

Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

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 USD)

Institutional information

Organization(s):

UNODC and UNCTAD

Concepts and definitions

Definition:

The indicator measures the total value of inward and outward illicit financial flows (IFFs) in current United States dollars. IFFs are financial flows 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).

Rationale:

A major challenge to sustainable development of societies around the world, particularly in developing countries, is represented by several criminal activities and tax-related illicit practices which are at the origin or associated with illicit financial flows (IFFs). Proceeds from criminal activities are often transferred between countries to be laundered, utilized and reinvested in licit or illicit activities. Combatting illicit financial flows is therefore a crucial component of the goal to promote peace, justice and strong institutions, as set out in Goal 16 of its 2030 Agenda for Sustainable Development.

Concepts:

Illicit financial flows refer to activities that are considered as criminal offences and to a series of behaviours in the area of tax and commercial practices. The International Classification of Crime for Statistical Purposes (ICCS) provides definitions of relevant offences¹.

There are four main types of activities that can generate IFFs:

- *Tax and commercial IFFs*: These include illegal practices such as tariff, duty and revenue offences, tax evasion, corporate offences and market manipulation, and other selected practices. Some activities that are non-observed, hidden or informal or part of the so-called shadow, underground or grey economy may generate IFFs. The practices are typically motivated by increasing profits and avoiding taxes. Related activities included in the ICCS comprise tax evasion, tariff, duty and revenue offences, competition offences, import/export offences, acts against trade regulations, restrictions or embargoes and investment or stock/shares offences. In addition, tax avoidance includes transfer mispricing, debt shifting, relocation of intellectual

¹ The terms illicit and illegal are used interchangeably in the context of this document

property, tax treaty shopping, tax deferral and changing corporate structures and head quarter locations and other tax avoidance practices. When these activities directly or indirectly generate flows crossing country borders, they generate IFFs.

- *IFFs from corruption*: The United Nations Convention against Corruption (UNCAC) defines acts considered as corruption, and they are consistently defined in the ICCS, such as bribery, embezzlement, abuse of functions, trading in influence, illicit enrichment and other acts of corruption in the scope. When these acts – directly or indirectly - generate cross-border flows, they generate IFFs.
- *Theft-type activities and financing of crime and terrorism*: Theft-type activities are non-productive activities that entail a forced, involuntary and illicit transfer of economic resources between two actors. Terrorism financing and financing of crime are illicit, voluntary transfers of funds between two actors. Examples of theft-type activities are theft, extortion, illicit enrichment, and kidnapping. When the related financial flows cross country borders, they constitute IFFs.
- *IFFs from illegal markets*: Domestic and international trade in illicit goods and services. Such processes often involve a degree of criminal organization and are aimed at creating profit. They include any type of trafficking in goods such as drugs, firearms, or services such as smuggling of migrants. IFFs are generated by the flows related to international trade of illicit goods and services, as well as by cross-border flows from managing the illicit income from such activities.

The UNODC (2015) International Classification of Crime for Statistical Purposes (ICCS) provides definitions of a number of behaviours, events and activities which may generate IFFs such as theft-type activities and terrorism, illicit trafficking and corruption, as well as many activities related to tax and commercial practices.²

Other relevant concepts include:

- *Inward IFFs*: Illicit financial flows entering a country.
- *Outward IFFs*: Illicit financial flows leaving a country.
- *Illicit income generation*: This refers to the set of transactions 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. A transaction constitutes an IFF when it crosses country borders.
- *Illicit income management*: These transactions use illicit income to invest in (legal or illegal) financial and non-financial assets or to consume (legal or illegal) goods and services. A transaction constitutes an IFFs when it crosses country borders.
- *Illicit markets* comprise all transactions related to the production and the trade with a certain illicit good or service. Regardless of the illicit nature, these market activities are considered as being economically productive, because value added is generated at each transaction. The value added describes the net increase in value (price times quantity) of the product at each transaction.

Bottom-up and direct measurement

A bottom-up and direct measurement approach is proposed for constructing the indicator. Bottom-up methods estimate IFFs directly in relation to the four main activities and build them up departing from the overall economic income that illicit activities generate.

² https://www.unodc.org/documents/data-and-analysis/statistics/crime/ICCS/ICCS_English_2016_web.pdf

Direct refer to the fact that data referring to the various stages of the economic processes generating IFFs are individually measured (via surveys, administrative data or other transparent methods) and are not the exclusive result of model-based procedures. The measurement approach is in line with the “Eurostat Handbook on the compilation of statistics on illegal economic activities in national accounts and balance of payments”³ for the estimation of the contribution of illegal activities to the GDP. ⁴

Disaggregation

Similar to Eurostat’s recommendations on measuring illegal economic activities, a disaggregated measurement approach is proposed that measures each relevant IFF type – respectively from tax and commercial practices, from corruption, from theft-type and financing of crime and terrorism, and from illegal markets --in a separate manner.

Comments and limitations:

The definition of illicit financial flows for statistical purposes aims to provide a comprehensive definition of the phenomenon to be measured. It does not focus on a specific measurement approach (e.g., IFF being measured through discrepancies in trade statistics between countries).

The disaggregated and bottom up measurement approach is in line with existing frameworks such as the National Accounts and the Balance of Payments and it follows international efforts to measure non-observed or illegal economic activities.

A number of criminal offences are identified as potentially generating IFFs. These are primarily a selection of criminal offences as described by the ICCS. Examples of such behaviours are shown below.

Examples of activities generating illicit financial flows from crime, by ICCS categories

	<i>Examples</i>
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

³ Available here: <https://ec.europa.eu/eurostat/documents/3859598/8714610/KS-05-17-202-EN-N.pdf/eaf638df-17dc-47a1-9ab7-fe68476100ec>

⁴ With one principle difference. The mere transfer of funds (theft-type activities and terrorism financing) are not considered in the GDP estimates, as they are not productive transactions and may not be carried out with the mutual agreement of both parties. Such activities can, however, generate noteworthy amounts of illicit income and subsequent IFFs. The present framework includes activities that are not considered as being productive in the framework of the System of National Accounts.

	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

SDG indicator 16.4.1 calls for the measurement of the “total value” of inward and outward IFFs. While this is useful as an indication of the overall size of the problem and for measuring progress, a more granular measurement of IFFs helps to identify the main sources and channels of IFFs and can guide interventions targeting IFFs.

Countries are affected by different types of IFFs and it is suggested that main types of IFF are defined at country level. This limits the possibility of measuring all types of IFF in a comprehensive manner and comparability may be affected by different coverage from one country to another. However, the goal is to capture the most significant flows at country level and a gradual process of improving the exhaustiveness of the indicator is expected, following the model of measuring illegal economic activities and the non-observed economy in the balance of payments and national accounts.

There is a risk of double-counting when adding together explicit estimates of activities generating illicit financial flows. Estimates for IFFs should not be simply added together, because they may already include parts of others (e.g., drug trafficking and bribery) and there may be double-counting. During the expert consultations, double counting was discussed and will be addressed in guidelines issued to member states.

Methodology

Computation Method:

The proposed computation method follows the principles developed in economic measurement frameworks such as the National Accounts and the Balance of Payments.

A two-step process was developed that aids member states in calculating the indicator 16.4.1. The methodology has been tested in 5 countries.

The methodology foresees:

- 1) A risk assessment that identifies the major and most relevant sources of IFF in a country. This risk assessment can follow and build on existing risk assessments, e.g. the ones mandated by the Financial Action Task Force (FATF).⁵

⁵ <https://www.fatf-gafi.org/>

- 2) Once the activities that generate the most important flows are identified, the flows are estimated in a disaggregated manner.

Given the broad scope of activities generating IFF, each type of flow needs to be treated in a separate manner.

As a first step in constructing the IFF indicator is to focus, for each IFF type, on IFF generated during the Illicit income generation: this refers to the set of transactions – such as those related to international trade of illicit goods - 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 illicit production of goods and services.

Examples of IFFs related to selected illegal activities

IFF from drug trafficking

In a drug producing country, the method to estimate IFFs derived from drug trafficking can be broadly described as follows:

All drug produced in the country is either consumed domestically (C), seized by law enforcement (S), exported (E) or lost (L).

With that $P=C+S+E+L$.

Countries with extended illicit drug cultivation, normally collect data on P, C, and S. (losses cannot be estimated and are excluded from the calculations) and annual exports of drugs can be estimated.

The value of exports can be measured by the wholesale value of the relevant drug in countries of destination of the drug produced in the country. These data can be retrieved from international data on seizures reported by other member states (which provide information on the country of origin) and price data, which is as well reported annually through the mandated Annual Report Questionnaire (ARQ) submitted to UNODC (see <https://dataunodc.un.org/>)

This methodology has been applied in Peru and in Afghanistan⁶ where certain portions of the income generated from drug production and trafficking are accounted for in the NA.

IFFs from smuggling of migrants⁷

Following the Eurostat manual “Handbook on the compilation of statistics on illegal economic activities in national accounts and balance of payments” four types of smuggling transactions can be distinguished, two of which create IFF:

⁶ See e.g., National Statistics and Information Authority, Afghanistan and UNODC, “Afghanistan Opium Survey 2018 – Challenges to sustainable development, peace and security”, July 2019.

⁷ The Protocol against the Smuggling of Migrants, supplementing the United Nations Convention against Transnational Organized Crime (the Migrant Smuggling Protocol) defines migrant smuggling as: “in order to obtain, directly or indirectly, a financial or other material benefits, of the illegal entry of a person into a State Party of which the person is not a national or a permanent resident”. See as well ICCS.

Type I: Resident smugglers and resident migrants does not cover transnationality and illegal entry and does not create IFF

Type II: Resident smugglers and non-resident migrants

Constitutes an export of services and does incur an inward IFF:

Export of transportation services = number of non-resident migrants smuggled by resident smugglers * prices

Type III: Non-resident smugglers and resident migrants

Estimations recorded as import of illegal services and constitute an outward IFF:

Import of illegal transportation services = number of residents smuggled by non-resident smugglers * prices

Type IV: Non-resident smugglers and non-resident migrants

No estimations recorded

The pilot studies found the methodology to be feasible, however, limitations on data exist, in particular on pricing.

At a second stage, IFFs in relation to Illicit income management are estimated. These refer to IFFs generated when income generated from illegal activities is invested abroad (e.g., into property). To assess these flows, quantitative and qualitative information held by financial authorities, central banks and other entities concerned with money laundering and financial crimes can be used.

Disaggregation:

In addition to the disaggregation by the four main types of IFF, countries may also disaggregate the indicator by :

- payment method (cash / trade flows / crypto currencies)
- resulting assets (offshore wealth / real estate etc.)
- actors (characters of individuals / types of businesses etc.)

Treatment of missing values:

- [At country level](#)

When national data are missing, transnational data sources or alternative data sources can be examined. It is important to provide comprehensive metadata explaining current issues related to missing data and exhaustiveness of the indicator. Although national data may only partially cover IFF, they are still valuable for assessing the significance of IFFs globally and regionally. UNCTAD and UNODC may support countries to assess alternative sources for obtaining the missing information.

- [At regional and global levels](#)

In order to calculate regional and global levels, missing data may be estimated using information from international sources. As historical data for countries becomes available with time, it will be possible to impute using the same country's data as well. Estimated indicators are not released at the country level, but only in aggregated form at regional and global level. There will be certain thresholds to be met for the

regional and global estimates to be acceptable. If these thresholds are not met, the regional and global estimates will not be published.

Regional aggregates:

Once values of country indicators have been released, missing indicators estimated, any sub-regional, regional and global estimates will be obtained by aggregating the country indicators within a specific sub-region and region. The global value would be calculated by aggregating the regional values in a similar manner.

Sources of discrepancies:

As mentioned above, countries are affected by different types of IFFs and data availability varies. Therefore, the coverage of different types of IFFs in the indicator may vary from one country to another, thus affecting comparability. However, the goal is to capture the largest flows even when country-specific solutions are applied. Furthermore, based on the country metadata, the custodian agencies may discuss necessary corrections or adjustments for producing regional and global aggregates with countries. A gradual process of improving the exhaustiveness of the indicator is expected, following the model of measuring illegal economic activities and the non-observed economy in the balance of payments and national accounts.

Methods and guidance available to countries for the compilation of the data at the national level:

- At the national level, data sources need to be identified separately for the major IFFs originating from tax and commercial practices, corruption, theft-type and terrorism activities and illegal markets. These sources should cover the major flows relevant to the country and provide information for estimating total inward and outward flows. The ICCS provides a useful listing of behaviours, events and activities that may generate IFFs.
- The methodology follows the approach suggested in the Eurostat Handbook on the compilation of statistics on illegal economic activities in national accounts and balance of payments⁸ with the exception mentioned in footnote 1.
- UNCTAD/UNODC Task Force is working to develop practical guidelines and a White Paper towards a Statistical Framework for the Measurement of Illicit Financial Flows, to be submitted to the United Nations Statistical Commission (UNSC) for its review once finalised. Further methodological materials are under development and will discuss different types of IFFs and their measurement in detail. The guidelines will describe the functioning of selected illicit market or criminal activities, the possible IFF types that can emerge from these activities and provide practical guidance on statistical sources and estimation methods.

Quality assurance

- The data received from member States will go through a thorough validation process.
- The data for the indicator are externally validated by comparing to other available sources.
- Once the information has been validated and information from additional sources incorporated, any questions for clarification or proposals are shared with member States for their review.
- In case any adjustment is needed, after member States have reviewed the values, indicators are ready to be published and sub-regional, regional and global totals can be estimated.

⁸Available here: <https://ec.europa.eu/eurostat/documents/3859598/8714610/KS-05-17-202-EN-N.pdf/eaf638df-17dc-47a1-9ab7-fe68476100ec>

Data Sources

Description:

The measurement of IFFs requires combining data held by different entities of the national statistical system and beyond, especially the national statistical office, customs and the central bank. The balance of payments and system of national accounts data on illegal economic activities and non-observed economy provide a good starting point for the measurement of IFFs. Trade transactions data, held by customs, are essential for analysing the commercial IFFs, including trade misinvoicing. Statistics on international trade in goods and services collate relevant data for estimating commercial IFFs.

Given the transnational nature of the indicator, data available in other countries can support the calculation of national measures.⁹ The following existing data collection systems collect data relevant to IFF from countries globally and can be resources for countries to measure their IFF:

The Annual Reports Questionnaire (ARQ) collect the following data, which allows to understand current scale of drug supply market:

- Annual seizures of drugs in amounts and number of cases
- Trafficking routes (origin, transit and destination countries) and main transportation modes (air, land, sea and mail)
- Range and typical prices of drugs in retail and wholesale levels of supply market
- Range and typical purities of drugs in retail and wholesale levels of supply market
- Illicit cultivation, eradication and production of drug crops
- Illicit manufacture of plant-based or synthetic drug-related end products (clandestine laboratories detected and dismantled)

The global data collection on firearm trafficking collects data on seizures, prices and trafficking routes and it is an essential tool to understanding the dynamics of illegal firearms markets and flows.¹⁰

UNODC collects data on trafficking victims identified in their respective countries using a common questionnaire with a standard set of indicators. UNODC collects official information on detected cases and on origin-destination of trafficking flows.

UNODC, in partnership with CITES also maintains a global database of wildlife seizure incidents. This is mainly based on data submitted by the parties to the Convention on International Trade in Endangered Species of Wild Fauna and Flora¹¹. It provides information on seized quantities by species and origin-destination routes.

Tax authorities typically collect relevant data for assessing the tax gap, part of which consists of IFFs. The indicator builds on existing data, but its exhaustiveness may require extensions to national data collection. Central banks, tax authorities and national statistical offices often have the strongest mandate

⁹ For example, drug price in destination countries can help estimating illicit flows entering the country where the drug is produced.

¹⁰ <https://www.unodc.org/unodc/en/firearms-protocol/index.html>

¹¹ These data were shared with UNODC through International Consortium on Combating Wildlife Crime (ICWC) for more information see: https://www.unodc.org/documents/data-and-analysis/wildlife/WLC16_Chapter_2.pdf

to access necessary data. This may be considered in the division of work for the compilation of different parts of indicator 16.4.1. The country-by-country reporting data of tax authorities may prove useful for the measurement of IFFs in the future.

Collection process:

The official counterparts at the country level assign designated Focal Points that are in charge of coordinating the data collection among different national institutions. The agency in charge may vary across countries depending on the national division of labour. As the coordinator of the national statistics system, the national statistical office is expected to act as the official counterpart for most countries.

If there are major inconsistencies across countries, with other existing data, or in relation to standard classifications and concepts, the custodian agencies will contact the designated Focal Points regarding any need for clarification, correction or additional metadata. Indicators are reviewed prior to global release following the procedures set by the IAEG-SDGs.

Data Availability

Description:

The data collection has not yet started. It is expected that the number of countries for which this indicator is available will gradually start increasing over time. According to inventories, over 60 per cent of countries globally already collect some data that can be used in the estimation of IFFs. However, notably efforts are planned to support countries in building their capacity to measure indicator 16.4.1. Currently, pioneering countries are pilot testing the indicator compilation.

Time series:

Availability of time series would be useful for the analysis of development over time. Feasibility of constructing historical time series data will be reviewed.

Calendar

Data collection:

UNODC and UNCTAD helps member States to build capacity to measure the indicator. More detailed plans will be made based on the outcomes of current consultations and capacity building projects.

Data release:

It is expected that preliminary calculations for the annual indicator at the national, regional and sub-regional levels will be carried out in autumn every year. Considering the wide range of source data needed, the compilers will have to strike a balance between exhaustiveness and timeliness.

Data providers

Data providers include statistical offices, central banks, tax authorities, customs, law enforcement agencies, including police, military, etc. They collect primary data from individuals, businesses, institutions and other statistical units. Focal points at the national level are responsible for compiling the indicator and submitting it.

Data compilers

At the national level, national statistical offices have a coordinating role in the national statistical system, and they are well placed to lead the compilation work and bring the stakeholders together to measure IFFs. National statistical offices may either collate all relevant data to compile the SDG indicator, or coordinate the compilation of different types of IFFs among national authorities to form the overall SDG indicator 16.4.1. UNODC and UNCTAD will collate the indicator data and report it globally.

References

URL:

www.unodc.org

<https://unctad.org/statistics>

<https://dataunodc.un.org/>

<https://unctadstat.unctad.org>

Related indicators

Linkages with related indicators:

Target 16.4.2 refers to the illicit trade in firearms

Target 16.2.2 to trafficking in persons

Target 16.5. to corruption and bribery in all forms

Target 10.7.2 is concerned with migration policies

Target 15.7.1 Proportion of traded wildlife that was poached or illicitly trafficked