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## ILLICIT FINANCIAL FLOWS RELATED TO DRUG TRAFFICKING AND THEIR IMPACT ON DEVELOPMENT AND SECURITY

### Defining illicit financial flows

The illicit financial flows generated from drug trafficking are posing a great threat to society through corruption, bribery, organized crime and inequality, and they can lead to political and social instability. They increase the wealth of drug cartels and organized criminal groups, which in turn increases their power and influence. Illicit financial flows also divert resources and tax revenues away from initiatives needed to reduce poverty and promote social and economic development.

The term illicit financial flows covers money derived from illegal acts, such as drug trafficking, corruption or tax evasion or funds used for illegal purposes, such as financing crime or terrorism.

A united effort by States is necessary to curtail illicit financial flows since they cross international borders, making it difficult to trace these funds back to their origins and hold owners accountable. It is estimated that millions of dollars are lost annually, particularly from developing countries, to organized criminal groups.

### Drug trafficking, financial flows and the cost to society

Drug trafficking is one of the most lucrative businesses for organized criminal groups due to the increasing use of drugs around the globe. According to the United Nations Office on Drugs and Crime (UNODC) World Drug Report 2021, some 275 million people around the world used drugs in 2019 – a 22 per cent increase from 2010. Cannabis is still the most widely used drug with an estimated 200 million users globally. Further, deaths from opioid use disorders have increased by 41 per cent globally over the same period.

The cost to society resulting from drug use and global drug trafficking is high for many countries. Data show that countries with high levels of drug trafficking, cultivation, distribution and consumption also exhibit high levels of instability, violence, violent crime and homicides. To counter the negative effects and human cost, it is essential to address all stages of drug trafficking – from cultivation and production to transportation, distribution and sale.

In addition to limiting the illicit supply of drugs, it is important to minimize the profits that drug traffickers derive from illicit financial flows. Some important elements in the fight against organized crime and drug trafficking are financial transparency internationally, strong anti-money laundering laws and cooperation between Governments to detect illicit financial flows.

### Impact of illicit financial flows on developing countries

The stability and security of many countries as well as their political, economic and social development is threatened by the illicit financial flows from drug trafficking. The illicit outflow of capital is particularly harmful for developing nations, which have a great need for funds to promote economic growth, reduce poverty and inequality, and address the climate crisis. This loss of money



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represents hundreds of millions of dollars collectively in foregone tax revenues, which could have been used to fund public initiatives and government programmes.

Further tipping the scales, illicit financial flows from developing countries often end up in banks based in developed nations. The Pandora Papers in 2021, the FinCEN Files in 2020, the Paradise Papers in 2017 and the Panama Papers in 2016 all revealed how illicit gains were distorting and undermining the international financial system and diverted funds away from development.

In particular, the Pandora Papers of 2021 brought corporate transparency to the forefront by revealing information on offshore mechanisms used by politicians, high-ranking officials and more than 130 billionaires from 45 countries to hide financial information. Opaque corporate structures and the anonymity of account holders pose significant obstacles to investigating and prosecuting crime and exposing illicit financial flows.

## Impact on the achievement of the Sustainable Development Goals

Billions of dollars are estimated to be leaving developing countries illicitly every year. This drains public resources and undermines efforts to mobilize funds to meet the Sustainable Development Goals (SDGs) by 2030. Indeed, significantly reducing illicit financial flows is part of one of the targets (16.4) of the SDGs.

Corruption related to drug trafficking enables illicit financial flows through bribery and the diversion of legitimate resources. This in turn weakens good governance, encumbers economic development, and worsens inequality, poverty and the environmental crisis.

In Africa, the cost of illicit financial flows is especially high and has a detrimental impact on the development of many States. An estimated 88.6 billion US dollars, accounting for roughly 3.7 per cent of the continent's gross domestic product, is lost to illicit financial flows every year. That is nearly the same as the combined annual inflows of official development assistance and foreign direct investment. Addressing illicit financial flows needs to be a priority for Governments to possess the funds and resources needed to implement the Sustainable Development Goals and to address the health, social and economic impacts of the COVID-19 pandemic.

## Impact of new technologies on illicit financial flows

Globalization has advanced and facilitated the movement of money and capital. The international transfer of funds has become easier and faster due to new technologies, such as digital currencies, mobile payments and e-wallet services. However, they have also anonymized users and processes and created new avenues for illicit financial flows. Organized criminal groups have exploited these technologies to launder money and maximize profits.

New technologies represent a new frontier for organized criminal groups battling for control of criminal markets for drugs, arms and people, but also for authorities trying to detect and trace criminal activities. As more and more financial services use advanced information and communications technologies worldwide, so too grows the threat of illicit financial flows.



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To aid Governments in combating illicit financial flows related to drug trafficking, INCB has held a number of global stakeholder consultations. Further, INCB has raised awareness among Governments and their private-sector partners in the financial services industry through its Global Rapid Interdiction of Dangerous Substances (GRIDS) Programme about the potential generation of illicit financial flows through the manufacture and trade of dangerous substances. The Programme also encourages and supports voluntary cooperation efforts between Governments and financial services providers.

## Recommendations

Collective action by Member States is needed since illicit financial flows cross international borders. To assist countries in combating illicit financial flows, INCB has put forward a set of recommendations. Member States should:

- Establish specialized task forces at the national and international levels to share intelligence, investigate illicit financial flows and identify organized criminal networks
- Adopt more effective transparency laws that provide for appropriate penalties
- Further strengthen anti-money laundering measures
- Focus equally on drug supply- and demand-reduction strategies that also address illicit financial flows
- Promote a culture of accountability and transparency to curb corruption and the illicit economy by including civic and moral values in education curricula from an early stage
- Work with private, non-governmental sectors and public leaders to raise awareness of the relationship between illicit financial flows and drug trafficking and their negative impact on stability and development
- Become parties to and implement all United Nations conventions related to countering transnational organized crime, particularly trafficking in drugs, illicit financial flows and corruption
- Implement the provisions of the International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation of the Financial Action Task Force
- Take steps to prevent the exploitation of newly emerging financial services and products, such as e-wallet and digital currencies, for trafficking in dangerous substances