

# **Report on the Joint Regional Technical Meeting on Measuring Illicit Financial Flows Related to Criminal Activities for SDG Indicator 16.4.1 Mexico City, 20-22 November 2018**

## I. INTRODUCTION

Reducing Illicit Financial Flows (IFFs) is a key strategy in several policy areas related to the fight against and prevention of crime and the strengthening of public governance. This includes the fight against various forms of organised crime, corruption, and the erosion of public resources due to tax evasion and related illicit practices. IFFs are values that are illegally generated, transferred or used and that are transferred from one country to another.

The international commitment to counter IFFs is reflected in Sustainable Development Goal (SDG) Indicator 16.4.1, "*Total value of inward and outward illicit financial flows, in current United States dollars*" which has been defined as one of the global metrics of Target 16.4 "*By 2030, significantly reduce illicit financial flows and arms flow, strengthen the recovery and return of stolen assets and combat all forms of organised crime*".

As co-custodian agencies of SDG Indicator 16.4.1, UNODC and UNCTAD are proposing a comprehensive statistical framework for measuring IFFs. Also, methodological guidelines to apply the framework in relation to criminal activities have been elaborated. It is envisaged to pilot the methodology in partnership with several volunteering countries from Latin America and other regions.

The specific goals of the meeting were as follows:

- Present and discuss the statistical framework to measure IFFs related to criminal activities;
- Present and discuss the methodological guidelines to measure IFFs related to criminal activities;
- Discuss draft national workplans to conduct the pilot activities.

## II. ORGANIZATION OF THE MEETING

### A. Opening of the meeting

The joint technical meeting to discuss the methodology for measuring IFFs was held in Mexico City from 20 – 22 November 2018. The meeting was jointly opened by Salome Flores, UNODC-INEGI Center of Excellence in Statistical Information on Government, Crime, Victimization and Justice, Steve McFeely from UNCTAD, and Enrico Bisogno, Chief of the Data, Development and Dissemination Unit at UNODC.

### B. Attendance

The meeting was attended by 41 participants (29 men and 12 women) from 7 countries and 4 international organizations including: Colombia, Ecuador, Indonesia, Italy, Mexico, Panama and Peru, as well as the International Monetary Fund, UNCTAD and UNODC (see annex 1).

## III. OUTCOME OF THE MEETING

### A. National experiences in measuring IFFs and illicit economic activities

In this session, participants informed about their current efforts to regulate, tackle and measure IFFs.

Mr. Rolando Johnson from the National Census Institute of Panamá presented about his country's efforts and institutional setup to fight money laundering and the financing of terrorism.

Mr. Javier Alberto Gutierrez, General Director of the Financial Information and Intelligence Unit of Colombia, presented approaches to measure money laundering and income related to drug trafficking and other crimes in his country.

Ms. Indah Isniati from the Indonesian Financial Transaction Reports and Analysis Centre (PPATK) shared her country's experiences to combat transnational crime by analyzing information on different flows and case studies on the Smuggling of Migrants / Trafficking in Persons and applying network and crime script analysis. She also emphasized challenges with cross-border cooperation in this context.

Mr. Maximo Fajardo from the National Institute of Statistics and Informatics of Peru shared his country's experiences in estimating the value of counterfeit goods and quantifying the contribution of drug production, consumption and export to Peru's economic output.

Mr. Raul Figueroa from the National Institute for Statistics and Geography of Mexico shared considerations about developing a satellite account on illicit economy and insecurity.

## B. The framework for measuring IFFs related to criminal activities

The proposed statistical framework for measuring IFFs at country-level was presented in detail, including its scope, required data and main challenges for application. The framework utilizes a bottom-up approach, which aims at estimating IFFs related to illicit markets by identifying relevant economic operations throughout the supply chain. The specific characteristics of various illicit economic activities as well as the modus operandi of criminal economic agents are thereby accounted for. Two main types of IFFs arise from this perspective: 1) IFFs related to illicit economic activities that generate income and 2) IFFs related to the management of illicitly generated income.

Procedures for measuring IFFs emerging from income generation operations (IGO) were presented on the example of illicit drug markets. Corresponding activities such as drug production, processing, and consumption may prompt IFFs at various stages, i.e. in relation to the import/export of drugs and intermediate goods and services (e.g. precursors, transport, protection). Within the income generation phase, IFFs are thus financial transactions that correspond to specific economic operations within the illicit value chain. Relevant data sources and accounting schemes in this regard include those that are commonly applied to estimating the overall output of (illicit) markets and added value generated by the production, trafficking and consumption of (illicit) goods or services.

Income management operations (IMO) refer to flows of money (or other financial assets) that are invested or consumed in countries other than where the illicit income was generated. Different aspects can determine the share of illicitly generated income that is transferred abroad, for example the individual characteristics of criminals, their propensity to invest and consume abroad, but also national frameworks relevant to money laundering (e.g. financial transparency regulations and practices, levels of control on financial transactions). Potential data sources exist in the form of suspicious transaction reports as generated/collected by financial information units, as well as intelligence and qualitative information by financial, criminal justice, and law enforcement institutions.

Furthermore, it was explained that illicit activities of various kinds can generate IFFs. For the purpose of applying the proposed statistical framework, it is useful to distinguish three main types of IFFs:

- Illicit economic activities, i.e. IFFs generated in the context of illicit markets such as drug trafficking, trafficking of firearms, illicit mining and trade in natural resources, smuggling of migrants, etc.; In these cases, a specific value chain exists for each illicit activity and IFFs may emerge at both income generation and management phase
- Theft-type illicit activities such as theft, extortion, kidnapping, i.e. activities that do not accrue economic value, but there is a transfer of value, not an economic exchange; In these cases, IFFs mainly relate to the income management phase.
- Corruption offences: Due to the complexity of corruption and diversity of corruption offences, it is suggested to approach corruption and related IFFs with a distinct typology

It is worth mentioning that these three types of flows can be combined, for example, when organizations are engaged in illicit drug trafficking and also in extortion and corruption of officials. A discussion about the relationship between IFFs and the overall economic value generated by illicit activities clarified that these two phenomena are complementary. While IFFs are related to the size and functioning of illicit markets, they cannot be considered as a direct measure of their overall size and functioning as this indicator does not cover activities that are exclusively conducted at domestic level. However, the proposed methodological approach to estimate IFFs (bottom-up) entails also the quantification of domestic activities as an intermediate step to compute IFFs from income management operations. This represents a valuable by-product of the IFFs estimation procedure.

Other benefits that were recognized regarding the IFF statistical framework are the following:

- The bottom-up approach allows the quantification of IFFs related to each of the various illicit activities, thus providing a valuable tool for analysis and policy making
- The approach, starting from the national level, can eventually provide regional and global estimates
- The approach is consistent with National Accounts and Balance of Payments, which are the statistical frameworks underpinning the measurement of economic activities and financial transactions at national and global level.

Participants had the chance to familiarize themselves with the proposed methodological approach to measure IFFs through a series of exercises and case studies which were discussed in groups. Thanks to these exercises several definitional and methodological issues could be discussed and clarified. In particular:

- Participants deepened their understanding of the conceptual framework and its suitability to measure IFFs emerging from criminal activities. Participants discussed and understood the distinction between IFFs emerging from the income generation phase (cross-border financial transactions linked to the functioning of illicit markets such as drug trafficking or trafficking in persons) and those emerging from the income management phase (cross-border financial flows related to the management of the income generated from criminal activities);
- The inclusion of various economic activities related to illicit markets (e.g. production, consumption, trade, processing, etc.) in the statistical framework on IFFs was discussed and clarified in-depth;
- Statistical tools and related challenges to produce data for the various quantities related to the model (e.g. intermediate expenditures, gross and net illicit income) were comprehensively discussed in relation to IFFs emerging from the drug market;
- The illicit activities mentioned by participants to be most relevant in their countries include drug trafficking, trafficking in persons and illicit mining.
- The groundwork including indicative timelines to start pilot exercises for the measurement of IFFs in the participating countries was discussed and prepared.

### C. Next steps and way ahead

The below follow-up activities were presented and discussed at the last session of the meeting. Participants reconfirmed their availability to conduct a pilot exercise to estimate selected types of IFFs in their respective countries:

- Development of guidelines to apply the IFF estimation framework in pilot countries as well as identification of relevant data sources (by UNODC/CoE)
- Implementation of estimation exercises in pilot countries, with technical support by UNODC/CoE: Participants identified key institutions that should be involved in the pilot exercise to produce IFF estimates in their country, as well as the most relevant illicit markets to be covered and potential data sources to tap on;
- Follow-up meeting among pilot countries to share results and experiences on methods and implementation challenges (to be organized by UNODC/CoE)
- Refine methodological approach to produce IFF estimates in relation to criminal activities (UNODC/CoE)

With a view to conducting the pilot exercises during the first half of 2019, it was agreed that UNODC/CoE will enter into discussions with institutions from volunteering countries to define the implementation modalities of such pilot exercises.

## Annex I

### List of participants

#	Country	Name	Institution
1	Colombia	Giraldo Polania Luis Alberto	Comptroller General Office of the Republic
2	Colombia	Gutiérrez Lopez Javier Alberto	Ministry of Finance and Public Credit
3	Ecuador	Estrella Aguirre Danilo	Ecuador Central Bank
4	Ecuador	Proaño Velez Ivonne Del Rocio	State Attorney General's Office
5	Ecuador	Torres María Dolores	Superintendence of banks
6	Indonesia	Isniati Indah	PPATK
7	Italy	Sallusti Federico	ISTAT
8	Mexico	Amoroso Plaza Nicolas Emiliano	Bank of Mexico
9	Mexico	Gutiérrez Salas Rodolfo	Bank of Mexico
10	Mexico	Boelsterly Ovejas Ander	General Attorney Office
11	Mexico	Castro Jacome Jesús	General Attorney Office

#	Country	Name	Institution
12	Mexico	Coello Cerino Antonio José Luis	National Banking and Securities Commission
13	Mexico	Domínguez Aguilar Javier Humberto	Special guest
14	Mexico	Enriquez, Maria del Socorro	Tax Administration Service
15	Mexico	Velasco Diaz, Roberto	Tax Administration Service
16	Mexico	Gomez Antúnez Felipe	Asset Management and Disposal Service
17	Mexico	González Sepúlveda María Dolores	Ministry of Finance and Public Credit
18	Mexico	Humphrey Jordan Carla Astrid	
19	Mexico	Figueroa Raul	National Institute of Statistics and Geography
20	Mexico	Pineda Fernando	National Institute of Statistics and Geography
21	Panama	Daud Hasan Mahmad	Attorney General's Office
22	Panama	Fernández Velarde Ricardo Emilio	National Bank
23	Panama	Johnson Mosley Rolando Ramírez	National Institute of Statistics and Census

#	Country	Name	Institution
24	Panama	Lin Cheung Antonio	National Police of Panama
25	Panama	Espinosa Rodriguez Lideyka Lidette	Financial Analysis Unit
26	Panama	Zarate Zuhelem	Financial Analysis Unit
27	Peru	Calderón Villadoma Juan Renzo	Ministry of the Interior
28	Peru	Fajardo Castillo Máximo Abad	National Institute of Statistics and Informatics
29	Peru	Ramos Percy Merardo	National Police of Peru
30	Peru	Soto Crovetto Consuelo Leonor	Central Reserve Bank
31	Peru	Soto Salas Marcos Martín	Financial Intelligence Unit
32	IMF	Mesías Rita	IMF
33	Transcrime	Alberto Aziani	Transcrime
34	UNCTAD	McFeely Steve	UNCTAD
35	UNODC	Bisogno Enrico	RAB

#	Country	Name	Institution
36	UNODC	Kamprad Alexander	UNODC
37	UNODC	Flores Javier	Center of Excellence in Statistical Information on Government, Crime, Victimization and Justice (CoE)
38	UNODC	Flores Sierra Salome	Center of Excellence in Statistical Information on Government, Crime, Victimization and Justice (CoE)
39	UNODC	Greco Giada	Center of Excellence in Statistical Information on Government, Crime, Victimization and Justice (CoE)
40	UNODC	Peregrina María José	Center of Excellence in Statistical Information on Government, Crime, Victimization and Justice (CoE)
41	UNODC	Ravaux David	Center of Excellence in Statistical Information on Government, Crime, Victimization and Justice (CoE)

## Annex II

### Agenda

<b>Date:</b>	20-22 November 2018
<b>Location:</b>	Fiesta Americana Reforma Hotel Paseo de la Reforma 80, Juárez, 06600 México City - México
<b>Note:</b>	The meeting will be held in English and Spanish. Interpretation will be provided.

#### Day 1 – Tuesday, 20 November 2018

Time	Topic
9:30 – 10:00	Introduction and objectives of the meeting
10:00 – 10:15	Presentation of participants
10:15-10:30	Warm-up question
10.30 – 11:15	<b>National experiences</b> in measuring illegal activities and illicit flows (Part I): <ul style="list-style-type: none"><li>• <b>Prevention of Money Laundering, Financing of Terrorism and Financing of Proliferation of Weapons of Mass Destruction</b> by Mr. Rolando R. Johnson M., National Institute of Statistics and Census of <b>Panama</b></li><li>• <b>Strategy for combating illicit economies and their financial flows</b> by Mr. Javier Alberto Gutiérrez López, General Director of the Information and Financial Analysis Unit of <b>Colombia</b></li><li>• <b>PPATK’s perspective in combating transnational crime</b> by Ms. Indah Isniati, Analyst of the Financial Transaction Reports and Analysis Centre of <b>Indonesia</b></li></ul>
11:15 – 11:30	Questions and answers
11.30 – 11.45	<i>Coffee break</i>
11.45 – 12:45	<b>National experiences</b> in measuring illegal activities and illicit flows (Part II): <ul style="list-style-type: none"><li>• <b>Calculation of the production and destination of coca leaf and its derivatives and comments on the calculation of smuggling in the context of the compilation of national accounts</b> by Mr. Máximo Fajardo Castillo,</li></ul>

	<p>Deputy National Director of National Accounts, National Institute of Statistics and Informatics of <b>Peru</b></p> <ul style="list-style-type: none"> <li>• <b>Considerations for a satellite account of the illicit economy and the security expenditure</b> by Mr. Raul Figueroa, Director of Satellite Account, National Institute of Statistics and Geography of <b>Mexico</b></li> </ul>
12:45 – 13:00	<i>Questions and answers</i>
13:00 – 14:45	<i>Lunch break</i>
14:45 – 15:45	A <b>statistical framework</b> to measure illicit financial flows related to criminal activities
15:45 – 16:00	<i>Coffee break</i>
16:00 – 17:00	<b>Group exercise 1</b> to discuss and understand the <b>overall statistical framework</b>
17:00 – 17:15	Conclusions

## Day 2 – Wednesday, 21 November 2018

Time	Topic
9:30 – 10:30	<b>Methodological approach</b> to measure <b>drugs trafficking</b> -related IFFs
10.30 – 11:30	<b>Group exercise 2</b> to discuss and understand the <b>statistical framework to measure IFF related to criminal activities</b>
11.30 – 11.45	<i>Coffee break</i>
11.45 – 13.00	<b>Discussion of group exercise 2</b>
13:00 – 14:30	<i>Lunch break</i>
14:30 – 15:30	<b>Methodological approach</b> to estimate value of IFFs from <b>drug trafficking income management</b>
15:30 – 15:45	<i>Coffee break</i>
15:45 – 17:00	<b>Group exercise 3</b> to discuss and understand the <b>methodology to measure illicit drug market and related IFFs (income generation and income management)</b>
17:00 – 17:15	Conclusions

### Day 3 – Thursday, 22 November 2018

Time	Topic
9:30 – 11:00	<b>Group exercise 4</b> for developing workplan of <b>pilot activities</b> at country level
<i>11:00 – 11:15</i>	<i>Coffee break</i>
11:15 – 12.00	<b>Conclusions</b>