

Measuring illicit financial flows from commercial and tax-related practices

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Source: United Nations

The questions

- ▶ Many motivations, a few ways to estimate them
- ▶ What is the scale of illicit financial flows?
- ▶ What are the best ways to measure or estimate them?

The structure

1. Trade
2. Capital and wealth
3. Profit

Trade and money laundering

Uncontained

Trade is the weakest link in the fight against dirty money



Source: The Economist

Trade

- ▶ Mispriced or misquantified trade (in goods)
- ▶ Either between related or unrelated business partners
- ▶ Pioneering and research frontier estimates

Trade - pioneering

- ▶ Country- and product-level (aggregate) data
- ▶ IMF's Direction of Trade Statistics, UN's Comtrade
- ▶ Excellent country coverage
- ▶ Trade mirror statistics and abnormal prices
- ▶ Combined with capital: Global Financial Integrity and Ndikumana and Boyce
- ▶ Abnormal prices - Pak and Zdanowicz
- ▶ Criticism of methodology, assumptions
- ▶ Pioneering studies highlight the importance

Trade - research frontier

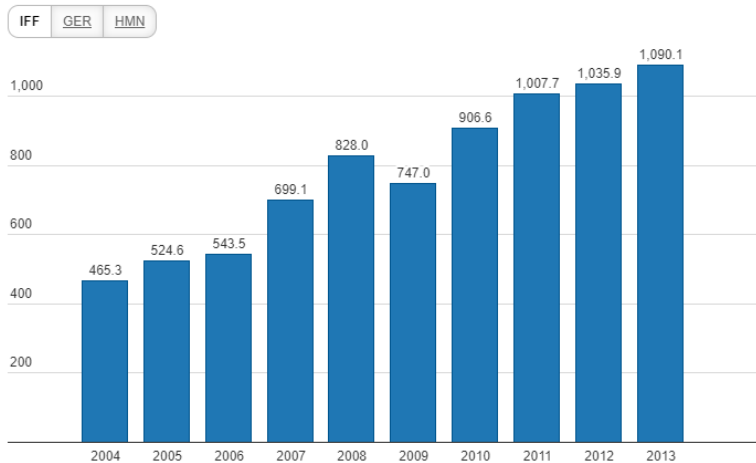
- ▶ Transaction-level data (customs), recent and convincing
- ▶ Difference between actual and comparable prices
- ▶ Limited country coverage and comparability
- ▶ US, UK, France, Denmark, South Africa
- ▶

Trade - useful for the indicator?

- ▶ Coverage vs. credibility: both with Comtrade?
- ▶ The real research frontier?

Illicit Financial Flows from Developing Countries: 2004-2013

(in billions of U.S. dollars, nominal)



Source: Global Financial Integrity [Get the data](#)

Source: Global Financial Integrity

Capital and wealth

- ▶ Capital account (rather than current account - trade)
- ▶ Offshore wealth - undeclared wealth in tax havens

Capital flight and capital account anomalies

- ▶ IMF's balance of payments data
- ▶ Net errors and omissions - the Hot Money 'Narrow' method
- ▶ Global Financial Integrity
- ▶ Difference between capital inflows and outflows - the World Bank Residual method
- ▶ Ndikumana & Boyce (sub-Saharan African countries)
- ▶ Henry (offshore wealth)
- ▶ Criticism: Differences = anomalies = illicit
- ▶ This might be suitable for some countries, e.g. Russia

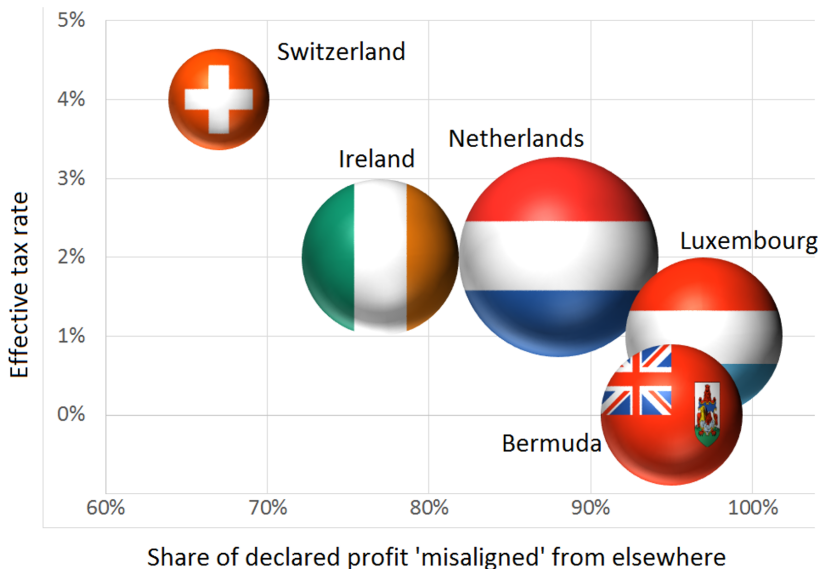
Wealth in tax havens

- ▶ Henry and other earlier estimates, stocks and flows
- ▶ Undeclared wealth held in tax havens
- ▶ Zucman and Alstadsaeter, Johannesen, & Zucman
- ▶ IMF's balance of payments - global offshore wealth
- ▶ Other data: Swiss central bank and BIS - allocation
- ▶ Good: use of data, methodology, country coverage
- ▶ Still, these are estimates, not measurements

Capital and wealth - useful for the indicator?

- ▶ The estimates' logic useful, the data not so much
- ▶ What other data could be used?

Profit misalignment of US multinationals



Profit shifting

- ▶ Profit shifting by multinational enterprises to tax havens - international corporate tax avoidance
- ▶ One-country detailed estimates, e.g. Dowd, Landefeld, Moore (2017) or Guvenen et al. (2017) for the US
- ▶ An increasing number of estimates for many countries
- ▶ 9 such studies differ in methodology, data and results

Reference	USD bn	Data	Country-level
IMF's Crivelli et al. (2016)	600	Revenue	No
Cobham & Janský (2018)	500	Revenue	Yes
UNCTAD (2015)	200	FDI	No
Janský & Palanský (2017)	80+	FDI	Yes
Johansson et al. (2017), OECD	100-240	Orbis	No
Clausing (2016)	280+	FDI	Yes
Cobham & Janský (2017)	133+	FDI	Yes
IMF (2014)	180	National ac.	Yes
Tørsløv, Wier, & Zucman (2018)	230	Other	Yes

Profit shifting

- ▶ Profit shifting leads to annual revenue losses of 100-600 billion USD
- ▶ The first six estimates based on regression analysis
- ▶ The latter three estimates - straightforward methodologies and official statistical data

What all the estimates have in common

- ▶ Illicit financial flows are real and measurable
- ▶ Estimates of varying quality, availability and coverage
- ▶ Overlaps and double-counting not easily identified
- ▶ Need for more credible measurements and better data
- ▶ Our proposals

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References