_{\text{criminals}} = \alpha_{\text{general population}} \cdot (i + c) \quad (4)$$

Data Sources

- a National / International Statistical Institutions;
- b Criminal Statistics;
Micro-level analysis on criminal actors might be challenging
- c Survey among prisoners;
- d Collection of information from experts (e.g., LEA, scholars);
- e Case studies from:
 - Criminal Intelligence Units;
 - Judiciary Cases;
 - Financial Investigation Units (FIUs);
 - Asset Recovery Agencies...

Inward IFFs from IMO

Pending issue: the estimate of **inflows** of IFFs related to IMO

Def.: Inflows of IFFs related to IMO = exported consumption and the acquisition of domestic assets using illicit income generated abroad.

- outflows depends on the generated illicit income;
- inflows do NOT.



Inflows are not directly measured by bottom-up approaches focused on a country-based perspective.

Inward IFFs from IMO, 2 possible strategies

Inflow/Outflow Ratio Approach

Build a coefficient to define inflows (IMOs) starting from the estimate of the outflows (IMOs), which is known.

Grounding on the information provided by inconsistencies in mirror trade statistics or capital account or relying on the data about suspicious transactions, define a ratio of inflows with respect to outflows in order to obtain a coefficient to be applied to the amount of estimated outflows of IFFs.

Mirror Approach

Use information on outflows as estimated by other countries.

If a geographical breakdown of outflows is available for a given number of countries—e.g., through gravity models—, each country can define total inflows by adding-up the (country-related) outflows estimated by other countries.

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Thanks for Your Attention!

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