Experience in Measuring Tax and Commercial IFFs and Establishing Interagency **Collaboration**

The Case for South Africa

1 Sep 2021

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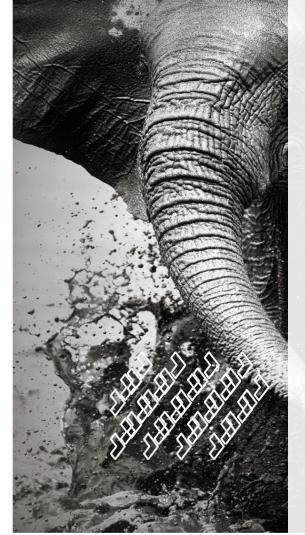
















Overview of the South African Case

Global standards and definitions. Review of the PEP and BO definitions and recommendations (soft law)





A Strategy to Curb IFFs

Research and measurement – the key to understanding IFFs

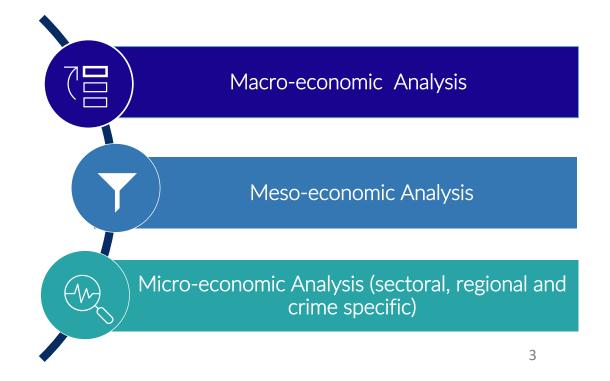
Strategic research

Tactical analysis

Operational Analysis, investigation and case studies

- A strategic unit was set up in the FIC, to run pilot project, reporting to the Director and providing advisory work to the Minister of Finance.
- The pilot quantified the extent of the illicit economy (IE) and illicit financial flows (IFFs) using a number of different approaches and models.

- Due to the clandestine nature of the illicit economy and IFFs we used a variety of models, at a *macro-, meso- and micro-economy level, developing an integrated approach*, creating a threat and risk assessment tool.
- The research filtered through from the macro research level, using National Accounts and other macro data, through the meso analysis, down to micro level analyses using transactional data, guiding investigations



Models and Data Tools

Research Key:

- 1 Commercial IFFs
- 2 Corruption
- 3 Theft-type and Terrorism
- 4 Illegal Markets
- 5 Illicit Economy
- 6 Non-specific IFFs

Illicit Economy		
Macro-Level	Meso-Level	Micro-Level
Black Money Models	Meso-sector Models or Research Papers	Micro-sector Models or Research
1 Currency Demand Model	6 Follow the Money (research paper)	Papers
	Illicit Economy and Illicit Flows:	4 Narcotics assumption base model.
Shadow Economy Model	Microsimulation using the General	Rhino poaching
Multiple Indicators Multiple	Household Survey and Income and	Wildlife trade including:
Causes (MIMIC) model	Expenditure Survey	- Elephant ivory smuggling
	Work in progress: replication of the	- Tiger and lion bone smuggling
	World Bank Columbian IFF Study ¹⁹	4 Timber and coal smuggling
Illicit Financial Flows		
Macro-Level	Meso-Level	Micro-Level
Illicit Flows Macro Models	Illicit Flows Meso Models	Illicit Flows Micro Models or Research
SARS Tax Evasion Model (Tax	1 Trade Mis-invoicing by country and by	Papers
GAP model)	product category (99 sectors – HS level 2)	6 Crypto currencies and BITCOIN
4 Gravity Money Laundering	1 Transfer Mis-invoicing background	Corruption Analysis Report
Model – without trade	research paper	Occupational fraud and fraud
Gravity Money Laundering	1 TBML background research paper and	profiling reports
Model with Trade (TBML)	TBML Model (hybrid DOTS-Walker	4 Cybercrime Report
1 Hot Money Model	Gravity Model)	
Databases:		

- Narcotics (macro crime stats)
- StatsSA narcotics survey including drug use survey, and micro survey data of seizures)
- Crime statistics at municipal level for the by country, by police precinct and municipality
- Macro data on tax, crime, money supply, tax evasion, etc.
- Trade (SIC level 4) for South Africa trading with the rest of the world (sector and product) including FOB stats from the South African Revenue Service (SARS)

IFFs Modelled in South Africa

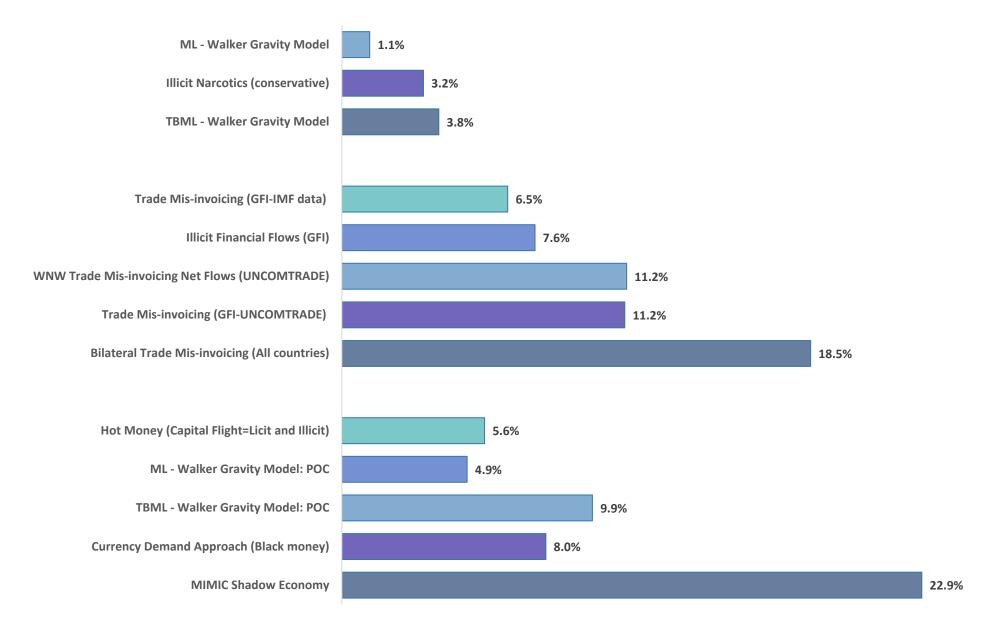
Macro, micro and meso models

Total Economy = IE + Formal Economy · Conservative CDA estimate of the illegal economy **Total Economy** MIMIC estimate includes illegal and informal) (IE &Formal) Illicit Economy: CDA (conservative: Illegal) • MIMIC (includes illegal and informal). *The WB Columbian Illicit Economy (IE) Money and Asset Laundering Model estimates the shadow economy Hot Money (Capital Flight = Licit + Illicit) Capital Flight (Hot Money: Capital outflow using the Balance of Payments data Volatility) **Illicit Financial Flows** The GFI approach includes Hot Money plus Trade Mispricing **IFFs Trade Mispricing** GFI focuses on 35 developed countries plus estimate for ROW trade mispricing Trade Mispricing (Tax FIC estimates trade mispricing for all countries due to large evasion) role for China. Add Attractiveness weights to explain direction of trade between developing countries (Trade Based Money Laundering) ML (Crime) Money Laundering (Gravity Model) estimates the proceeds of crime and the ML destinations (Threat and risk model). Updated Criminal the model with narcotics and trade. Activity *Columbian Money Asset Laundering Model (WB) (Narcotics)

Criminal Activity: Narcotics, wildlife crime, illicit mining...

Illicit Economy and IFFs for South Africa

2012 Results



Illicit Economy and IFFs for South Africa

Cooperative Governance can be formal

Formal engagements: MOUs/MOAs

- Between local and foreign government departments in the tax, customs, law enforcement and AML/CFT arenas
- Necessary for accessing data for threat and risk assessments, investigations/cases.
- South Africa has more than 80 MOAs with FIUs in other countries. There is an MOA between FIU and the Central Bank but not the Revenue Authority. Investigations result in a more collaborative approach.

MOAs/Task forces/Interdepartmental workings groups for specific purposes

- The IFF unit at the FIC had an MOA with GFI to implement a real-time benchmark pricing tool.
- A separate MOA was developed to access skills through a skills exchange programme.
- Working groups/Task teams/Task Forces were established for specific purposes: research, policy, capacity building, information sharing, strategic interventions for international engagements/commitments.
- Formalised through cabinet/ministerial approval.
- Inter-departmental Working groups on IFFs, Illicit narcotics and Bitcoin/Cryptocurrencies

Illicit Economy and IFFs for South Africa

Cooperative governance can be informal or provide training

Informal working groups

• Topic-specific working groups (trade mis-invoicing)

- Support from organisational leadership but no cabinet approval.
- Research working groups on illicit narcotics, environmental crime and information sharing.

Technical support or expertise to other government departments

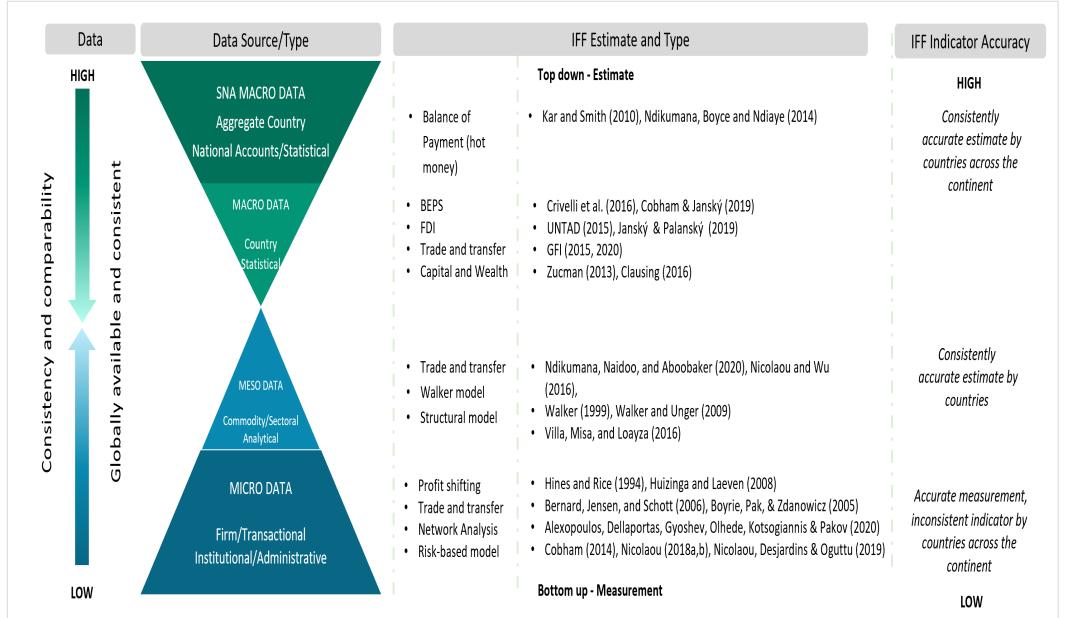
• Knowledge sharing and leveraging in-house capacity and expertise to: quantify the size of the illicit narcotics sectors; cryptocurrencies, bitcoin, cybercrime and the role of the digital economy; quantifying environmental and wildlife crime and trafficking routes; tackling Trade Mispricing (including assessment of data) with SARS and analysing non-reporting export income; technical support to parliament and DIRCO regarding IFFs in the G20.

Capacity
Building and
Training

- Information sharing of research findings through bi-annual workshops and dialogues.
- Capacity building, training and advocacy to other government departments, parliament and government departments in other countries on: IFFs, narcotics, trade mispricing, cybercrime, digital economy, cryptocurrencies, capital flight, financial regulation, Tax and Good Governance Programme; etc.

Latest Commercial IFF Models for South Africa

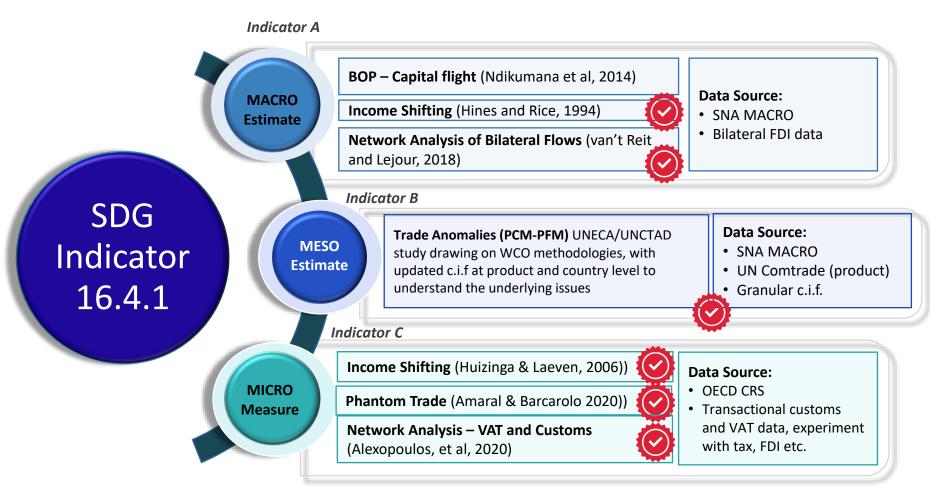
Insights from the South African IFF Measurement Guideline



Latest Commercial IFF Models for South Africa

Insights from the South African IFF Measurement Guideline - 2021

Top-Down Estimate



Bottom-Up Measurement

Tackling IFFs

A holistic approach

01

Risk Assessment

Analyse your various IFF risks. UNCTAD has an IFF self assessment questionnaire.

GIZ has developed an IFF Risk Assessment tool for governments, which highlights the IFF legislative, policy, operational, capacity, M&E, enforcement and information sharing weaknesses

02

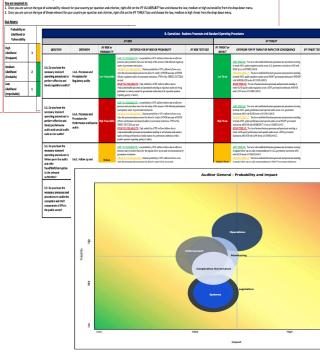
IFF Task Force

The Task Force should be an inter-departmental working group focusing on IFFs at a strategic, tactical and operational level. The TF should receive it's mandate from the highest office in the country or Cabinet.

03

Measure IFFs

Research and quantify IFFs. The research should look at new techniques to move monies out of a country and measurement to quantify the problem. Macro, meso and micro studies should be performed. Micro being the most ideal.



04

Link and Analyse

Its imperative to work with administrative and other data sources. Data needs to be cleaned, maintained and linked. Linking transactions to legal entities, individuals, PEPs and identity information is necessary. Social Network Analyses and transaction chain analyses are critical. Using AI&ML with big data is the key to curbing IFFs. individuals to transactions

05

Build Capacity and Raise Awareness

There is a desperate need to raise awareness on IFFs and its various components in the broader government community. A government wide public and private drive to address IFFs is important. Its not just for statisticians, but politicians, policy makers and citizens.

06

Cooperative Governance is the Key to Addressing IFFs

Working together, sharing information within a country, across government, the private sector and civil society is key to addressing IFFs. Cooperative governance requires working across agencies, across jurisdictions, across disciplines and across institutions.

Questions

