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Measuring illegal economic activities and illicit financial flows: challenges and possible solutions

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The Sustainable Development Goals

Sustainable Development Goals



Goal 16 Peace, Justice and strong institutions

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels



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Illicit financial flows in the Sustainable Development Goals

Target 16.4.

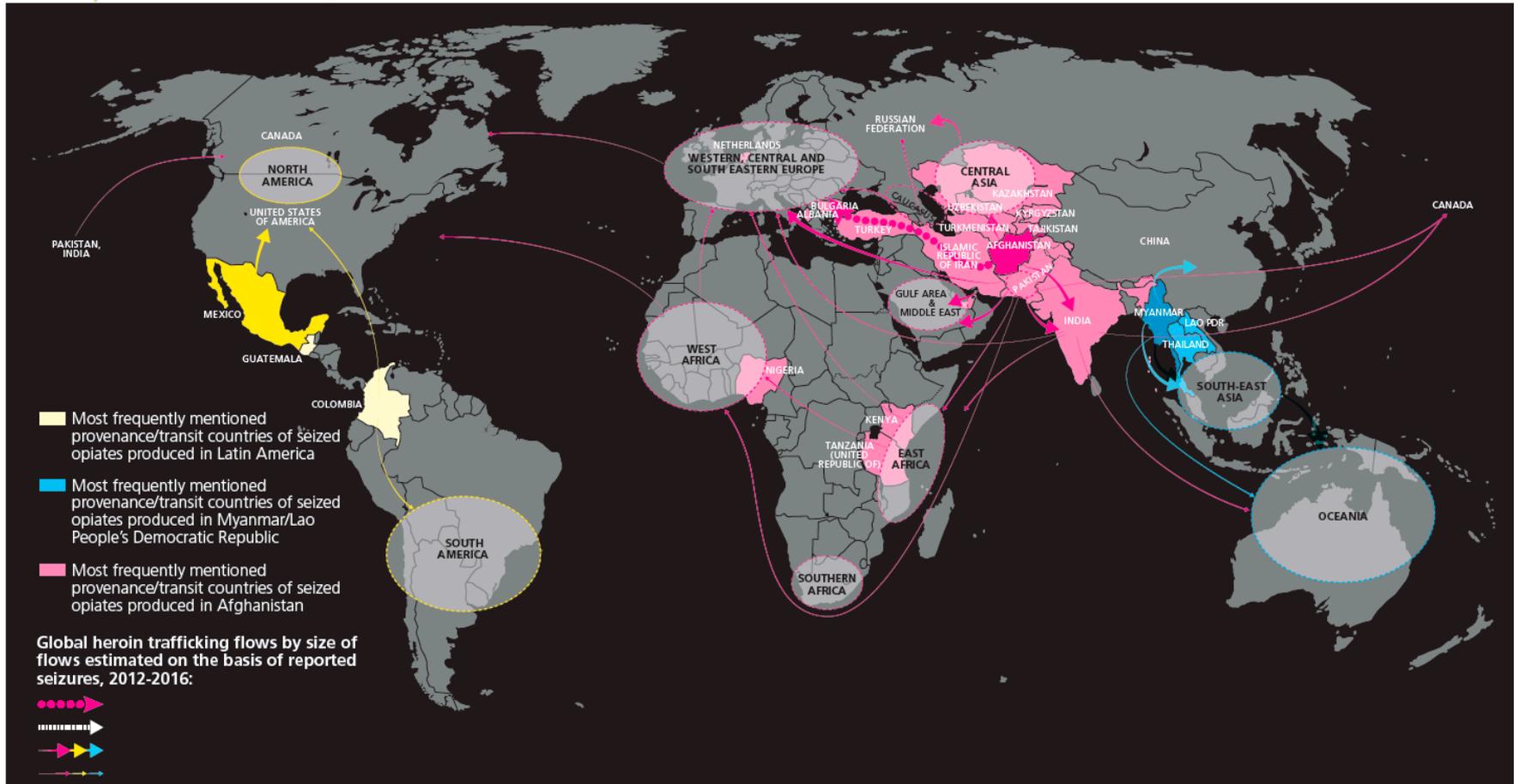
By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime

Indicator 16.4.1

Total value of inward and outward illicit financial flows (in current United States dollars)

Illicit financial flows from illegal markets

MAP 1 | Main heroin trafficking flows, 2012–2016



Sources: UNODC, responses to the annual report questionnaire and individual drug seizure database.



Defining IFF for statistical purposes

Core elements

IFFs are **cross-border flows** of resources that are **illicitly generated** (e.g., originating in criminal activities or tax evasion), **illicitly transferred** (e.g., violating currency controls), or **illicitly used** (e.g., for financing terrorism).

- IFFs concern the exchange of value.
- IFFs are to be measured at the country level.

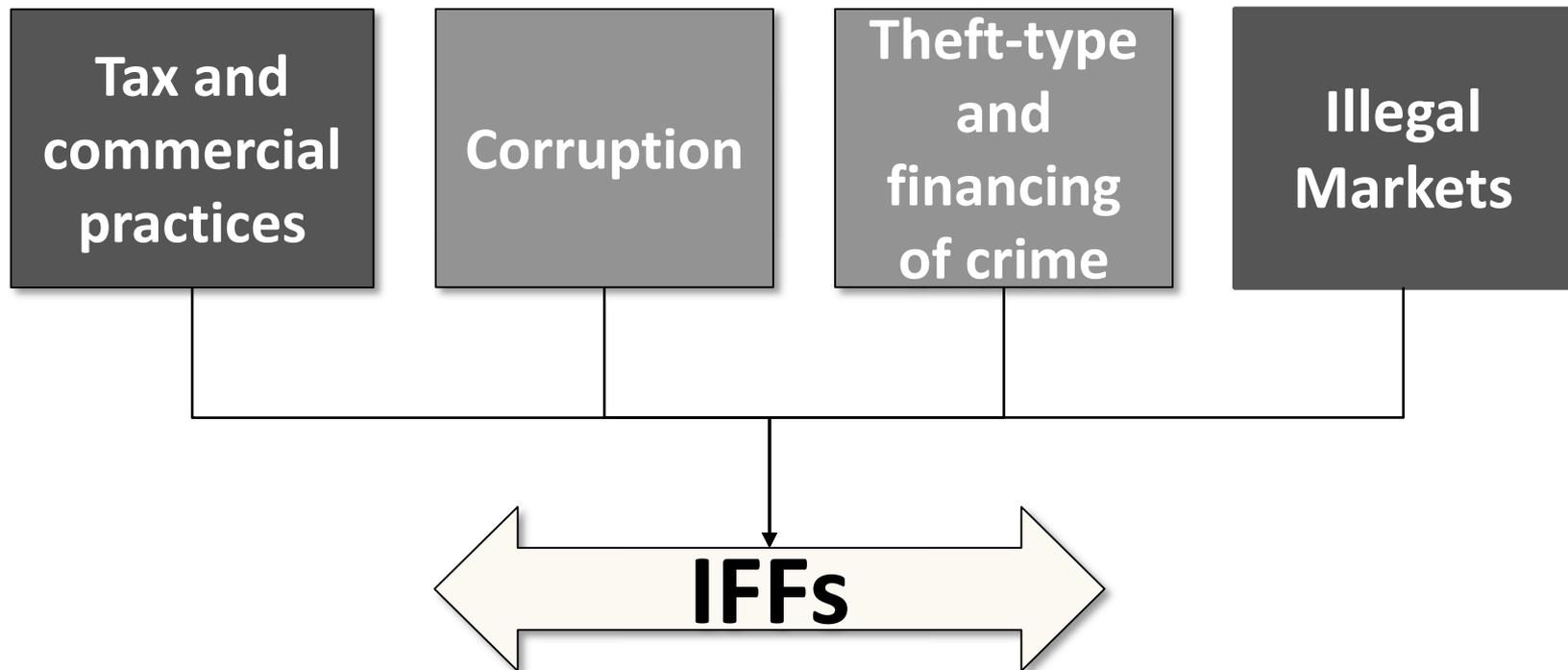


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Towards a classification of flows



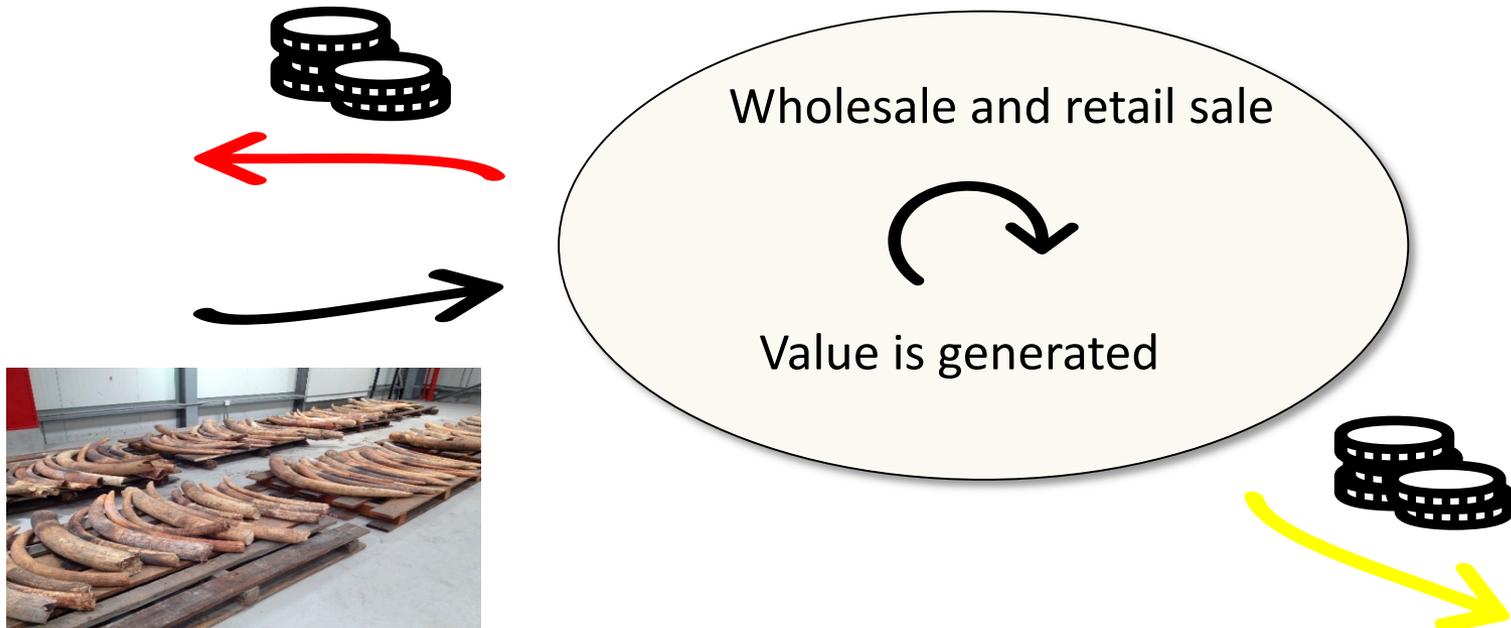


A disaggregated approach

1. Risk assessment to identify most important IFF
2. Analyse IFF in a disaggregated manner, by activity.

	ICCS
Tax and commercial practices	08041 Tariff, taxation, duty and revenue offences 08042 Corporate offences including competition and import/export offences; acts against trade regulations 08045 Market manipulation or insider trading, price fixing
Theft-type activities and terrorism financing (parts of sections 02, 04, 09)	020221 Kidnapping 020222 Illegal restraint 020223 Hijacking 020229 Other deprivation of liberty 0204 Trafficking in persons 0205 Coercion 0401 Robbery 0501 Burglary 0502 Theft 09062 Financing of terrorism
Illegal markets	ICCS includes a long list of activities, including for example drug trafficking (060132), firearm trafficking (090121), illegal mining (10043), smuggling of migrants (08051), smuggling of goods (08044), wildlife trafficking (100312)
Corruption (section 0703)	07031 Bribery 07032 Embezzlement 07033 Abuse of functions 07034 Trading in influence 07035 Illicit enrichment 07039 Other acts of corruption

Measurement framework – Illegal Markets





Measurement framework

Income generation

The set of operations that either directly generate illicit income for an actor during a productive or non-productive illicit activity, or that are performed in the context of the production of illicit goods and services.

Income management

The set of operations 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.



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Measurement framework

(Illicit) gross income/illicit gross output

Value of illicit goods and services produced in a time and territory

(Illicit) intermediate expenditure

Value of inputs acquired for the production

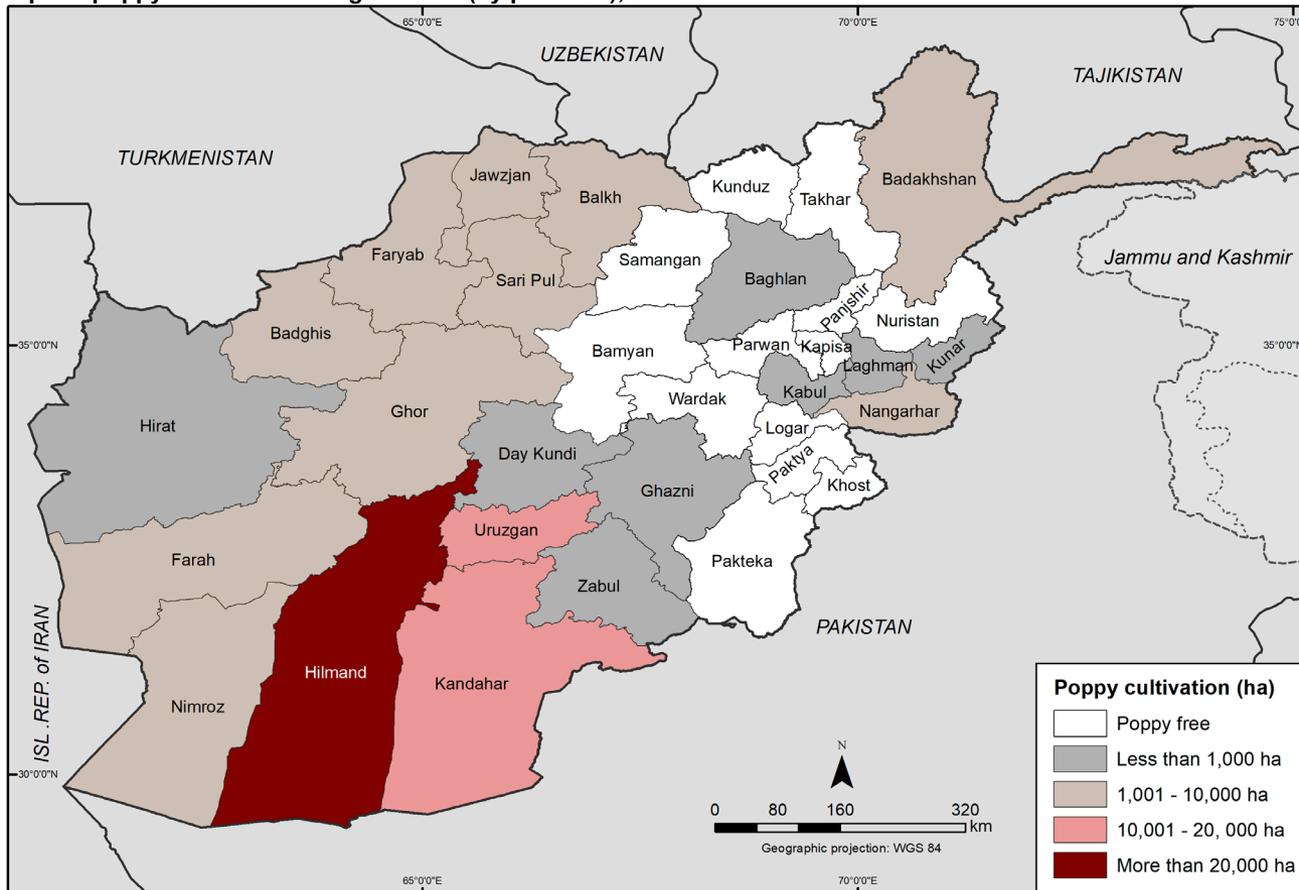
(Illicit) value added/illicit net income

Gross output minus intermediate expenditure



Country case: Afghanistan

Opium poppy cultivation in Afghanistan (by province), 2019



Source: Government of Afghanistan - National monitoring system implemented by UNODC/MCN

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

The dotted line represents approximately the line of control in Jammu and Kashmir agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.







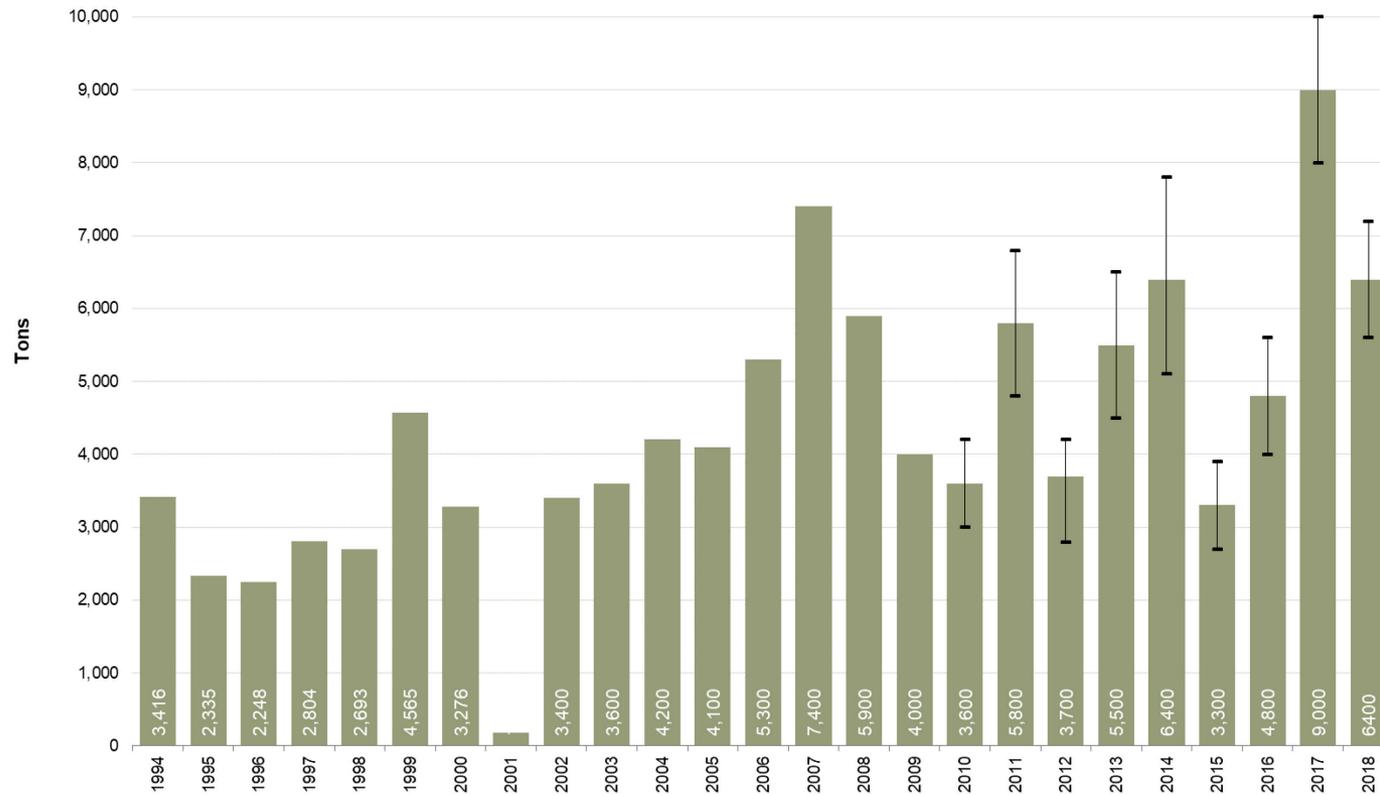
Kandahar 2018







Production estimates



Country case: Afghanistan

Illicit gross output

Income from domestic use market + income from export of opiates



<http://www.wcoomd.org>, Armenian customs



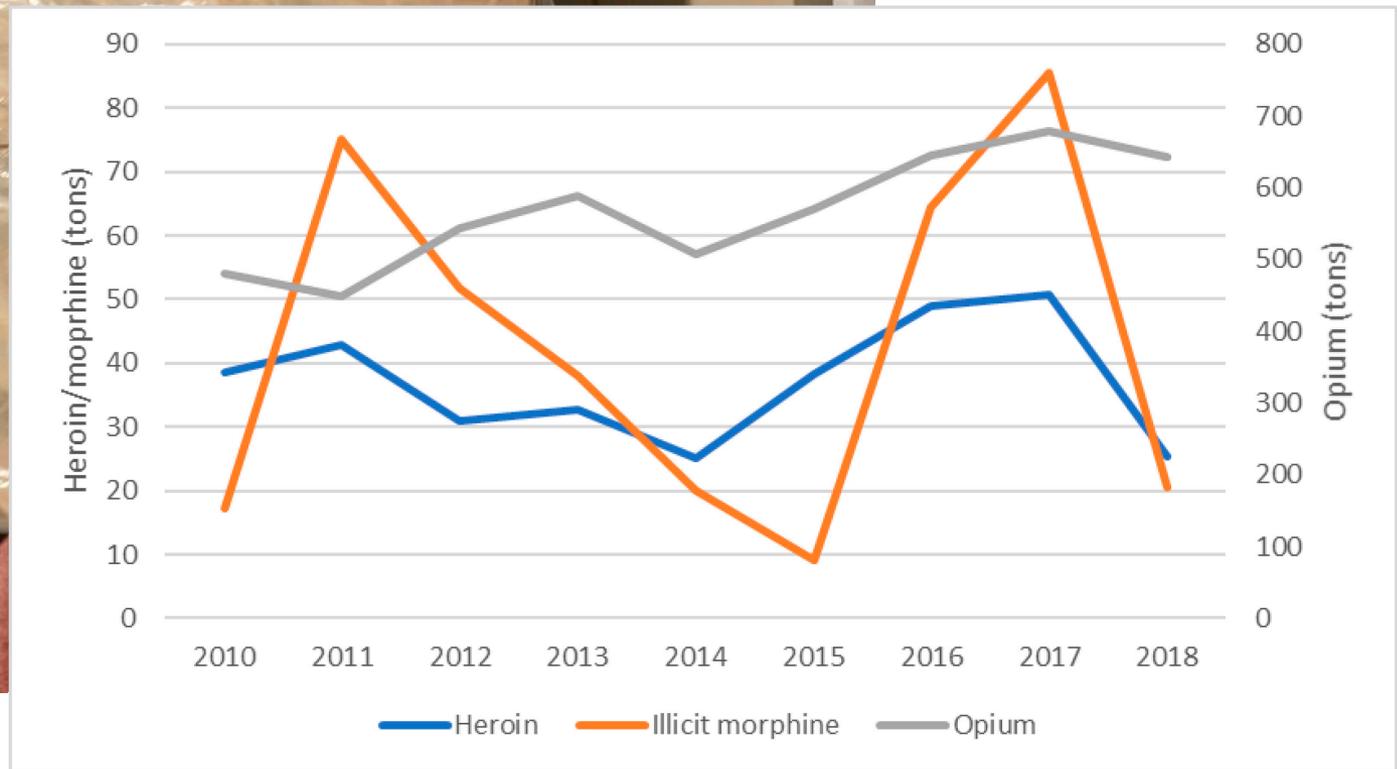
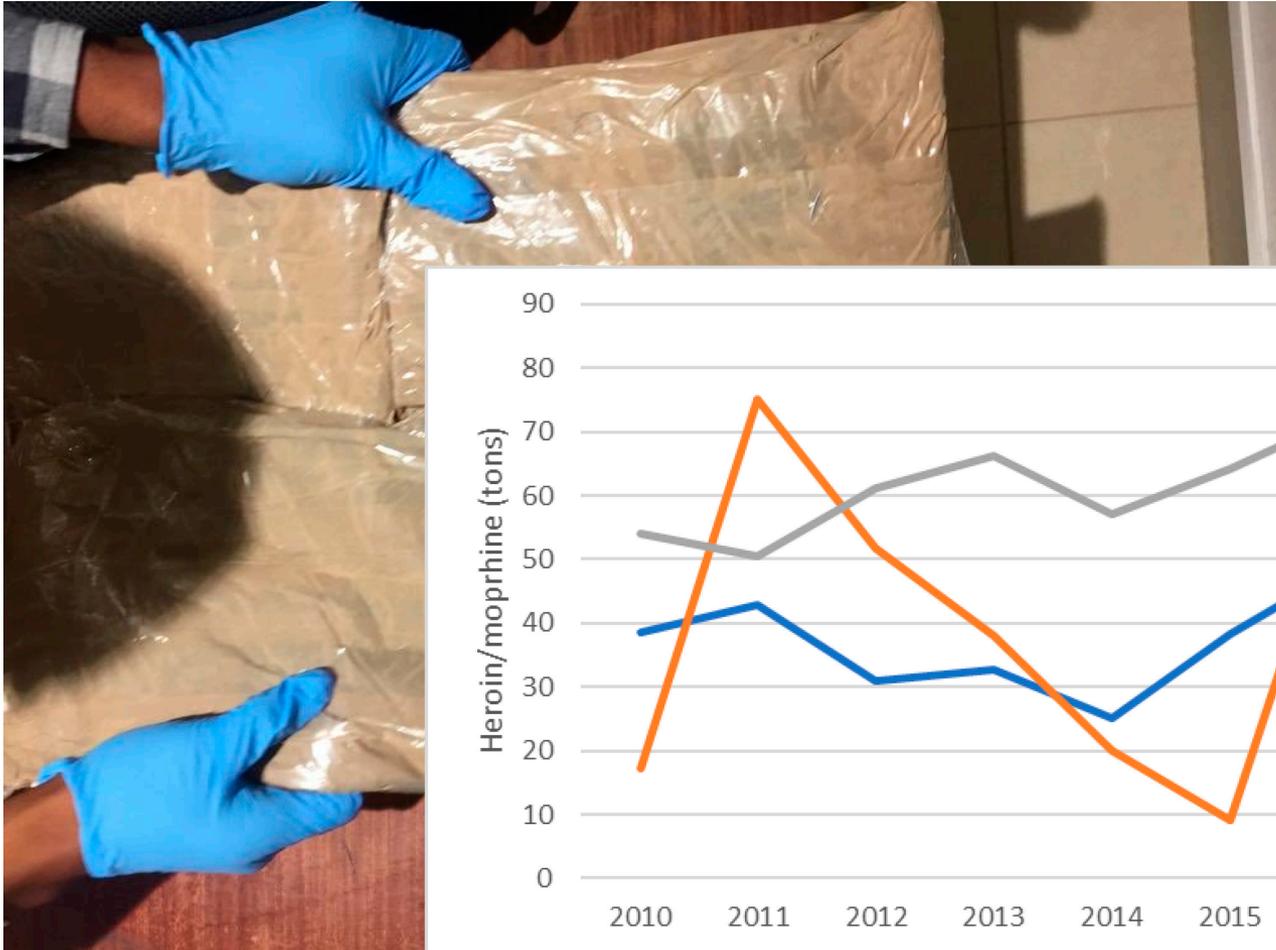
Direct, bottom-up measurement approach

Necessary data requirements

- Amounts of heroin and opium consumed per year and domestic prices
- Amounts exported as heroin and opium per year:
Exports = Production – Seizures – Consumption
 - Conversion rates
 - Purity
 - Shares exported as heroin/opium
- Export prices



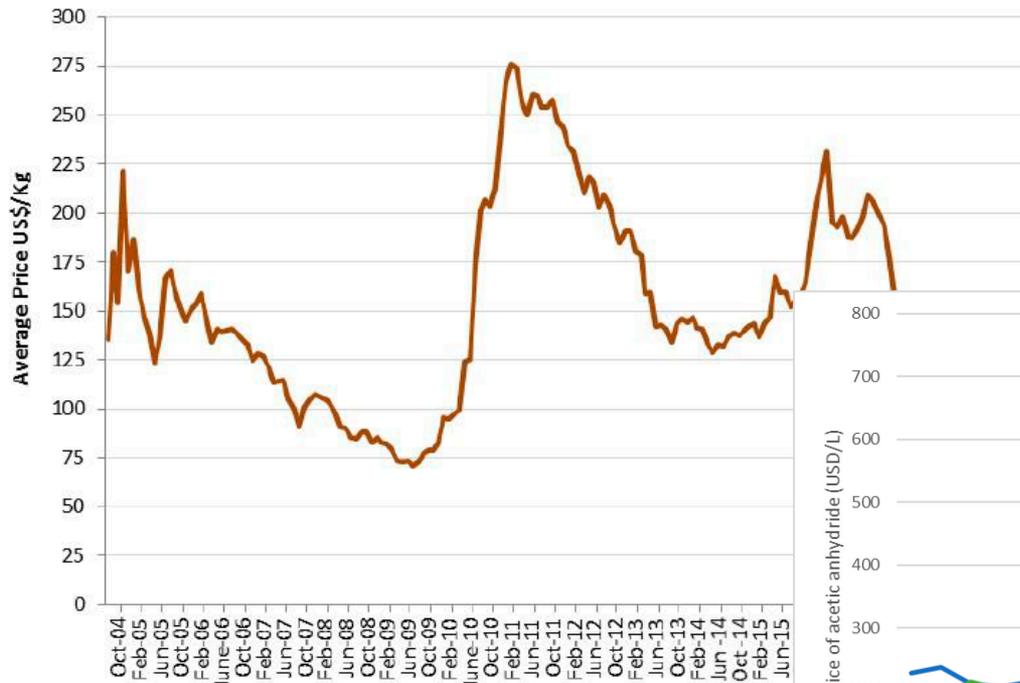
Seizure data



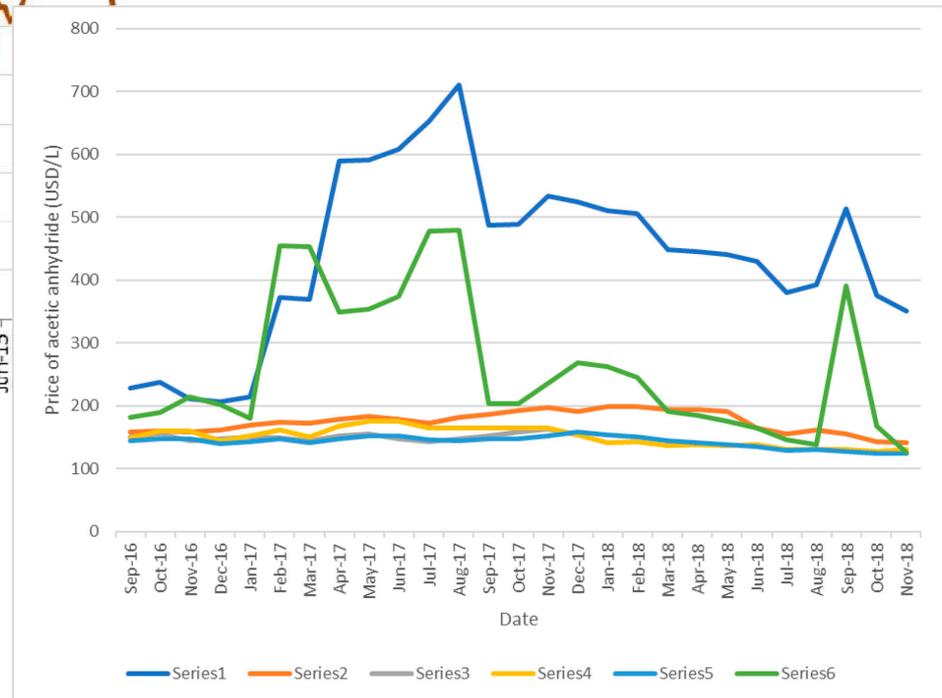


Domestic prices

Figure 1: National average price of dry opium at farm-gate level from (June 2004 to June 2019)



Source: Monthly price monitoring system, Afghanistan



International price and purity data

- International drug data collection efforts
- Based on international drug control conventions
- Data on supply, demand, purity and prices
- Annual data collection via a survey instrument

Price and purity

Drug class and types	15				1	
	Price at wholesale level ^a				Purity at wh	
	Indicate the typical wholesale price ^b and the common range ^c of prices of drugs trafficked in your country				Indicate the typic common range ^c of drugs trafficked	
	Currency: <input type="text"/>					
Common range				Common		
	Typical	From	To	Unit	Typical	Fr
<i>Example</i>	15000.00	10000.00	20000.00	kg	35.00%	3
Cannabis^e						
Marijuana (herb)						
Hashish (resin)						
Oil						
Other (specify)						
Opioids						
Heroin (specify) ^f						



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Intermediate costs



Fertilizers and herbicides, irrigation costs (fuel or electricity for pumps), seeds, opium “taxes” paid to insurgent groups, and transportation of opium to markets.



Transportation, bribes, security payments and taxes to insurgents, and chemicals to produce heroin

Currently only precursor substances are considered



Illicit financial flows: income generation

Gross income

1.2 – 2.2 billion (6 – 11% of GDP)

Domestic use market

90 million

Value of exports – IFF inflow

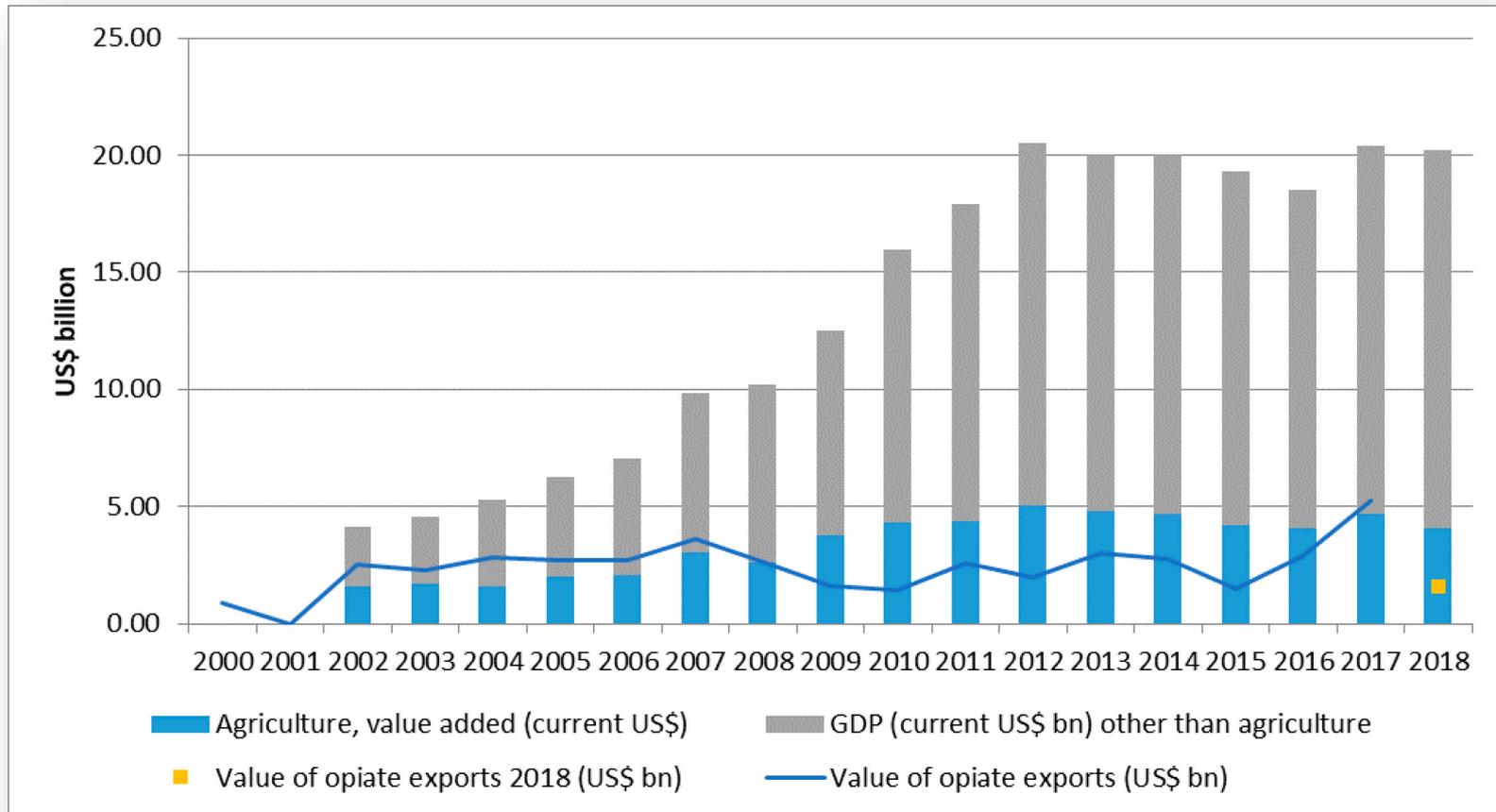
1.1 – 2.1 billion (5 – 10% of GDP)

Value of imports (precursors) – IFF outflow

USD 88 - 184 million



Illicit financial flows: income generation





Income management:

What goes outside, what stays within?

Data: Currently no hard data, but indications from surveys (farmers and traffickers)

Key elements: Market composition, distribution of income, spending patterns, investment of resources domestically and abroad, ML risks

Sources: case studies, qualitative and quantitative information on organized crime, data collected from financial investigations

-> with the goal of a systematic data collection at the country level



Conclusions and future research

- Some IFF can be readily measured with currently available data
- Drug markets are well studied, demand and supply data is available. Tests are conducted to assess trafficking
- Challenges remain both in data availability and concepts (e.g., income management, diversion in legal markets, profit shifting, etc)



Next steps

Next steps

- Continued work in the statistical task force on concepts and measurement methods: Conceptual paper UNODC/UNCTAD by the end of the year
- Pilot country studies: Latin America (UNODC), Africa (UNCTAD), Asia in 2020 (jointly – call for interest)
- Feedback, suggestions and country experiences are welcome