

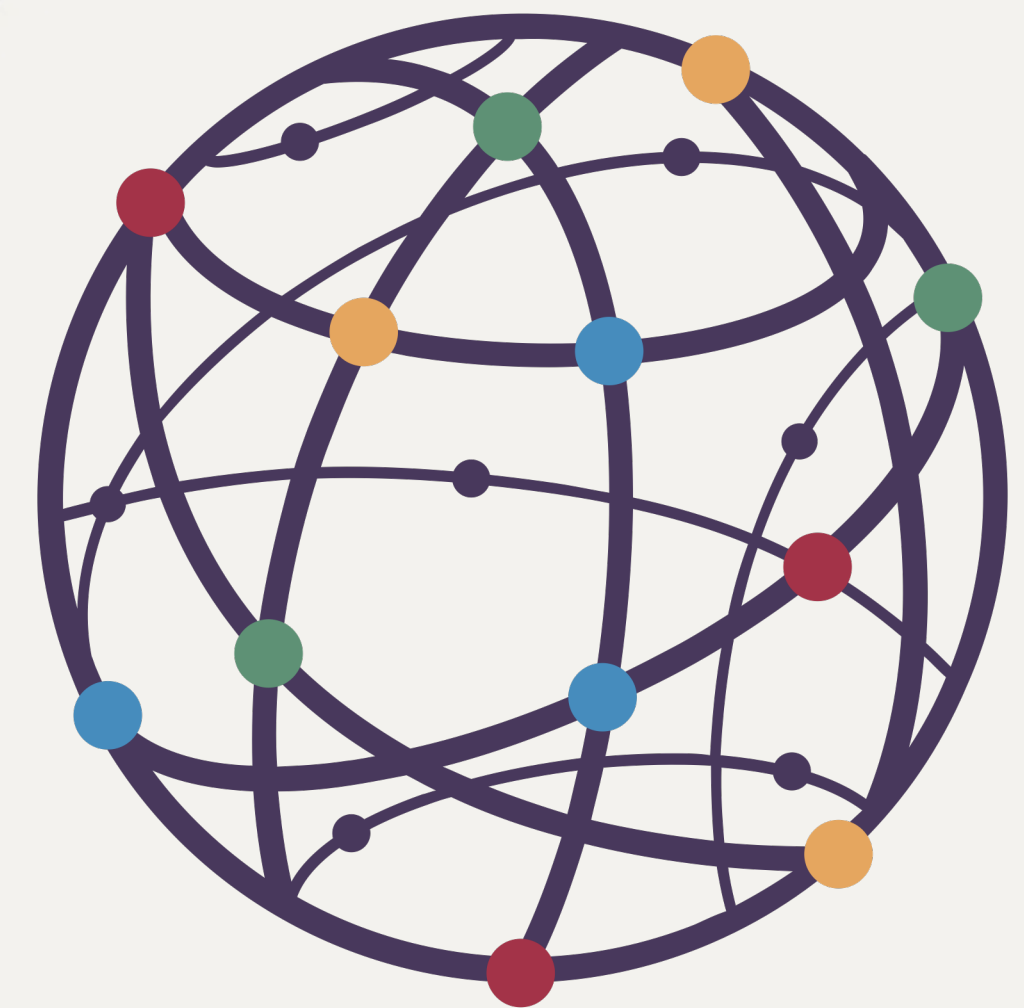
# Illicit financial flows (IFFs) through drug trafficking – impact on development and security

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# A NETWORK TO COUNTER NETWORKS

*Promoting greater debate and innovative approaches as the building blocks to an inclusive global strategy against organized crime.*

**There are a number of challenges in addressing the universal problem of organized crime:**

- *The problem and the impacts of OC are not well analyzed.*
- *Existing multilateral tools are not structured to facilitate a response*
- *Private-Public partnerships are restricted and often confrontational.*



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## Areas of crime:

 **Migrant Smuggling**

 **Mafia-style**

 **Cybercrime**

 **Human Trafficking**

 **Flora**

 **Arms/SALW**

 **IFFs**

 **Fauna**

 **Drug Trafficking**

 **Non-Renewable**

 **Maritime**

 **Counterfeit**

 **Corruption**

SDG target 16.4: UN member states pledged to “significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime, by 2030”

# Defining IFFs

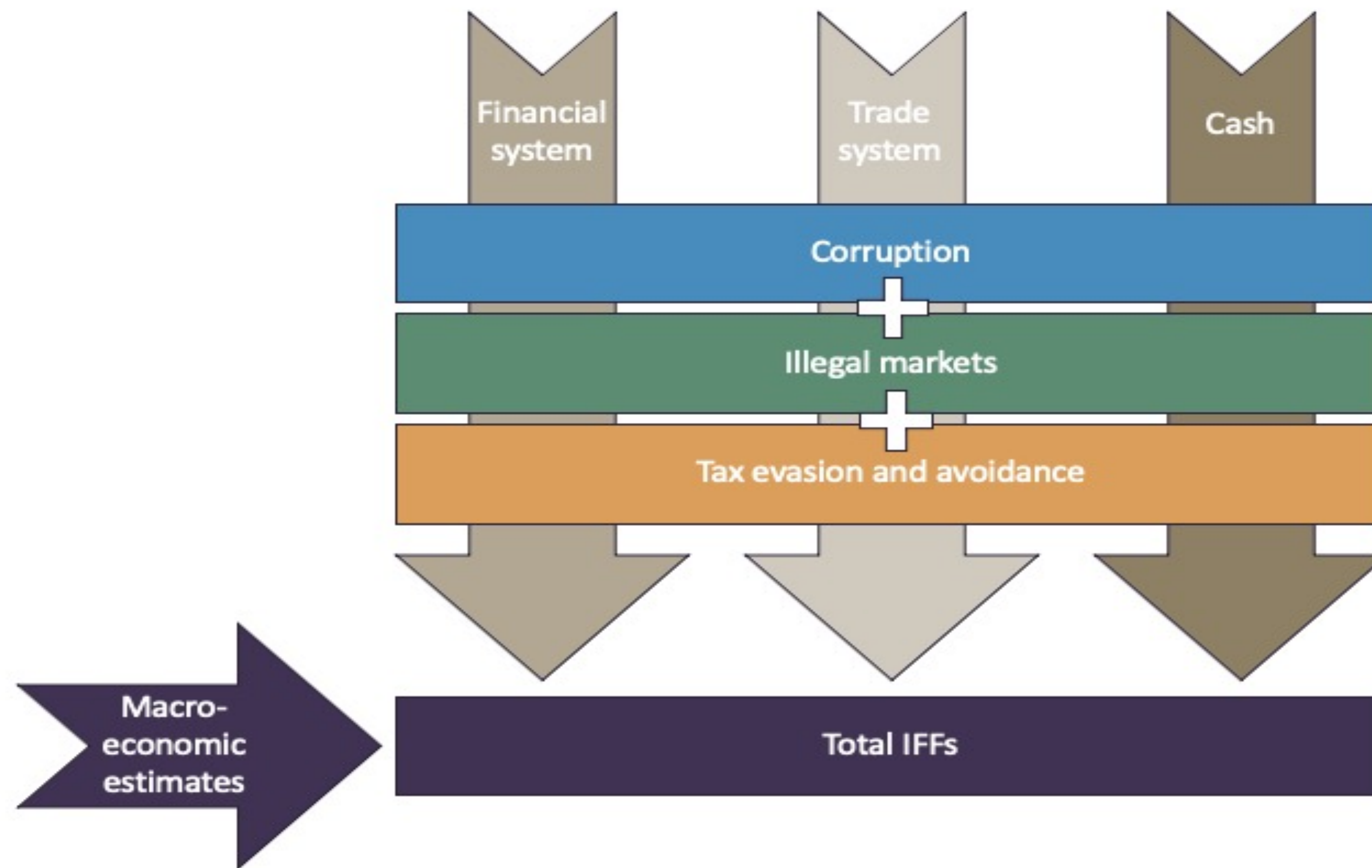
- UN writes: “[IFFs] allow wealthy and exploitative elites and criminal actors to launder the profits of their ill-gotten gains, to evade taxes, use political power for personal gain, [and] conceal the ownership of assets. They thereby undermine efforts to limit wealth inequality, reduce governments’ capacities to support development and inclusive growth goals, and significantly undermine the rule of law.”
- GI: IFFs represent the ‘life blood’ of crime and corruption. They facilitate the dominance of corrupt elites that maintain dominant power structures across geographies. They are perhaps the most significant obstacle to equality, fairness, and opportunity in transitioning economies.
- As this distinguished group well knows, the term IFFs is actually a relatively recent one, promulgated by one single civil society institute, Global Financial Integrity, under their unique analytical framework to the table.
  - Use of trade mispricing estimates created by IMF, concluded a far greater value of legitimate trade was being lost from the developing world than they were receiving in aid.

# Defining IFFs

- Since GFI's first report, the term IFFs has been eagerly adopted as a rallying cry by developing economies, keen to see the international financial centres shoulder their responsibility for resource and value diversion. The term is now firmly embedded in the development lexicon, though without a clear and universally accepted definition.
- Has become a catch-all term for a number of inter-related concepts and debates: tax justice, illicit trade, fraud, money laundering, corruption, and organized crime.
- GFI's metric of trade mispricing estimates IFFs averaged a 4.0% of the developing world's GDP over a twenty-year period. In 2014 alone they estimate US\$620–970 billion was transferred out of developing countries.
- Estimates of global wealth held in tax havens range from 8 to 30 per cent of global GDP.
  - UNODC UNCTAD. *CONCEPTUAL FRAMEWORK FOR THE STATISTICAL MEASUREMENT OF ILLICIT FINANCIAL FLOWS*. Vienna Geneva : UN, October 2020.

# GI Methodology

- GI's consistent methodology is to assess both the underlying crimes of IFFs (tax, illegal markets and extortion, and corruption) and the channels through which they flow (financial system, trade and cash). The key benefit of this dual approach is that it represents two distinct and independent sources of evidence on IFFs.



# GI Methodology

- The most recent UN Conceptual Framework makes less of channel analysis, given its focus on the predicate crimes that make up IFFs.
- Yet the three channels - the financial system, trade system, and cash - represent the mechanisms which allow IFFs' transfer of value.
- We believe they remain an important lens through which to assess and analyse IFFs.
- **Key risk** of this 'dual focus' is that of double counting. IFFs represent a myriad of opportunities for the duplication of reporting on a single illicit financial flow.

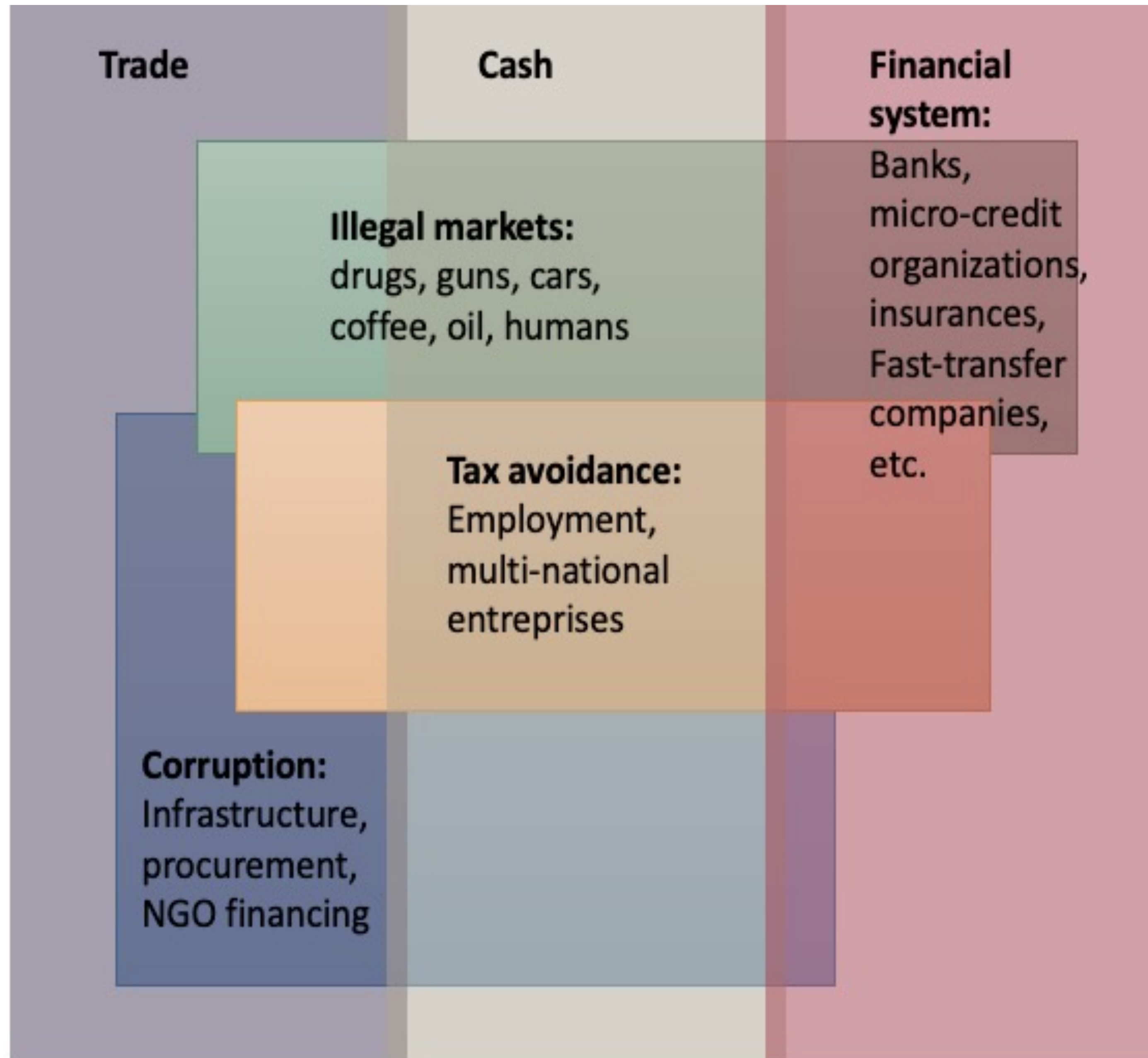
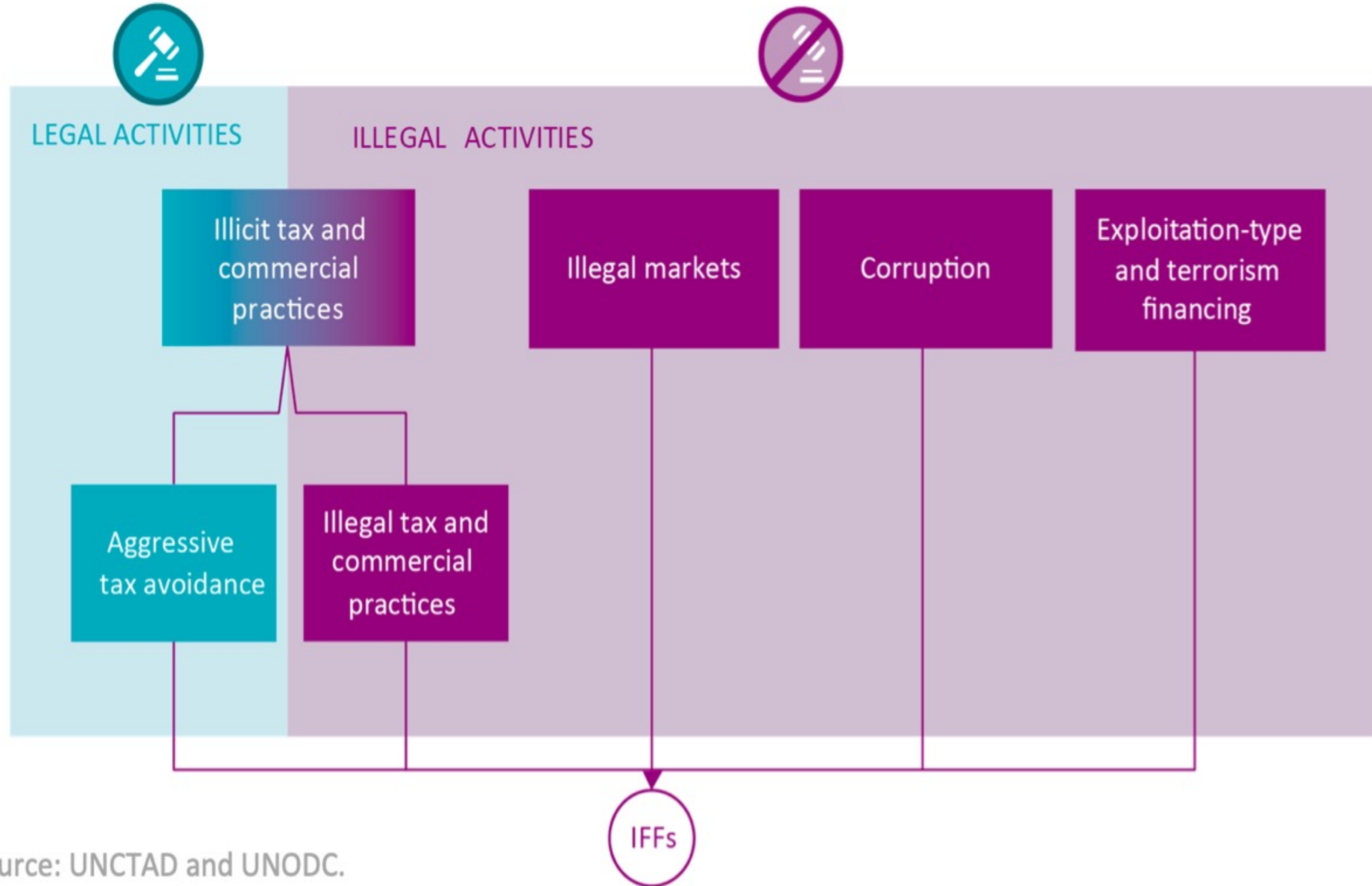




Figure 1: Categories of activities that may generate illicit financial flows



Source: UNCTAD and UNODC.

**Table 1: Examples of activities generating illicit financial flows, by ICCS category**

CATEGORIES OF IFFS	EXAMPLES OF ACTIVITIES BY ICCS CATEGORY
<b>Tax and commercial practices</b>	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
<b>Exploitation-type activities and terrorism financing (parts of sections 02, 04, 09)</b>	020221 Kidnapping 0203 Slavery and exploitation 0204 Trafficking in persons 0302 Sexual exploitation 02051 Extortion 0401 Robbery 0501 Burglary 0502 Theft 09062 Financing of terrorism
<b>Illegal markets</b>	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)
<b>Corruption (section 0703)</b>	07031 Bribery 07032 Embezzlement 07033 Abuse of functions 07034 Trading in influence 07035 Illicit enrichment 07039 Other acts of corruption

Source: UNODC, 2015.

Note: This list is only intended to provide some examples and is not exhaustive.

# IFFs and Drugs – The Western Balkans

## Serbia, Bosnia and Herzegovina and Montenegro

- After the fall of Yugoslavia significant organized crime groups flourished. Serbia acted, and acts, as a ‘Balkan route’ for drugs especially heroin. Human trafficking and migrant smuggling are also reported.
- E.g. Montenegro relies on heavy industry and tourism. The country has seen a significant decrease in criminal offences, but no sign of a reduction in financial offences in an economy which is 20% ‘shadow’.
- The Balkan route, especially for heroin, enters from Turkey on its way to Western Europe. UNODC previously estimated that 60-65 tons of heroin flow through south-eastern Europe each year – worth c. € 960m+ in 2020.
- 1kg heroin is approximately worth twice as much in the Western Balkans as it is in Turkey and it doubles again in value when it is sold in the EU.
- Cannabis is the most commonly used and seized drug. Wholesale prices range from €1,000 in Montenegro, to €1,550 per kilo in Bosnia and Herzegovina, to €1,900 per kilogram in Serbia, depending on quality and availability.

	Bosnia and Herzegovina			Montenegro			Serbia		
Substance	Amount seized	Wholesale value of 1 kg in €	Wholesale value of seizure in 2019	Amount seized	Wholesale value of 1 kg in €	Wholesale value of seizure in 2019	Amount seized	Wholesale value of 1 kg in €	Wholesale value of seizure in 2019
Cannabis	200kg	€1,550	€3,100,000	2290kg	€1,000	€2,290,000	7100kg	€1,900	€13,490 000
Cocaine	2.8 kg	€33,000	€92,400	93.2kg	€35,000	€3,262,000	13.6kg	€40,000	€544,000
Heroin	2.5kg	€1,000	€42,500	23.3kg	€15,000	€349,500	35kg	€19,500	€682 500
Synthetic drugs	92.2kg	€2,000 (for 1,000 ecstasy pills) €3,000 (amphetamines)	€4,000 (ecstasy) €276,000 (amphetamines)	0.27kg	€2,000 (for 1,000 ecstasy pills)	€350	31kg	€2,500 (for 1000 ecstasy pills)	€77,500
<b>TOTAL VALUE OF SEIZURES</b>	<b>€ 3,514.900</b>			<b>€5,910,850</b>			<b>€ 14,794,000</b>		

# IFFs and Drugs – The Western Balkans

## Channels I - Financial Sector:

- extent the legitimate financial system, including related sectors such as real estate, act as a channel for illicit financial flows. This includes, but is not limited to, money laundering – that is the process by which proceeds of crime are entered into the legitimate financial system and disguised of their illegal origin.
  - banks, exchange offices, insurance brokers, investment companies, microcredit institutions and real estate firms are key elements of most forms of money laundering → facilitate the movement of money but also hide the illegal origin of the profits, distance the criminal from the original transgression and inject the funds into the local economy.
  - Money laundering est. 2%-5% of GDP, an equivalent of €402 million-€1 billion in Bosnia and Herzegovina, €110 - €275 million in Montenegro and €1 billion -€2.5 billion in Serbia in 2020 alone.
    - <https://www.unodc.org/unodc/en/money-laundering/overview.html>.

# IFFs and Drugs – The Western Balkans

## Channels II - Trade based money laundering (TBML):

- Financial Action Task Force's (FATF) President - "One criminal network using TBML was able to move €400m over several years".
- FATF defines as the "deliberate movement of illicit proceeds through the exploitation of trade transactions." achieved in four key ways within trade channels:
  - Over or under invoicing value of goods.
  - Over or under invoicing the quantity of goods: e.g. phantom shipments.
  - Multiple invoicing for the same goods.
  - Falsely describing goods, e.g. a low-quality item as an expensive one.
- FATF highlight the following key trade categories as particularly vulnerable to TBML:
  - gold and precious metals; auto parts and vehicles; agricultural products and foodstuffs; clothing and textiles; portable electronics
- One legal adviser has described tracking TBML as "like trying to find a yellow needle in a haystack".

# IFFs and Drugs – The Western Balkans

## Channels III - Cash smuggling

- In Western Balkans: facilitated by the large informal sectors of local economies.
  - ILO: 18.7% of all workers in Serbia and 30% in Bosnia and Herzegovina are informally employed and receive salaries in cash
- Large amounts of cash is simply transferred by driving it across the border.
  - Cash mostly follows the same routes as drugs or migrants (and is facilitated by the same corrupt borders guards) – just in the other direction. It is usually hidden in special compartments of cars, in tour buses or in trucks, hidden among other goods. Cash is also intercepted at seaports and airports although they are less used to smuggle cash, due to higher controls.
  - The most smuggled foreign currency in the Western Balkans is the Euro but also US-dollars, Swiss francs or GB pounds are regularly intercepted. In Montenegro interviewees report the Euro to be the most common seized currency, while interviewees from Bosnia and Herzegovina explained it are Euros and US-dollars.
- The most smuggled foreign currency in the Western Balkans: Euro but also US-dollars, Swiss francs or GB pounds.
- Cash plays an important role in daily transactions - both licit and illicit. While it might lose primacy due to use of the financial system and crypto-currencies, it will remain a key channel to move money.

# THE HEROIN COAST

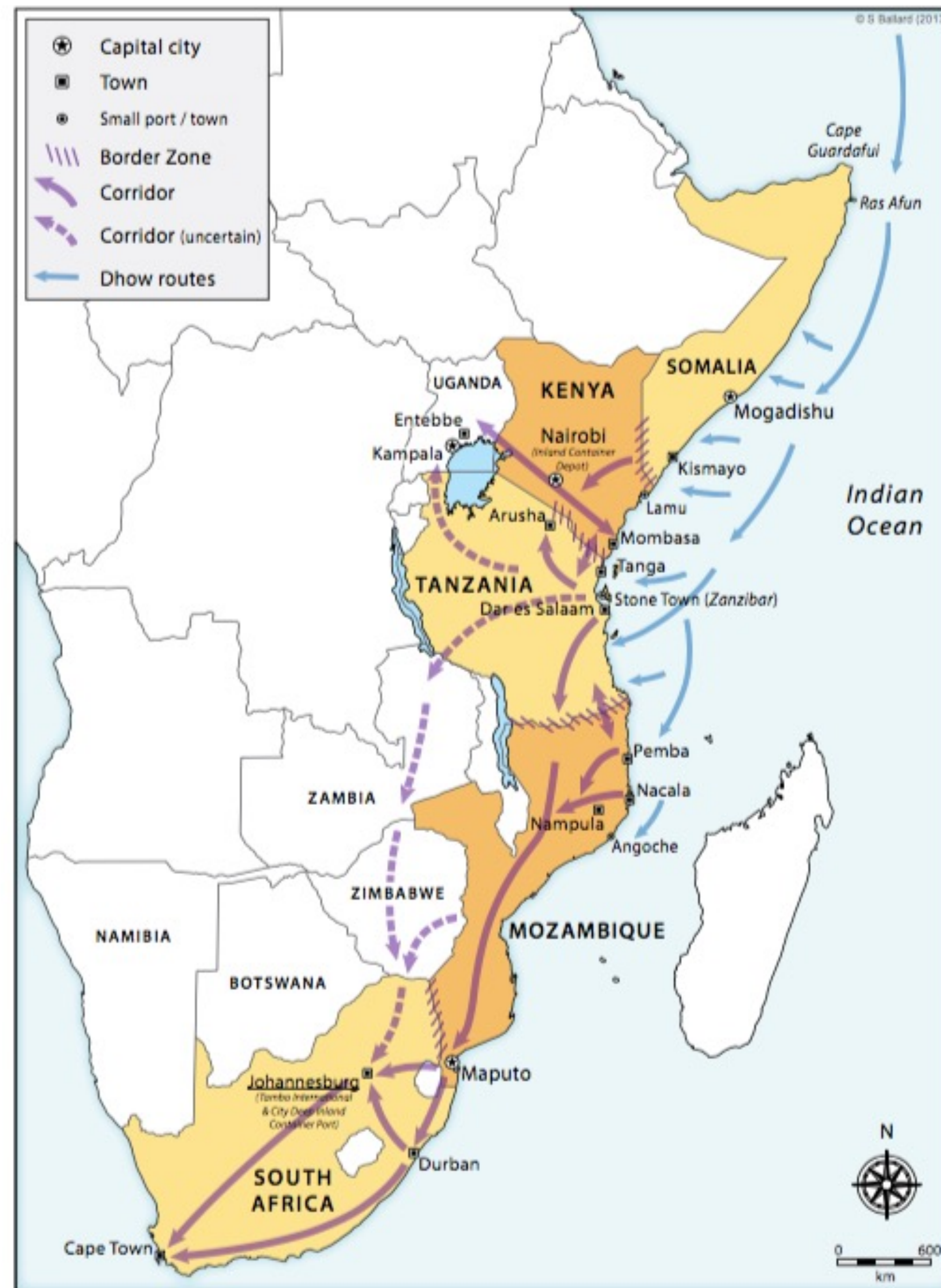
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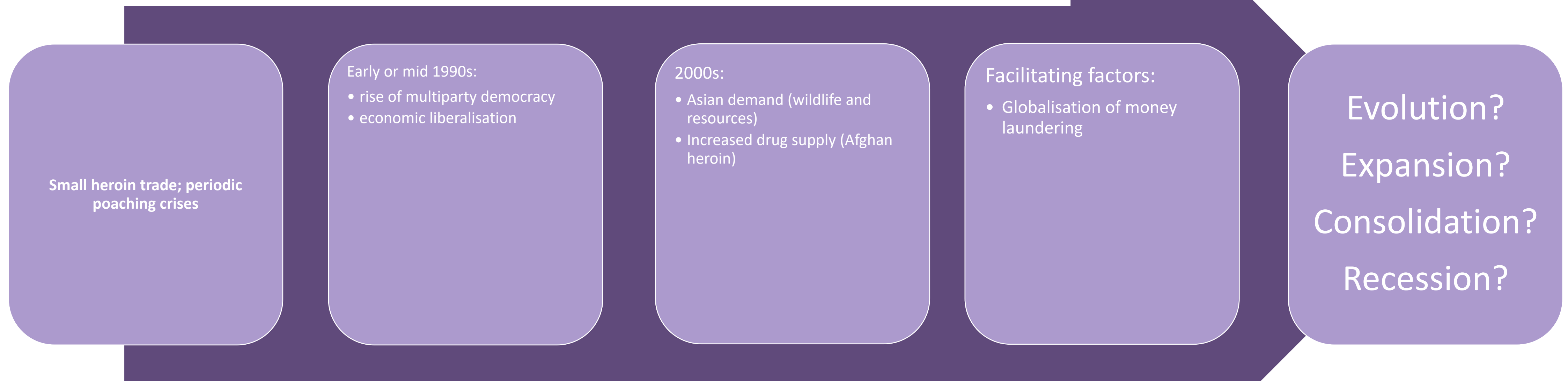


# THE EASTERN AFRICAN COASTAL CRIMINAL ECONOMY

## ECONOMY



# Rise of organised crime on Eastern African seaboard



# Implications

- Equity: WOD for some but not others. Egregious cases of corporate participants getting away with complicity and enabling illicit drugs trade, while zero tolerance for low-level consumers and sellers.
- Addressing IFFs will require a hard look at the way the global financial and trade systems now function. In the past two decades, global financial systems and practices have syphoned off large chunks of wealth and provided places where it can be stored with limited or no transparency.
- It is now almost impossible monitor vast swathes of global trade, or to disentangle the sources of funds in any systematic way.
- We've seen a new set of terms emerge: for example, the term "state capture", that describe cases where business and criminal actors capture key parts of the workings of the state.
- It is broadly understood that the FATF framework, designed three decades ago, has failed to keep pace with the way financial and trade systems have evolved, and is further undermined by an overly bureaucratic approach that cannot calibrate to the nature or level of system vulnerabilities.

# Implications

- The growth tax havens are reducing the sight that we have over trade and financial transactions, the source and ownership of funds.
  - The need for transparent corporate registers and beneficial ownership registers is an absolutely critical foundation without which all other efforts are practically void.
- Rise in crypto-currencies are further obscuring the ability to understand and track global money flows.
- A far more nuanced understanding of the political economy of illicit flows will be required, and to think holistically about the entire illicit finance supply and value chain to identify the most appropriate points of intervention, as well as a prioritisation that is based on harm.
- A holistic supply chain analysis can provide is the opportunity to put end-to-end information together to allow interventions to prevent harm. There have, for example, been very promising efforts to create typologies and indicators of human trafficking using financial transaction data, but this information is not shared, compared and strengthened across industry and enforcement. We can see a similar situation for drug trafficking.

# THANK YOU

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