UNODC-UNCTAD Regional Technical Meeting

Measuring Illicit Financial Flows related to criminal activities for SDG Indicator 16.4.1

Group Exercise 3 – Understanding the methodology to measure illicit drug market and related IFFs (income generation and income management)

Day 2 – 21 November 2018

Objective of this exercise: Understanding the methodology to estimate illicit drugs flows and its corresponding IFFs.

The focus of the exercise is on income generation and income management related to IFFs emerging from cross-border operations for exchanging illicit drugs for money. The difference from other previous exercises is that this exercise aims to obtain country-level figures by applying a basic methodology to estimate the size of illicit drug markets along trafficking routes. We use information on prices and quantities, the two main variables of every market's supply and demand for that purpose. Furthermore, it estimates the income management outflow.

Please follow the guidelines at the end of the scenario to calculate the income generation and management figures.

Scenario

In Bolivia, the Sanchez cartel harvests coca leaves from local plantations and produces 1,000 kg cocaine. The Sanchez cartel sells the whole production to local exporter the Rodríguez group, which exports all cocaine produced in Bolivia to Colombia for 2,000 USD/kg. Consumption of cocaine in Bolivia is negligible, but 100 kg of cocaine are seized before export.

All cocaine in Colombia is imported. Part is consumed domestically: the prevalence of cocaine use is 1% of adult population (population 15-65: 3,600,000) and every drug user consumes 10 g of cocaine each year. The retail price in Colombia is 10 USD per gram. The rest of cocaine is sold to local group Fernández which operates in the re-export of cocaine to France. Before exports from Colombia to France take place, another seizure of 50 kg cocaine occurs.

The Fernández exports cocaine to local domestic wholesale traders in France for 4,000 USD/kg. All cocaine imported to France is consumed locally.

The total cost of other productive inputs in Colombia is 10% of the gross illicit output.

The net output from drug trafficking in Colombia is consumed or invested abroad at a share of 40%.

The table below summarizes the economic activities of the 3 countries involved in the cocaine supply chain described above.

Bolivia	Colombia	France
Cultivation Production Export	Import Domestic wholesale trade Retail trade (Consumption) Export	Import Domestic wholesale trade Retail trade (Consumption)

Exercise

Identify income generation-related IFFs between Bolivia, Colombia and France, i.e. financial transactions corresponding to imports and exports:

- IFFs from Colombia to Bolivia
- IFFs from France to Colombia

In order to do so, the following figures need to be quantified:

a. Exported quantity from Bolivia to Colombia (or imported quantity in Colombia)
b. Consumed quantity in Colombia
c. Exported quantity from Colombia to France (or imported quantity in France)

and take into account the following (observed) prices:

a. Export price from Bolivia to Colombia = 2,000 USD/Kg
b. Export price from Colombia to France = 4,000 USD/Kg

Calculations guideline:

STEP 1: Produced quantity in Bolivia

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STEP 2: Exported quantity from Bolivia to Colombia

= Produced quantity in Bolivia – Seizures in Bolivia

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STEP 3: Exported quantity from Colombia to France

-We know that:

Prevalence of cocaine use in Colombia (pop. 15-65) = 1%

Consumed quantity per user per year in Colombia = 10g/user

Population 15-65 in Colombia = 3,600,000 inhabitants

- Cocaine consumed in Colombia:

Number of users in Colombia:

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Then:

Consumed quantity:

= Number of users in Colombia* Consumed quantity per user per year in Colombia

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- Production ready for export from Colombia to France:

= Exported quantity from Bolivia to Colombia – Consumed quantity in Colombia

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- Production exported from Colombia to France:

= production ready for export from Colombia to France – seizures between Colombia and France

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Furthermore, the following prices are observed:

* Export price from Bolivia to Colombia = 2,000 USD/Kg

* Export price from Colombia to France = 4,000 USD/Kg

STEP 4: ILLICIT FINANCIAL FLOWS:

-Export from Bolivia to Colombia -> IFF from Colombia to Bolivia

= Export price from Bolivia to Colombia * quantity exported from Bolivia to Colombia

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-Export from Colombia to France -> IFF from France to Colombia

= Export price from Colombia to France * exported quantity from Colombia to France

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STEP 5: GROSS OUTPUT (for Colombia):

= (Internal Comsumption * Retail Price) + (Exports * Export Price)

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STEP 6: NET OUTPUT (for Colombia):

= Gross Output – (Imports * Import Price) – (0.1 * Gross Output)

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STEP 7: ILLICIT FINANCIAL OUTFLOWS RELATED TO COLOMBIA INCOME MANAGEMENT:

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