

# Chapter I.

## Illicit financial flows related to drug trafficking and their impact on development and security

### Introduction

1. Illicit financial flows related to drug trafficking threaten the political, economic and social development and security of countries around the world. INCB has examined this issue before: its annual report for 1995 contained a chapter entitled “Giving more priority to combating money-laundering”. Drug trafficking is one of the most lucrative activities of organized criminal groups. It not only has detrimental health implications for drug users but also fuels violence, insecurity, instability and corruption in nations in which the cultivation, production, manufacture, transportation, distribution and consumption of drugs occur. Drug trafficking is just one of the illicit activities engaged in by organized criminal groups. They are also involved in trafficking in persons, trafficking in arms, illegal mining, money-laundering and corruption, all of which are accompanied by high levels of violence; organized criminal groups thus pose a serious threat to the security and prosperity of citizens worldwide. The illicit financial flows through which organized criminal groups seek to maximize their profits serve as the lifeblood of all aspects of trafficking; curbing them is therefore essential to addressing drug trafficking around the world. Meanwhile, globalization has fostered more movement of capital, financial innovations and new technology, such as mobile payments and digital currencies, which have magnified the threat from illicit financial flows and transnational organized crime.

2. According to the *UNODC World Drug Report 2021*, some 275 million people used drugs in 2019, representing a 22 per cent increase from 2010, and drug use was observed to have increased more rapidly in developing countries. Cannabis was the most widely consumed drug,

with an estimated 200 million users globally in 2019. Over the period 2010–2019, deaths attributable to opioid use disorders increased by 41 per cent. In 2020, drug overdose deaths in the United States of America rose by 29.4 per cent compared with the year before, to an estimated 93,331, including 69,710 involving opioids, with illicitly manufactured fentanyl and synthetic opioids as the primary drivers of this increase. Drug trafficking relies on the dynamic between supply and demand: to combat the scourge of such trafficking, nations must focus equally on reducing both supply and demand through comprehensive strategies and policies that engage the public and private sectors and civil society.

3. Restricting supply makes drugs scarcer, more expensive and less socially tolerated. To this end, all stages of drug trafficking (cultivation, production, manufacture, transportation, distribution, sales and income repatriation) must be addressed. Efforts to reduce supply must be undertaken at the local, national and international levels by leveraging diplomatic, military, intelligence and law enforcement capacity to interdict drug shipments, identify criminal networks and bring traffickers to justice. Alternative development programmes such as crop substitution for the illicit cultivation of plant-based drugs should be adopted. Balanced solutions to drug demand and supply must be rooted in evidence and shared responsibility, as illicit drug challenges have become increasingly complex and the COVID-19 crisis and related economic downturn threaten to worsen the impact on the poor, marginalized and vulnerable most of all.

4. Corruption, in particular through bribery and the diversion of legitimate resources, is both an enabler and a product of illicit financial flows related to drug trafficking

and the broader illicit economy. Organized criminal groups capitalize on corruption to promote and achieve their agendas. Corruption is a crime in and of itself but it also erodes trust, weakens governance, encumbers economic development and further worsens inequality, poverty, social division and the environmental crisis. As a result, corruption and illicit financial flows must be identified and thwarted around the world.

## Defining illicit financial flows and money-laundering

5. Illicit financial flows are a critical enabler of drug trafficking from which organized criminal groups derive wealth and power. Illicit financial flows are defined as money illegally earned, transferred or used that crosses international borders and exhibits the following characteristics: (a) the acts themselves are illegal (e.g. corruption, tax evasion); (b) the funds result from illegal acts (e.g. trafficking in drugs, persons, minerals or wildlife); and/or (c) the funds are used for illegal purposes (e.g. financing of organized crime or terrorism). The concept of illicit financial flows has evolved in the international development community as a construct to unite a variety of complex issues. While initially associated with capital flight in the 1990s, illicit financial flows now encompass activities that divert public funds and tax revenues from poverty-reducing programmes and infrastructure in developing countries; accordingly, they are receiving growing attention as a key development challenge.<sup>1</sup>

6. Money-laundering, which is the process of disguising the proceeds of crime and integrating them into the legitimate financial system, enables illicit financial flows. According to the relevant provisions of the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988 and the United Nations Convention against Transnational Organized Crime, money-laundering may encompass three distinct acts: (a) conversion or transfer, knowing that such property is the proceeds of crime; (b) concealment or disguise of the true nature, source, location, disposition, movement or ownership of or rights with respect to property, knowing that such property is the proceeds of crime; and (c) acquisition, possession or use of property, knowing, at the time of the receipt, that such property is the proceeds of crime. Money-laundering involves three stages: (a) placement (the initial entry of illicit money into the financial system); (b) layering (the process of

separating the funds from their source, often using anonymous shell companies); and (c) integration (the money is returned to the criminal from a legitimate-looking source, such as real estate).

7. Illicit financial flows came under greater scrutiny with the disclosures of the Panama Papers in 2016, the Paradise Papers in 2017, the FinCEN Files in 2020 and the Pandora Papers in 2021. Those papers revealed how illicit gains were distorting and undermining the international financial system and diverting funds away from development. Illicit financial flows, whether from tax evasion or criminal activities, result in a loss of resources that are often desperately needed to fund public initiatives and critical investments. Collectively, for developing countries, this often represents hundreds of millions of dollars in lost or foregone tax revenues that could have otherwise been collected and used for promoting sustainable economic growth, creating jobs, reducing inequality and poverty and addressing climate change. Following the publication of the Pandora Papers, which revealed information regarding the offshore mechanisms used by politicians, high-ranking officials and more than 130 billionaires from 45 countries to shield their assets, increasing corporate transparency is being acknowledged as a requisite for improving financial integrity. Opaque corporate structures are a significant obstacle to investigating and prosecuting crime and corporate transparency provides a mechanism for exposing illicit financial flows. A number of jurisdictions are still perceived as tax havens; however, forthcoming regulatory changes at the national level, as discussed later in the chapter, should contribute to addressing the anonymity that facilitates illicit financial flows.<sup>2</sup>

8. Billions of dollars are estimated to be leaving developing countries illicitly every year; this drain of public funds undermines the efforts of countries to mobilize more domestic resources in order to meet the internationally agreed Sustainable Development Goals by the target date of 2030.

9. In the 2030 Agenda for Sustainable Development, the reduction of illicit financial flows was identified as a priority area to build peaceful societies around the world. Target 16.4 of the Sustainable Development Goals is to significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime. UNODC and UNCTAD are co-custodians of indicator 16.4.1, on the

<sup>1</sup>World Bank, "Illicit financial flows (IFFs)", 7 July 2017; and International Monetary Fund, Factsheet, "The IMF and the fight against illicit and tax avoidance related financial flows", 8 March 2021.

<sup>2</sup>Elizabeth G. Silver and Catherine A. Johnson, "Anti-corruption hot topic: corporate transparency emerges as cornerstone of financial integrity regulatory reforms", Vedder Price, 28 October 2021.

total value of inward and outward illicit financial flows, and are charged with developing a measurement framework that guides countries in quantifying that indicator.

10. Under the measurement framework, the monetary measure of illicit financial flows would include international transfers of illicitly earned capital, (originally) legal capital transferred internationally for illicit purposes and (originally) legal capital transferred illicitly. Illicit financial flows are divided into the following two categories: (a) income generation, which includes illicit financial flows connected to illicit markets and their functioning and to the transnational supply and demand of illicit goods and services; and (b) income management, which involves illicit financial flows to manage income generated from illicit activities and is linked to the consumption and investment patterns of illicit actors.

11. Illicit financial flows originate mainly in the four following areas:

(a) Illicit tax and commercial practices (aggressive tax avoidance, illegal tax and commercial practices);

(b) Illegal markets (trafficking in drugs, arms or wildlife, illegal mining, smuggling of migrants, smuggling of goods);

(c) Corruption (bribery, embezzlement, abuse of functions, trading in influence, illicit enrichment);

(d) Crime (kidnapping, slavery and exploitation, trafficking in persons, sexual exploitation, extortion, robbery, burglary, theft, financing of terrorism).

## Illicit financial flows and money-laundering mechanisms

12. For organized criminal groups, income generation is a key objective: financing serves as the oxygen for criminal networks and they derive power from their wealth and use it to corrupt and co-opt rivals, facilitators and/or government and security officials. Financing is indispensable to support and sustain the command and control, personnel, arms, communications, logistics and operations of organized criminal groups. For this reason, following the money trail and disrupting illicit financial flows can disable these groups.

13. Illicit financial flows rely on various money-laundering mechanisms to move and hide money, as highlighted in boxes 1, 2, 3 and 4 below. Through such mechanisms, criminals try to disguise the proceeds,

sources or nature of their illicit activities. Mechanisms used for money-laundering include the banking system, cash couriers, bulk cash smuggling, money-service providers, alternative remittance systems (e.g. hawala), stores of value, trade-based money-laundering, mobile or Internet payments, cryptocurrencies, non-profit organizations, real estate and front companies.<sup>3</sup>

### Box 1. FinCEN Files

Traditional banks continue to be favoured mechanisms for laundering money. For example, in 2012, HSBC admitted to laundering \$881 million of drug proceeds for the Mexican Sinaloa cartel between Mexico and the United States of America. Prosecutors declined to seek an indictment of the bank, but instead allowed HSBC to pay a \$1.92 billion settlement and be subject to five years of probation, during which its efforts to prevent money-laundering would be monitored by a court-appointed watchdog. Following this disclosure, a 16-month investigation by the International Consortium of Investigative Journalists, BuzzFeed News and 108 other media partners resulted in the release of the FinCEN Files. These files, which explored the activities of mainstream financial institutions, showed that, despite purported compliance and anti-money-laundering regimes charged with safeguarding financial systems, banks continued to provide services to alleged criminals, Ponzi schemers, shell companies tied to looted government funds and financial go-betweens for drug traffickers. This highlights the continuing problem of the largest financial institutions being complicit in the movement and laundering of illicit financial flows.

14. Almost 60 per cent of criminal networks active in the European Union are reportedly engaged in corruption and nearly 40 per cent are active in drug trafficking, as the production of and trafficking in drugs remain the largest criminal business in the European Union. Criminals make and launder billions of euros annually, and the scale and complexity of money-laundering activities in the European Union have previously been underestimated. Professional money-launderers have established a parallel underground financial system and use any means to infiltrate and undermine Europe's economies and societies. More than 80 per cent of the criminal networks active in the European Union use legal business structures for their criminal activities. Moreover, almost all criminal activities now feature a cyber component, and many crimes have fully migrated online. Criminals exploit encrypted communications to network among each other and use social media and instant messaging services to reach a larger audience to advertise illegal goods.<sup>4</sup>

<sup>3</sup>Celina B. Realuyo, "Leveraging financial intelligence to counter transnational threat networks in the Americas", *Diálogo Digital Military Magazine*, 3 April 2019.

<sup>4</sup>Europol, *Serious and Organised Crime Threat Assessment 2021: A Corrupting Influence—The Infiltration and Undermining of Europe's Economy and Society by Organised Crime* (Luxembourg, Publications Office of the European Union, 2021).

### Box 2. “Straw men”

The Mexican cartels are among the richest and most powerful organized criminal groups in the world. They engage in trafficking in drugs and smuggling of migrants and resort to different methods to move and launder their money. While they continue to practise cross-border bulk cash smuggling, the cartels have also turned to shell companies to launder millions of dollars through an intricate scheme that involves national and international financial transactions.

Criminals use “straw men” to create entities, including real estate companies, jewellery stores and consulting services, as part of a money-laundering network that also involves homemakers, students and bank employees.

In 2014, the Mexican Financial Intelligence Unit found four companies that had sent and received resources to hide the origin and destination of those resources. All of the companies had made transactions that did not match their tax returns. The four companies had been created on the same day in 2012 and had the same address and the same legal representative, who turned out to be a “straw man”.

After launching an investigation into a more complex money-laundering scheme, the Unit found that the four shell companies had received and transferred 3,523.2 million Mexican pesos in less than two years. Those companies were linked to another three companies that were being investigated for working for the Sinaloa Cartel.<sup>a</sup>

<sup>a</sup>Zorayda Gallegos, “Mexican drug cartels used these shell companies to launder money”, *El Universal* (Mexico City), 6 June 2020.

15. Illicit networks, including criminal and terrorist groups, use a type of informal banking or alternative remittance system, known as hawala, to move their assets because of the system’s non-transparent and liquid nature. Hawala is a centuries-old broker system based on trust. It is used throughout South Asia and the Arab world and also in parts of Africa, Europe and the Americas. It is used by many different cultures, but under different names: “hawala” is often used as a catch-all term for such systems in discussions of financing of terrorism and money-laundering. Hawala allows customers and brokers (known as hawaladars) to transfer money or value without physically moving it, often in areas of the world where banks and other formal institutions have little or no presence or to countries with weak financial regulations. Hawaladars arrange for the transfer and receipt of funds or items of equivalent value and settle the transactions by means of trade, cash and net settlement over a long period of time. Three major types of hawaladars and other similar service providers that operate across the globe are categorized as follows: (a) traditional (legitimate) hawaladars and other similar service providers; (b) hybrid traditional (sometimes unwittingly complicit) hawaladars; and (c) criminal (complicit) hawaladars.<sup>5</sup> It has been reported that the

<sup>5</sup>Financial Action Task Force, *The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing* (Paris, 2013).

perpetrators of the Mumbai terrorist attack of November 2008 relied on hawala transactions to fund their operations.<sup>6</sup> In Afghanistan, the spread of the opiate drug trade has been facilitated by the traditional hawala system. Its informality has been key to the deepening and widening of the country’s informal economy and the laundering of drug money, to the extent that, at certain times of year in certain districts, 100 per cent of hawala liquidity is drug-related. From the early 2000s, drug money was finding its way into the legitimate economy by boosting aggregate demand for non-durable and durable consumer goods, real estate and building construction.<sup>7</sup>

16. Cyberspace and cryptocurrencies are emerging as a new frontier for organized criminal groups battling for control of the vast criminal markets for drugs, arms, sex and persons. To track the use of bitcoin and other cryptocurrencies designed to anonymize users, the Government of Mexico instituted a new law in 2018 that requires all registered cryptocurrency trading platforms to report transfers above 56,000 Mexican pesos (\$2,830). The use of bitcoin to launder money is increasing, in particular among drug gangs such as the Jalisco New Generation Cartel and the Sinaloa Cartel, according to authorities in Mexico and the United States. Mexican cartels are believed to launder an estimated \$25 billion a year in Mexico alone. To remain under the threshold for banking transactions that raise red flags, which is \$7,500, criminals typically split their illicit cash into small amounts and deposit them into various bank accounts, a technique known as “smurfing”. They then use those accounts to buy a series of small amounts of bitcoin online, obscuring the origin of the money and allowing them to pay associates elsewhere in the world. According to the Drug Enforcement Administration of the United States, both Mexican and Colombian organized criminal groups are increasing their use of virtual currency because of the anonymity and speed of transactions.<sup>8</sup>

17. Free trade zones and gaming enterprises continue to be used in trade-based money-laundering to launder illicit funds. Trade-based systems act as a parallel method of transferring money and value around the world. As systems such as hawala and the black market peso exchange and the use of commodities such as gold and diamonds are not covered by many financial reporting

<sup>6</sup>Animesh Roul, “Lashkar-e-Taiba’s financial network targets India from the Gulf States”, *Terrorism Monitor*, vol. 7, No. 19 (July 2009).

<sup>7</sup>Christopher Ward and William Byrd, *Afghanistan’s Opium Drug Economy*, South Asia Poverty Reduction and Economic Management Working Paper Series, No. SASPR-5 (Washington, D.C., World Bank, 2004).

<sup>8</sup>Diego Oré, “Latin American crime cartels turn to cryptocurrencies for money laundering”, *Reuters*, 8 December 2020.

requirements, they pose tremendous challenges for law enforcement entities. These systems are often based simply on the alteration of shipping documents or invoices, and thus frequently go undetected unless law enforcement entities in different jurisdictions work together to share information and compare documentation. The United Arab Emirates now requires hawaladars and informal money-transfer service providers to formally register with its central bank. The growing network of trade transparency units, which work to combat this method of money-laundering, has revealed the extent of transnational trade-based money-laundering through the monitoring of import and export documentation. These units focus on detecting anomalies in trade data – such as deliberate overinvoicing and underinvoicing – that can be a powerful indicator of trade-based money-laundering.

### Box 3. The Vancouver model

Casinos and real estate are used for money-laundering. One method involving them is known as the Vancouver model. The process begins in China, where currency controls prevent citizens from taking more than \$50,000 out of the country.

To avoid that restriction, wealthy Chinese citizens enter into arrangements with domestic criminal syndicates with links to Vancouver, British Columbia, Canada. The citizens transfer money to criminal-controlled bank accounts in China before travelling to Vancouver, where the criminals' associates provide them with their funds in Canadian dollars. Those dollars may be profits from the sale of precursor chemicals or fentanyl.

The money is then laundered through casino gambling. The Chinese citizens visit casinos in Vancouver, exchange their money for casino chips and make a series of low-value bets before exchanging the chips back into Canadian dollars, now "clean" of their illegitimate criminal origin. The proceeds are invested either back into the acquisition of fentanyl supplies by the criminal gangs or into real estate in British Columbia by the Chinese citizens themselves, who are able to avoid the scrutiny of Chinese regulators and Chinese taxes by doing so.

The influx of foreign citizens buying property in Vancouver with laundered money has had an impact on the city, causing housing prices to rise to levels unaffordable for most local residents.<sup>a,b</sup>

<sup>a</sup>Comply Advantage, "Money laundering: the Vancouver model", 7 January 2020; and Sam Cooper, "How Chinese gangs are laundering drug money through Vancouver real estate", Global News, 19 April 2018.

<sup>b</sup>Peter M. German, *Turning the Tide: An Independent Review of Money Laundering in B.C. Real Estate, Luxury Vehicle Sales and Horse Racing*, Dirty Money Report, part 2 (March 2019).

18. Illicit financial flows derived from drug trafficking not only finance crime but also support terrorism. Terrorist groups are increasingly reliant on crime to fund their organizations; this is referred to as the convergence of terrorism and crime. Drug trafficking is a highly lucrative activity generating billions of dollars in profit that

terrorist organizations can easily tap into. The ties between international terrorist organizations and drug trafficking vary greatly from organization to organization. In Colombia, FARC-EP sustained itself through cocaine trafficking for decades. The objective of the group was to overthrow the established order in Colombia and replace it with a socialist dictatorship. In its attempts to destabilize the Government of Colombia, FARC-EP carried out bombings, extortions, selective assassinations, kidnappings and armed confrontations with Colombian police and military forces. However, drug trafficking profits were its principal source of funding.<sup>9</sup>

19. Historically, Afghanistan has been a major source of heroin globally. UNODC has indicated that at least 85 per cent of the world's heroin is sourced from Afghanistan. The Taliban's association with the opium economy also indicates a correlation between drug trafficking and terrorism. Between 2000 and 2015, when the Taliban were profiting from drug trafficking and assuming greater control over the regions in Afghanistan where opium poppy was cultivated, they were also responsible for 73 per cent of all terrorism-related deaths in Afghanistan and approximately 13 per cent of all terrorism-related deaths worldwide.<sup>10</sup> As the Taliban sought to expand and consolidate control over the illicit production and manufacture of and trafficking in drugs, the relative costs of heroin and methamphetamine made the latter an attractive diversification, methamphetamine being even more profitable than heroin. The Taliban are said to have earned about \$3 billion annually trafficking opium and heroin. The evolving methamphetamine markets could make drug trafficking in Afghanistan even more lucrative.

## Global estimates of the scale and nature of illicit financial flows

20. Measuring the size and scale of illicit financial flows related to drug trafficking is a formidable challenge, since estimates of illicit financial flows from drug trafficking are extrapolated from data on crop cultivation, precursor chemical purchases, the potential for illegal drug production, drug seizures by law enforcement entities, wholesale and retail sales estimates and consumption rates, among others. It is difficult to accurately measure inbound and outbound illicit financial flows in relation to a specific country.

<sup>9</sup>Steven C. McCraw, Assistant Director, Office of Intelligence, Federal Bureau of Investigation, testimony before the Senate Judiciary Committee, Washington, D.C., 20 May 2003.

<sup>10</sup>UNODC, Education for Justice University Module Series, Organized crime/counter-terrorism, Module 16: Linkages between organized crime and terrorism, "Terrorism and drug trafficking: key facts".

21. In a 2011 report based on a meta-analysis of existing estimates, the United Nations considered that the amount available for laundering through the financial system was equivalent to 2.7 per cent (2.1–4.0 per cent) of global GDP, or \$1.6 trillion, in 2009. If only flows related to drug trafficking and other transnational organized criminal activities were considered, the related proceeds would have been equivalent to about \$650 billion per year in the first decade of the new millennium, equivalent to 1.5 per cent of global GDP, or \$870 billion, in 2009. Drugs accounted for some 20 per cent (17–25 per cent) of all crime proceeds, about half of transnational organized crime proceeds and 0.6–0.9 per cent of global GDP. The measurement method consisted of: (a) calculating the financial gains arising from transnational criminal activities at the various subregional levels; (b) estimating the amounts – arising from transnational criminal activities in the various subregions – that enter the financial system; and (c) estimating the amounts that cross borders for money-laundering purposes, reflecting the actual transnational illicit financial flows from the proceeds of transnational crime.<sup>11</sup>

22. In 2014, it was estimated that the global drug trafficking market was worth between \$426 billion and \$652 billion. This represents about one third of the total revenue of transnational crime, estimated to range between \$1.6 trillion and \$2.2 trillion per year.<sup>12</sup>

23. In the United States, spending on cannabis, cocaine, heroin and methamphetamine reached nearly \$150 billion in 2016, with a large proportion of spending coming from the small share of people who use drugs on a daily or near-daily basis. Researchers estimated that, between 2006 and 2016, the total amount of money spent on those four drugs fluctuated between \$120 billion and \$145 billion each year. By comparison, spending on alcohol in the United States was estimated to be \$158 billion in 2017.<sup>13</sup>

24. The size of the illegal opiate economy of Afghanistan is significant when compared with the size of its licit economy. The country is the world's leading producer of illicit opiates and is the source of more than 80 per cent of global illicit opium production. Despite falling by two thirds, from \$4.1 billion–\$6.6 billion in 2017 to

\$1.2 billion–\$2.2 billion in 2018, the illicit gross output of the Afghan opiate economy still accounted for 6–11 per cent of the country's GDP and exceeded the value of its officially recorded licit exports of goods and services.<sup>14</sup>

## Illicit financial flows and corruption

25. Factors contributing to illicit financial flows and corruption include weak political will, ineffective institutions and deficient anti-money-laundering mechanisms. One action that Governments are taking to address the problem is asset recovery. To that end, consistent enforcement is required to support legislative and institutional reforms for addressing and preventing corruption. For example, in 2020, Kyrgyzstan passed an anti-corruption strategy for the period 2021–2024, which includes plans to improve the repatriation of stolen assets, and the Government of Mozambique adopted a new asset recovery bill as well as unique account numbers for individuals to use in banks nationwide. Also in 2020, Afghanistan issued regulations implementing asset forfeiture for corruption cases in the country's first such asset-recovery regulation and, in October of that year, officials in Afghanistan announced that they had prevented the illegal transfer of \$1.6 million over the preceding four months.<sup>15</sup>

### Box 4. *Lava Jato* (“Car wash”) investigation

The *Lava Jato* (“Car wash”) investigation into corruption and money-laundering in Brazil began in 2014 and is perhaps the best-known case of grand corruption in the context of large, government-controlled companies and public works projects. What began as a money-laundering investigation unearthed corruption at the highest levels of the Government of Brazil and at companies, including State-owned firms, that had offered bribes in exchange for contracts in Brazil and abroad. According to the public prosecutor's office, by October 2018, the investigation had resulted in more than 200 convictions for crimes including corruption, abuse of the international financial system, drug trafficking and money-laundering. More than a dozen other corporations and multiple foreign leaders were also implicated. The investigation resulted in the return of about \$800 million to Brazil and sparked offshoot investigations around the world.<sup>a</sup>

<sup>a</sup>Amelia Cheatham, “Lava Jato: see how far Brazil's corruption probe reached”, Council on Foreign Relations, 19 April 2021.

<sup>11</sup>UNODC, *Estimating Illicit Financial Flows Resulting from Drug Trafficking and Other Transnational Organized Crimes*, Research report (Vienna, 2011).

<sup>12</sup>Channing May and Christine Clough, *Transnational Crime and the Developing World* (Washington, D.C., Global Financial Integrity, 2017).

<sup>13</sup>Gregory Midgette and others, *What America's Users Spend on Illegal Drugs, 2006–2016* (Santa Monica, California, RAND Corporation, 2017).

26. The main organized criminal activities in the European Union include cybercrime and trafficking in

<sup>14</sup>*Report of the International Narcotics Control Board for 2020* (E/INCB/2020/1), para. 342.

<sup>15</sup>United States, Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report*, vol. I, Drug and Chemical Control (March 2021).

drugs. The key characteristics of organized crime in the European Union include corruption, the infiltration and exploitation of legal business structures for all types of criminal activity and the existence of a parallel underground financial system that allows criminals to move and invest their profits. The expansion and evolution of serious and organized crime in the European Union and the potential long-term implications of the COVID-19 pandemic, which may create ideal conditions for crime to thrive in the future, are of concern. Criminal networks are seeking to exploit the unprecedented crisis faced by the European Union as a result of the pandemic by targeting citizens, businesses and public institutions alike. Organized criminal groups are professional and highly adaptable, as shown during the pandemic, and 70 per cent are active in more than three countries.<sup>16</sup>

27. INCB welcomes the launch of a series of studies on illicit financial flows and asset recovery by the United Nations Interregional Crime and Justice Research Institute.<sup>17</sup> These studies, covering Armenia, Azerbaijan, Georgia, Libya, the Republic of Moldova, Tunisia and Ukraine, highlight key actions to be taken to address illicit financial flows, including sectors within the countries that should be prioritized for financial capture and types of crime that should be targeted. The need for effective and efficient seizure and confiscation of assets linked to corruption and organized crime is highlighted.

## Impact of illicit financial flows on the achievement of the Sustainable Development Goals

28. Illicit financial flows contribute to crime, corruption and distortions in the economy and represent a major disabler to sustainable development. They can have a direct impact on a country's ability to raise, retain and mobilize its own resources to finance sustainable development. A large number of Security Council resolutions contain references to forms of crime, and the Council has mandated a response to criminal flows and markets. Organized crime is increasingly undermining peace, security and development.

29. International commitments to curb trafficking in drugs and urgently address illicit financial flows have accelerated in recent years. The 1988 Convention expands upon the Single Convention on Narcotic Drugs of 1961

as amended by the 1972 Protocol and the Convention on Psychotropic Substances of 1971 in this regard. Article 3 of the 1988 Convention, on offences and sanctions, specifies that each party is to adopt such measures as may be necessary to establish as criminal offences under its domestic law, when committed intentionally, the production, manufacture, extraction, preparation, offering, offering for sale, distribution, sale, delivery on any terms whatsoever, brokerage, dispatch, dispatch in transit, transport, importation or exportation of any narcotic drug or any psychotropic substance. Article 5, on confiscation, addresses the proceeds from such offences and states that each party is to adopt such measures as may be necessary to enable confiscation of: (a) proceeds derived from offences established in accordance with article 3, paragraph 1, or property the value of which corresponds to that of such proceeds; and (b) narcotic drugs and psychotropic substances, materials and equipment or other instrumentalities used in or intended for use in any manner in offences established in accordance with article 3, paragraph 1. Also under article 5, each party is to adopt such measures as may be necessary to enable its competent authorities to identify, trace and freeze or seize proceeds, property, instrumentalities or any other things referred to in paragraph 1 of the same article, for the purpose of eventual confiscation. Bringing criminals, drug traffickers and their financiers to justice and forfeiting their assets are important objectives of the 1988 Convention, which serves as a framework for national laws around the world.

30. The Addis Ababa Action Agenda of the Third International Conference on Financing for Development provides a global financing framework to mobilize and deliver the resources, technology and partnerships needed for sustainable development. In it, Member States urge all countries to ratify and accede to the United Nations Convention against Corruption. They express support for the Stolen Asset Recovery (StAR) Initiative, undertake to combat money-laundering and the financing of terrorism and commit to ensuring effective implementation of the Organized Crime Convention. Similarly, the targets under Sustainable Development Goals 16 and 17 include promoting the rule of law at the national and international levels and ensuring equal access to justice for all; significantly reducing illicit financial and arms flows by 2030; substantially reducing corruption and bribery in all their forms; developing effective, accountable and transparent institutions at all levels; strengthening domestic resource mobilization, including through international support to developing countries; enhancing global macroeconomic stability; enhancing policy coherence for sustainable development; and respecting each other's policy space and leadership to establish and implement policies for poverty eradication and sustainable development.

<sup>16</sup>Europol, *Serious and Organised Crime Threat Assessment 2021*.

<sup>17</sup>Available at [www.unicri.it/publications](http://www.unicri.it/publications).

31. Illicit financial flows have a detrimental impact on development, especially in Africa. They cost African States \$88.6 billion per year; this is roughly equivalent to 3.7 per cent of the continent's GDP.<sup>18</sup> Curbing these illicit financial flows will enable African States to mobilize greater domestic resources. African countries, therefore, should prioritize addressing illicit financial flows to reclaim financial resources that will be essential to implement the Sustainable Development Goals moving forward and to address the health, social and economic impacts of the COVID-19 pandemic. In Africa, it is estimated that the post-pandemic recovery will cost over \$150 billion, in addition to an annual financial gap of \$200 billion to achieve the Sustainable Development Goals.<sup>19</sup> Illicit financial flows and corruption undermine foreign direct investment and aid and threaten the continent's development. The outflows are nearly the same as the combined total annual inflows of official development assistance to Africa (\$48 billion) and foreign direct investment (\$54 billion).<sup>20</sup> Illicit financial flows are thus draining away vital revenues from Africa, undermining stability and hindering progress towards achieving the Goals. They have negative implications for security, development and prosperity and therefore require more action to curb them and preserve economic resources for constructive purposes.

32. Developing countries are particularly vulnerable to illicit financial flows, which pose a huge challenge to political and economic security. Public priorities cannot be realized because of corruption, organized crime, illegal exploitation of natural resources, fraud in international trade and tax evasion. Strong international cooperation and concerted action by developed and developing countries, in partnership with the private sector and civil society, are therefore required.<sup>21</sup> Illicit financial flows are also symptomatic of other issues, such as vested interests and weak transparency and accountability, that constrain poverty reduction and shared prosperity.

## Impact of illicit financial flows on security and development

33. Illicit financial flows related to drug trafficking have a significant impact on security and economic

<sup>18</sup>UNCTAD, *Tackling Illicit Financial Flows for Sustainable Development in Africa: Economic Development in Africa – Report 2020* (United Nations publication, 2020).

<sup>19</sup>Gilles Carbonnier, "Curbing illicit financial flows to pay for sustainable development and COVID-19 recovery", *Georgetown University Journal of International Affairs*, 2 March 2021.

<sup>20</sup>UNCTAD, *Tackling Illicit Financial Flows for Sustainable Development in Africa*.

<sup>21</sup>World Bank, "Illicit financial flows (IFFs)".

development because of the related violence and instability. While it is difficult to isolate and measure violence and instability directly related to trafficking in drugs, it is known that drug trafficking, as well as other crimes such as trafficking in persons and arms, engender violence because organized criminal groups use violence or the threat of violence to control their areas of operation and dominate rivals. Countries that suffer from high levels of crime and violence must devote significant resources to maintaining law and order and protecting their populations.

34. According to the Institute for Economics and Peace, in 2020, the world became less peaceful for the ninth time in the past 13 years, with the average level of country peacefulness deteriorating by 0.07 per cent over the year. The economic impact of violence to the global economy increased by 0.2 per cent in 2020, to \$14.96 trillion in purchasing power parity terms, equivalent to 11.6 per cent of global economic activity, or \$1,942 per person.<sup>22</sup> The Global Peace Index, used to make those calculations, assesses the state of peace across three domains: (a) societal safety and security; (b) ongoing domestic and international conflict; and (c) degree of militarization. Direct costs encompassed by the index include immediate consequences of violence such as medical costs for victims of violent crime, capital destruction from violence and costs associated with security and judicial systems. Indirect costs include longer-term costs such as decreased productivity resulting from physical and psychological effects and the impact on the societal perception of safety and security.

35. The composition of the economic cost of violence varies across countries and regions. For example, the economic cost of homicide, violent crime and suicide represents the highest proportion in Central America and the Caribbean and sub-Saharan Africa, at 41 and 35 per cent, respectively. The cost of armed conflict as a proportion of the economic cost of violence is highest in sub-Saharan Africa, at 18 per cent, South America, at 13 per cent, and Central America and the Caribbean, at 12 per cent. In the 10 countries with the highest economic cost of violence, the average economic impact was equivalent to 36 per cent of GDP. In comparison, in the countries least affected by violence, the average economic cost was just under 4 per cent of GDP. The largest relative or proportional economic cost of violence was incurred in the Syrian Arab Republic, South Sudan, Afghanistan and the Central African Republic (82, 42, 40 and 37 per cent of GDP, respectively). Another measure is provided by the

<sup>22</sup>Institute for Economics and Peace, *Global Peace Index 2021: Measuring Peace in a Complex World* (Sydney, June 2021).

Lloyd's Register Foundation World Risk Poll, which reflects perceptions of risk and violence in 145 countries. The poll identified that violence was specified as the biggest risk to daily safety in nearly one third of countries, and was the second most-cited risk globally, after road accidents. Globally, over 60 per cent of people are at least somewhat worried about being seriously harmed as a result of violent crime.<sup>23</sup>

36. For decades, Colombia has experienced high levels of violence and citizen insecurity owing to internal armed conflict and narco-insurgency. Colombian organized criminal groups, such as drug trafficking mafias and paramilitary groups, are well armed and dangerous. The country suffers not only from a civil conflict but also from high levels of crime, forced displacement, kidnapping, illicit mining and drug trafficking. The economic impact of conflict, terrorism, homicides and sexual assaults in Colombia was over \$275 billion, 34 per cent of the country's GDP, in 2017. This figure also takes into account the costs of containing violence as well as the consequences of violence on the economy. Colombia was ranked 10th (out of 11 countries) in South America and 144th overall on the 2021 Global Peace Index. The country recorded a deterioration in its overall score as a result of increases in violent demonstrations and political terror. Deaths from internal conflict have also increased in recent years.<sup>24</sup>

37. To bring peace to his country, the President of Colombia, Juan Manuel Santos, brokered a peace accord with FARC-EP, for which he won the Nobel Peace Prize in 2016. He instituted the Borders for Prosperity Plan to fight poverty and combat violence from illegal armed groups along the borders of Colombia through social and economic development, through which as much as \$32 million was spent on infrastructure, education, agricultural development and governance by 2014.<sup>25</sup> Colombia and many other countries are spending a large percentage of valuable resources on containing and preventing violence and promoting security and economic development. The less money that countries need to spend on responding to homicides, violent crimes and armed conflict, the more money they have for health, business, education and infrastructure.

38. The illicit economy in the Bolivarian Republic of Venezuela is directly affecting the security and development of the country and it is estimated that 90 per cent

of the country's population now live in poverty.<sup>26</sup> This crisis is, in part, fuelled by global cocaine production reaching record levels, with the Bolivarian Republic of Venezuela becoming an increasingly important strategic point for international cocaine trafficking.

39. The civil war in the Syrian Arab Republic has had detrimental effects on security and development, and trafficking in cannabis resin and the ATS sold as "captagon" has become increasingly important to the illicit economy in the country. While "captagon", for which Lebanon and the Syrian Arab Republic are reported as being source countries, was previously reported to be trafficked mainly to Middle Eastern markets, "captagon" tablets were seized in Austria, Italy and Malaysia in 2020 and 2021, potentially indicating new markets and trafficking routes. A large seizure made in Malaysia in March 2021 of "captagon" tablets containing amphetamine concealed in shipping containers arriving from the Middle East was estimated to have a value of \$1.26 billion.

40. Libya is a fragile State experiencing high levels of violence, criminality and corruption owing to its prevalent illicit economy. From the late 1990s, Libya had been a transit zone and small market for drugs in North Africa. The 2011 uprising upended the controlled disorder of that economy and made trafficking and smuggling more decentralized, significantly increasing the flow of illicit drugs and leading to a proliferation of local drug markets. Drug trafficking overlaps and intertwines with almost all other flows in the country's complex illicit economy, and drug trafficking and consumption fuel and feed off violence. While the international community has been focused primarily on the smuggling of migrants and fuel, drug trafficking has remained hugely profitable and is a top-tier element of the criminal economy of Libya. Blocks of cannabis resin from Morocco, transiting Libya to Egypt and onward to Europe through the Balkans, are the steadiest traffic in Libya. In addition, cocaine from South America headed to Europe and "ecstasy" and ATS are trafficked through the country. Moreover, trafficking in pharmaceutical drugs, especially tramadol, a potentially habit-forming opioid painkiller that is not under international control, has grown significantly. Overlaps between trafficking in drugs and smuggling of migrants flows are evident. Pharmaceutical drugs and small consignments of cannabis are often packed alongside migrants in cars and trucks. Migrants also occasionally traffic small amounts of cocaine or other drugs to pay for their journey.<sup>27</sup>

<sup>23</sup>Ibid.

<sup>24</sup>Ibid.

<sup>25</sup>Colombia, Ministry of Foreign Affairs, "Borders for Prosperity Plan". Available at [www.cancilleria.gov.co/node/1294](http://www.cancilleria.gov.co/node/1294).

<sup>26</sup>Brooke Fowler, "Top 10 facts about poverty in Venezuela", Borgen Project, 7 September 2018.

<sup>27</sup>Fiona Mangan, "Illicit drug trafficking and use in Libya: highs and lows", *Peaceworks*, No. 161 (Washington, D.C., United States Institute of Peace, 2020).

41. With respect to security, trafficking in weapons is omnipresent and influences all other illicit flows in and through Libya, and the injection of arms has transformed smuggling and trafficking in the country. Trafficking, smuggling and drug use have had a particularly detrimental impact on the judicial and security sector in Libya. The significant financial flows obtained through trafficking and smuggling have empowered militia groups and diminished reform efforts and strategies for addressing related criminal dynamics. Once revolutionary armed groups became integrated into the State security architecture, brigades across the country's towns and cities jockeyed for control over key security functions and trafficking routes. Increased drug-related crime and insecurity have been reported by police, militia security providers, prosecutors and judges. In addition, the continuing security vacuum and widespread weapons ownership have contributed to an upsurge in criminality and violence in the country.<sup>28</sup>

## National responses to addressing illicit financial flows

42. Over the past two decades, countries have recognized the threat posed by illicit financial flows to their security and economic development and have taken action to improve their legal frameworks to combat money-laundering and the financing of terrorism. After the terrorist attacks in New York on 11 September 2001, nations enhanced their regimes to combat money-laundering and the financing of terrorism. Increased oversight and regulation of the formal banking system has required close partnership with the private sector to safeguard the international financial system. Nations have built significant capacity in their financial intelligence units and law enforcement agencies to detect and investigate suspicious transactions to counter money-laundering, financing of terrorism and other illicit financial flows. Similarly, judicial systems have devoted more resources to training prosecutors and judges regarding financial crimes that involve illicit financial flows. However, as money-laundering, tax evasion and corruption evolve, countries must adapt and respond to new manifestations of those flows.

43. For example, the United Kingdom of Great Britain and Northern Ireland created the National Economic Crime Centre, which brings together law enforcement and justice agencies, government departments, regulatory bodies and the private sector with the shared objective of addressing serious organized economic crime, protecting

the public and safeguarding the prosperity and reputation of the country as a financial centre. The UK Financial Intelligence Unit is responsible for receiving, analysing and disseminating financial intelligence gathered from suspicious activity reports, which are a critical intelligence resource for tackling money-laundering, terrorism, serious and organized crime, corruption and fraud. The Joint Financial Analysis Centre, hosted by the National Crime Agency, brings together officers, analytical capability, skills and intelligence from the National Crime Agency, Her Majesty's Revenue and Customs, the Financial Conduct Authority and the Serious Fraud Office. It was initially established in response to the Panama Papers leak; however, it has developed into a collaborative unit for wider financial analysis.<sup>29</sup>

44. Morocco has made progress in combating transnational organized crime and money-laundering in recent years. The country's geographical location as a gateway between Europe and Africa makes it a conduit for smuggling, trafficking in drugs and in persons, money-laundering and clandestine migration. A new law combats trafficking in persons and money-laundering by broadly defining trafficking to include anyone who gives or receives payments or benefits related to trafficking and imposing heavy sentences on offenders. Trafficking in Moroccan-produced cannabis (especially cannabis resin) and, increasingly, trafficking in cocaine from Latin America to Europe via Morocco, generate significant illicit profits. Real estate, jewellery and vehicles are purchased to launder the proceeds of such drug trafficking. Money-transfer services present a vulnerability owing to the volume of funds remitted. Annual remittance transfers rose to \$6.7 billion in 2019, accounting for 5.6 per cent of GDP. The majority of transfers originate in Europe.<sup>30</sup>

45. Morocco has been strengthening its anti-money-laundering regime through coordination and capacity-building. The country has key laws and regulations in place, including compliance programmes and suspicious transaction report procedures, and in 2019 brought its politically exposed persons requirements into line with international standards. In 2019, Morocco adopted a national risk assessment and institutionalized a national committee to coordinate the country's anti-money-

<sup>29</sup>United Kingdom, National Crime Agency, Money laundering and illicit finance, "The threat from money laundering". Available at [www.nationalcrimeagency.gov.uk](http://www.nationalcrimeagency.gov.uk).

<sup>30</sup>United States, Department of State, Bureau for International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report*, vol. II, *Money Laundering* (March 2021); and Middle East and North Africa Financial Action Task Force, *Anti-Money Laundering and Counter-Terrorist Financing Measures: Kingdom of Morocco – Mutual Evaluation Report* (Manama, 2019).

<sup>28</sup>Ibid.

laundering strategy. Morocco has also increased the number of law enforcement assets dedicated to money-laundering investigations, resulting in an increase in criminal cases involving money-laundering, from 30 in 2019 to 193 in 2020. There were only 8 convictions for money-laundering in the 10 years leading up to 2018, compared with 62 in 2019 and 2020, combined. Morocco continues to work closely with international partners and the Government has implemented applicable multilateral agreements and voluntarily initiated exchanges with private-sector partners to address key vulnerabilities.<sup>31</sup>

46. Anonymous shell companies concealing beneficial ownership have been critical enablers of illicit financial flows, money-laundering and tax evasion around the world. In 2020, the United States Congress passed the Corporate Transparency Act. The Act requires all United States businesses to file beneficial ownership information with the Financial Crimes Enforcement Network and is designed to counter the use of anonymous shell companies by drug traffickers, organized criminal groups, corrupt officials and some regimes to launder money, evade sanctions and hide and move corrupt proceeds and other illicit assets. It represents the first significant update to the country's anti-money-laundering laws in 20 years and requires the establishment of new federal beneficial ownership reporting requirements for certain entities, including foreign entities that operate in the United States, and the maintenance by the Financial Crimes Enforcement Network of a federal database for the beneficial ownership information collected.<sup>32</sup> The legislation will also help to regulate international business companies, which can be purchased over the Internet and provide anonymity to owners.<sup>33</sup>

47. Other measures taken in 2020 with a view to increasing transparency and combating illicit financial flows include the following: (a) in the Bahamas, the Attorney General's Office and the Financial Intelligence Unit implemented a secure search system for accessing online information on the beneficial ownership of legal entities registered in the country; (b) Belize enacted legislation to give effect to tax transparency obligations; (c) the names of subscribers, registered offices, year-end share capital and the nature of business of companies in

the Cayman Islands must be made publicly available; (d) all corporate and other legal entities in the Netherlands are required to list their ultimate beneficial owners in a transparent register; and (e) the United Arab Emirates Council of Ministers issued a resolution requiring declaration of beneficial ownership, shareholder disclosure and timely updating of ownership information.<sup>34</sup>

48. Beneficial ownership registers have been developed to provide competent authorities with reliable information on the ultimate beneficial owners of companies or trusts. The concept is, however, proving difficult to implement, with few results being achieved. The majority of existing beneficial ownership registers are either mostly or completely ineffective at providing reliable information to the competent authorities on the ultimate beneficial owners of companies or trusts incorporated in the jurisdiction.<sup>35</sup>

## International efforts against illicit financial flows

49. There are both treaties and international bodies aimed at curbing international financial flows. For example, the Financial Action Task Force serves as the global money-laundering and financing of terrorism watchdog. It is an intergovernmental body that sets international standards aimed at preventing those illegal activities and the harm they cause to society. It was created by the leaders of the Group of Seven countries in 1989 in order to address the threat posed by money-laundering to the international financial system. It developed the International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation to ensure a coordinated global response to prevent organized crime, corruption and terrorism. The Financial Action Task Force reviews money-laundering and financing of terrorism techniques in order to address new risks, such as virtual assets, which have spread as cryptocurrencies have gained in popularity. Its work is complemented by regional bodies, which serve as regional centres for matters related to countering money-laundering and the financing of terrorism. Their primary purpose is to promote the implementation of comprehensive regimes to counter money-laundering and the financing of terrorism and implement the International Standards in their member jurisdictions.

<sup>31</sup>United States, Department of State, Bureau for International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report*, vol. II.

<sup>32</sup>Lewis Ziropiannis and others, "What you need to know about the Corporate Transparency Act", *The National Law Review*, vol. XI, No. 12 (January 2021).

<sup>33</sup>United States, Department of State, Bureau for International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report*, vol. II.

<sup>34</sup>Ibid.

<sup>35</sup>Basel Institute on Governance, "Beneficial ownership transparency is a pillar of anti-money laundering systems – so it needs to stand up. Insights from the Basel AML Index 2021", 20 September 2021.

50. The Egmont Group of Financial Intelligence Units is the international standard-setter for financial intelligence units, which are central national agencies responsible for receiving, requesting, analysing and/or disseminating disclosures of financial information to the competent authorities, primarily concerning suspected proceeds of crime and potential financing of terrorism. Their mandates come from national legislation or regulation and they are usually located in a country's central bank or ministry of finance. The Egmont Group was created with the goal of serving as a centre to overcome the obstacles preventing cross-border information-sharing between financial intelligence units.

51. The key United Nations instruments that establish legal obligations in the field of illicit financial flows are as follows:

(a) United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988, which includes provisions on money-laundering and international cooperation, in particular, article 3, paragraph 1 (b);

(b) United Nations Convention against Transnational Organized Crime, which requires parties to criminalize money-laundering and includes frameworks for extradition, mutual legal assistance and law enforcement cooperation;

(c) International Convention for the Suppression of the Financing of Terrorism, which requires States to criminalize the financing of terrorism and adopt powers to freeze and seize funds intended for terrorist activities;

(d) United Nations Convention against Corruption, which requires parties to take measures to prevent and criminalize corruption and provide international cooperation, including in asset recovery in relation to corruption cases.

52. As new financial services that make use of advanced information and communications technologies grow quickly worldwide, the threat of illicit financial flows continues to grow exponentially, compromising the integrity of financial system information and impeding the ability of financial institutions to monitor and assess the risk of processing online transactions related to trafficking in potentially dangerous substances. Through various measures, including the convening of global stakeholder

consultations, the INCB GRIDS Programme has raised awareness among Governments and their private-sector partners in the financial service industry about the potential generation of illicit financial flows through the manufacture of and trade in dangerous substances (mainly non-medical synthetic opioids, NPS and related precursors). The Programme has also encouraged and supported voluntary cooperation efforts between Governments and financial-service providers, such as money- or value-transfer service providers, including hawala and similar service providers and virtual asset service providers, all of which are concerned about their services potentially being exploited by those trafficking in dangerous substances. Furthermore, the Programme provides timely assistance to support investigations by government authorities, at their request. Through these actions, the GRIDS Programme facilitates the implementation by Governments of their commitments contained in the outcome document of the thirtieth special session of the General Assembly, entitled "Our joint commitment to effectively addressing and countering the world drug problem".

## Challenges for the international community and recommendations to address illicit financial flows related to drug trafficking

53. Illicit financial flows related to crimes such as drug trafficking undermine the global financial system and threaten political, economic and social stability and security around the world. Illicit financial flows also promote bribery and corruption, finance insurgency and, in some cases, terrorist activities. They also destabilize and deter legitimate enterprise, foreign investment and development. Money-launderers and terrorist financiers exploit loopholes in and differences among national systems for countering money-laundering and the financing of terrorism and move their funds to or through jurisdictions with weaker or ineffective legal and institutional frameworks. Therefore, the international community must work together to reduce illicit financial flows by detecting, monitoring, seizing, repatriating and preventing them. Those engaged in illicit financial flows contribute to crime, violence, instability, corruption and inequality. Since illicit financial flows know no borders or nationality, all countries must do their part to address them.

54. In order to curb illicit financial flows related to drug trafficking and prevent their impact on development and security, the Board recommends that all Governments:

(a) Improve methods to identify, measure and calculate inbound and outbound illicit financial flows and identify the illicit activities to which they are related;

(b) Focus equally on drug supply- and demand-reduction strategies that also address illicit financial flows and engage the public and private sectors and civil society in countering drug trafficking and illicit financial flows;

(c) Become parties to and implement all United Nations conventions related to countering transnational organized crime, in particular trafficking in drugs, illicit financial flows and corruption, and implement all the provisions of article 3, paragraph 1 (b), of the 1988 Convention, as well as those of the International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation of the Financial Action Task Force;

(d) Further strengthen anti-money-laundering measures, such as beneficial ownership laws, across nations so that advantage cannot be taken of regulatory weaknesses in some jurisdictions to avoid the detection of and sanctions for illicit financial flows;

(e) Continue to conduct financial sector assessments, provide technical assistance to the financial and non-financial sectors and monitor economic systems to ensure compliance with the International Standards on

Combating Money Laundering and the Financing of Terrorism and Proliferation;

(f) Establish specialized units or task forces at the national and international levels to share intelligence and investigate illicit financial flows, identify and seize assets and detect, dismantle and deter organized criminal networks involved in illicit financial flows;

(g) Raise awareness by working with the private and non-governmental sectors to educate government leaders and the public about how illicit financial flows related to drug trafficking have a negative impact on political, economic and social stability and development around the world, including by exploring the potential for utilizing proceeds of asset recovery and forfeiture of property related to drug trafficking to expand the availability of drug prevention, treatment and rehabilitation services;

(h) Take steps to prevent the possible exploitation of newly emerging financial services and products, such as e-wallet services and cryptocurrencies, for trafficking in dangerous substances;

(i) Combat impunity through more effective transparency laws that provide for appropriate penalties for individuals and entities involved in corruption and illicit financial flows;

(j) Promote a culture of accountability and transparency to curb corruption and the illicit economy by including civic and moral values in educational curricula from an early stage.