REPORT

Joint Measurement and Policy Workshop on Illicit Financial Flows

3-7 February 2025

Palais des Nations, Geneva, Switzerland

Monday, 3 February 2025

Measurement Workshop

Welcome and Opening Remarks

The meeting was opened by **Ms. Amandine Rushenguziminega**, on behalf of **Ms. Anu Peltola**, Director of UNCTAD Statistics.

- IFF measurement is tricky and complex due to the nature of the flows. IFFs thrive in chaos summarizes it all, but collaboration can be a solution.
- UNCTAD with UN Office on Drugs and Crimes (UNODC) and Regional Commissions (RCs) have worked together to provide globally agreed measurement guidelines on different types of IFFs, applicable in different regions.
- IFFs can be measured as demonstrated by the 22 pilot countries that have been pioneering the measurement since 2018. Besides the OSF project, the work is continuing under ECA project in 8 countries.
- Thanks to these efforts, estimates on IFFs are now out on crime-related IFFs on the Global SDG Indicator database. The efforts give hope for stronger collaboration to pursue all together the fight against IFFs more effectively, with tailored strategies to recover proceeds and mobilise resources.
- Thanks to data we can enter global and comparable statistics to support national authorities in the elaboration of evidence-based policy making.

Session 1: Country Case Study Method 1 & 2 (Measurement Methodology) – Namibia

The session was moderated by **Ms. Amandine Rushenguziminega**, UNCTAD. Presentations were made by **Mr. Lazarus Amukeshe**, Bank of Namibia, and **Ms. Indileni Nanghonga**, national consultant.

Highlights from Presentation:

- In 2018, a small Task Team composed of Bank of Namibia, the Financial Intelligence Unit and the Namibia Revenue Authority was set up to identify the IFFs phenomenon in the country.
- Since 2021, Namibia is pilot testing globally agreed methodology to measure tax and commercial IFFs. First tentative estimates were effective in pointing at commodities more vulnerable to IFFs practices.
- The Technical Working Group (TWG) has been shifting from 3 to 14 agencies, including the UN and led by the Bank of Namibia.
- Namibia engages in trade with 231 countries and territories, but 80% of trade is concentrated with 35 key partners (China, Peru, UAE, South Africa, Botswana, etc…). Key traded commodities include diamonds, gold, and copper. Small number of re-exports, mainly in the region (Zambia). Namibia heavily relies on tax revenues; quite high tax rates give incentive to evade taxes and duties (tax revenue makes up on average 93% of the state revenue over the period under review).

- Implemented the Partner Country Method Plus (PCM+) measuring trade misinvoicing (top-down approach – mirroring trade statistics).
- Results from the first experimental pilot testing revealed that IFFs value reached 8.9% of GDP in 2022, using the prescribed methods. Highest IFF vulnerabilities had been detected in trade of fish products, wood and charcoal, copper, live animals, vehicles, and uranium.
- The implementation of the Price Filter Method Plus (PFM+) (mispricing) examined product pricing and quantities at the 8-digit HS level, using a 3-day moving average to manage volatility and standard deviation to flag anomalies. Concerns were raised about baseline data quality due to reliance on quantity.
- In absence of microdata for the implementation of M#4 to measure aggressive tax avoidance ("MNE vs comparable non-MNE profit shifting") an alternative ("customized") method based on BoP data was applied, cross-checking MoF and tax administrator records. Findings revealed untaxed payments, unregistered companies with associated unregistered transactions, and significant discrepancies in trade in services. Close to 80% of transactions appear linked to double taxation agreement countries, mainly with South Africa and the UK. Additionally, a review of mineral license sales in 2021 showed most transactions occurred offshore.
- The pilot testing revealed challenges emerging from discrepancies in Comtrade data, where Namibia reports the country of export while others report the country of origin, and the unavailability of data for M#3.
- PCM+ relies on country discretion, with a 75% threshold for large asymmetries, yet needs further guidance on how to address also smaller discrepancies. Data definitions vary across agencies, causing misalignment that needs addressing. Paper-based transaction verification and the lack of automation hinder efficiency, with price filtering requiring automation.
- Data quality issues persist under PFM+, particularly regarding quantity. Ensuring data harmonization for consistency and comparability remains a priority, alongside capacity building to improve methods and support digitalization.

Discussion, conclusions and follow up:

- Importance to involve the office of the prosecutor general in the TWG.
- Double taxation agreement, with possible re-exportation of trees and charcoal from Zambia, as trees and shrubs are being cutdown, and the export from wood also comes from Zambia.
- Some data sources need to be improved related to the prices and benchmark being used (London Stock Exchange, other data).
- Beyond freight taxes, migration information is used to ensure taxation of foreigners are reflected.
- IFF to GDP ratio are useful. Base years need to be indicated.
- The results should be reported in the voluntary national reviews. Currently, Namibia is working on SDG Indicator reporting.

Session 2: Country Case Study Method 1 & 2 (Measurement Methodology) – Zambia

The Session was moderated by **Ms. Diana Camerini**, UNCTAD. Presentations were made by **Mr. Shebo Nalishebo,** national consultant.

Highlights from Presentation:

- The National TWG used methods measuring trade misinvoicing, namely the PCM and PFM, to

understand the impact on Zambia revenues (about 10% of GDP).

- The TWG created their own tiers of observed mirror-trade discrepancies, looking at high, middle and low discrepancies. They also looked at the limited resources, at all the countries flagged as trading partners. They narrowed down to HS 6-digit level analysis for IFFs.
- 19 countries have traded with Zambia who represent the major trading partners. The tiers created by the TWG work as follows: Tier 1 is determined if the discrepancy is over 100%, it is called extremely high discrepancy, and tier 2 is defined between 50% to 100%, tier 3 between 20 % to 50 %, and less than 20% is tier 4. Developed a weighted trade discrepancies index, looking at the most important trading partners and the total trade for a particular year.
- The top 75% of trade discrepancies were examined at the HS 6-digit level to identify specific commodities driving IFFs. Discrepancies were most pronounced in mineral exports and high-value imports.
- For the PCM, the key findings were gas oil, copper concentrations, and light oils as top imports flagged for over-invoicing, indicating potential illicit financial flows.
- Petroleum products showed the highest risk for trade-based money laundering, emphasizing the need for robust monitoring and regulation.
- Copper anodes, copper cathodes, and cobalt oxides were flagged for under-invoicing, leading to significant revenue losses for Zambia.
- Copper cathodes were identified as having a high risk of misclassification, with 65% linked to Democratic Republic of Congo exports, suggesting potential IFFs.
- The next steps for the measurement work are:
    - Include the Plus part of the analysis,
    - Include CIF/FOB adjustment, reporting period, etc…
    - Improve the methodology for tracking copper field
    - Strengthen inter-agency coordination. ZamStats, Central Bank, Revenue Authority and Ministry of Finance need more formal collaboration.
    - The subsequent workshops show that there is a need for more effort regarding capacity building.

Discussion, conclusions and follow-up:

- Need of cooperation or online sessions on issues that affect both Zambia and Namibia as neighbouring countries related to particular products and how do invoices look like on both sides.
- The electricity in Namibia is not recorded on Comtrade but the Namibian TWG was able to find the records from Nam Power (nationally). There are lot of discrepancies because of different reporting from both sides. Namibia has a lot of petrol in transit to/from Zambia, and therefore it should be looked at for any discrepancies as part of the Plus part of the analysis.
- Need to include policy formulation and recommendation, frameworks in the measurement phase.

Session 3: Country Case Study Method 1 & 2 (Measurement Methodology) – Ghana

The session was moderated by **Mr. Bojan Nastav,** UNCTAD. Presentations were made by **Mr. Asuo Afram,** Ghana Statistical Service and **Mr. Bishop Akolgo**, national consultant.

Highlights from Presentation:

- Ghana is prone to trade-based illicit financial flows due to its exports of raw minerals, such as gold, manganese, crude oil, and agricultural produce, and imports of process goods.
- Data (export and import trade item level quantity and value) are collected monthly from Ghana customs authorities.

- The two methods used were the PCM and the PFM.
- Partner Country export and import trade data are collected from UN Comtrade.
- The application of the PCM was mainly done to detect trade discrepancies in import and export values as reported by Ghana and trade partners, and the PFM to specifically look into unit-price discrepancies in Ghana transactions vis-a-vis international markets.
- Total Ghana's 2013-2023 Export trade Mispricing amount to 147.2 billion US Dollars
- Total Ghana's 2013-2023 Import trade Mispricing amount to 145.6 billion US Dollars
- Belgium shows the highest positive discrepancy in value, Seychelles and Maldives have negative value discrepancies, France and Togo have net mass discrepancy, while countries like Viet Nam and Qatar have minor discrepancies in both value and net mass.
- Export side: gold, diamond, rose wood.
- The major challenge has been data quality. Several rounds of talks and checks between GSS and Customs were needed to verify and ensure quality data inputs needs for the measurement.
- The next steps for the finalization of the measurement focus on segment analysis, data source evaluation, HS code analysis among others.

Discussion, conclusions and follow-up:

- Annual reporting should be made besides aggregated reporting for 11 years, as firstly processed by Ghana. Annual reporting would allow to detect trends and elaborate more accurate policy responses.
- Gold trade is a common issue between Namibia and neighboring countries, and the challenges emerge in the type of classification of exports of this commodity, which is exported raw in South Africa, but being transformed and sold refined by this country. This would also affect the determination of prices.
- Issues emerging from pricing of commodities at their source show that commodities should be sold at market prices, lower prices are eroding profits for exporting countries and can distort records.
- The treatment of outliers needs to be specific in the application of M#2.
- Discrepancies in the *volumes* (not values) being reported by the importer vs exporter are an important indicator of misinvoicing issues and smuggling of commodities, although IFF are being measured in value, so they are not directly taken into account.
- PCM and PFM may be understood either as cross-validating or complementary. PFM is usually more detailed but often applied on a limited number of commodities because of resources constraints. If both methods are applied and it is important that any comparisons and cross-checks between methods are stated, together with commodity coverage in the estimates.

Session 4: Dissemination of IFFs statistics and reporting to SDG indicator 16.4.1

The session was moderated by **Ms. Amandine Rushenguziminega**. Presentations were made by **Ms. Diana Camerini,** UNCTAD.

Highlights from Presentations:

- Disseminating statistics on IFFs, despite having other uses, including for the analysis and national policy formulation hence demanding specific formats, is primarily focused on reporting for the SDG indicator 16.4.1. As such, it focuses on absolute estimates of IFFs, both inward and outward measured in US Dollars. Other requirements for reporting to SDG indicators database also include:
    - Separate inward and outward IFFs;
    - Annual value by calendar year (no average or cumulative over multiple years);

- In millions of US Dollars, with conversion from other currencies (if applicable);
- IFF subtype to be reported, also reported differently for methods applied;
- Allowing (optional) for mid-point, and or lower- and upper-bound estimates.

- The reporting Excel template provides for all these options to guide national authorities in reporting IFF statistics. Two sheets are dedicated to total estimates (midpoint and upper/lower bound), which shall be regarded at minimum reporting, other sheets dedicated to disaggregated estimates (by product, sector and country) shall be regarded as optional but recommended. The template is up for testing and feedback, enhancing its usability in reporting IFF statistics.
- The reporting cycle on the portal happens four times a year, with the core annual reporting at the beginning of March, but countries are invited to report estimates any time of the year to ensure timeliness of estimates and demonstrate commitment to this work.

Discussion, conclusions and follow-up:

- Current US Dollars millions reporting is good for policy purposes too.
- One of the main reasons why it was selected to use absolute values is to avoid any type of comparison with any other countries. This is primarily use for national policy making therefore use of absolute values.

Tuesday, 4 February 2025

Session 5: National action plan for sustained compilation of IFFs statistics

The discussion was moderated by **Mr. Bojan Nastav**, UNCTAD. Presentations were made by **Mr. Bishop Akolgo**, national consultant Ghana, **Ms. Indileni Nanghonga**, national consultant Namibia, and **Mr. Shebo Nalishebo,** national consultant Zambia.

Highlights from Presentations:
Ghana:

- At the heart of the measurement and policy phase, is the inter-agency coordination and collaboration.
- Need to have legislative support, annual analysis, engagement and publication of IFFs.
- Data is key but needs to be clean and reliable and ensure real-time data sharing among agencies. There is a need to adopt global standards for IFF reporting.
- Stakeholder engagement, transparency campaign and encouraging GSS to publish annual estimates in a State of IFFs in Ghana Report would be among important steps. In addition, supporting *Integrated Social Development Centre* (ISODEC) in continuing IFFs training.
- Institutionalization of the TWG into an Inter-Agency Coordination and Collaboration Committee chaired by the Vice-President.

Namibia:

- The Action Plan was discussed during a workshop in November 2024 with the TWG, and covers everything from a legislature, and structure perspective.
  - Pillar 1: policy, legislation and regulatory framework.
  - Pillar 2: institutional structures and governance
  - Pillar 3: data management and transparency framework
  - Pillar 4: collaborative and inter-agency framework
- Activities have been split between pillars and term period. Updating regulatory framework, redefine exemption criteria, aligning to the current market norms, etc…

- Align information at the Ministry of Mines, as the mining industry is the biggest contributor to GDP, but Ministry of Mines and NamRa would need to integrate their systems to have the information needed.
- Vehicles are flagged high as potential IFFs, how to strengthen the already existing regulations.
- Streamline and automate the PFM for some particular products.
- Sharing data and reconciliation between the necessary agencies and establish MoUs to promote transparency and free flow of information.
- Capacity building of key staff members. Conducting training and providing manuals and guidelines to continue the work.

Zambia:

- Zambia faces challenges in tracking IFFs due to data fragmentation among multiple institutions, inconsistent estimation methodologies, weak coordination among institutions from the TWG, and gaps in trade and financial data collection.
- There is a need to improve compliance with international standards and strengthen the collaboration and TWG members.
    - Establish a standalone IFF unit
    - Strengthening legal and institutional framework
    - Develop sustainable data collection mechanism
    - Enhance methodological consistency
    - Improve individual collaboration
    - Build technical and human capacity
    - Integrate IFF monitoring into national financial planning
- 5-year plan:
    - Phase 1, 2025: establish the standalone IFF unit in ZamStat;
    - Phase 2, 2026: legal and regulatory review;
    - Phase 3, 2027: methodological standardization;
    - Phase 4, 2028: capacity building and infrastructure development;
    - Phase 5, 2029-2030: policy integration and monitoring.
- Funding and sustainability from Ministry of Finance, UN agencies' support, cost-sharing model with multi agency contribution, and ensure the funding through legislative mechanism.

Discussion, conclusions and follow-up:

- The issue of stakeholders' engagement (institutions with data collection mandate, or other mandates) is crucial, and they should be identified and listed in a matrix (UNCTAD has produced a tool for mapping of national agencies, and a table for action plan with cost estimates).
- Importance of where the coordination agency is sitting (in terms of influencing resource allocation) and its links to other collaborative institutions. The political will is central.
- The IFF issue should be integrated into national development plan framework referring to the budget. Should be aware of the political environment that affects the work therefore harmonizing regulations remains a challenge.
- Importance of having estimates from different sources (e.g. GFI) to share with policy agencies.
- The TWG can create sub-groups focusing on measurement, policy, analysis, law enforcement, etc… The crucial point is no political pressure should intervene with statistical measurement. It is a cross-cutting issue and each institution needs to start collaborating and stop working in silos.
- Political will, collaboration, communication are key to curb IFFs.

Session 6: Existing national institutional set-up to compile IFFs statistics

The session was moderated by **Ms. Diana Camerini**, UNCTAD. Presentations were made by **Ms. Penelao Kapenda,** Bank of Namibia.

Highlights from Presentation:

- After the first pilot testing in 2021, there were recommendations for resources to continue the measurement of IFFs. Under the National Directorate of the Ministry of Finance and Public Enterprises, a national coordination office on IFFs now sits at the Bank of Namibia, Division on Exchange control, with a Senior Project Officer on IFFs coordinating activities on IFFs at the national level. Between the Ministry and the coordination office, sits the National directorate (SteerCo) composed of heads of national agencies forming the TWG (technical advisory committee and policy advisory committee), which is under the coordination office.
- The proposed structure under discussion also includes the Cabinet of the Republic of Namibia overseeing it all.
- In 2018, the three agencies (Bank of Namibia, Namibia Revenue Authority and the Financial Intelligence Unit) were tasked to come up with systems addressing gaps identified during their work on IFFs. The Trade Verification System (TVS) is a platform that tracks customs data for the movement of goods and corresponding payment data from commercial banks. Single source of data with the goods declared at the Revenue agency on the customs side, and the payments.
- The system was implemented at the Central Bank but implemented at the national level, as there were importers, exporters, clearing agency, commercial Banks, and two regulatory authorities. The TVS matters because it improves trade monitoring and availability of data, ease doing business, and improve revenue optimization. The interests of stakeholders are various and this can bring value, such as for importers who seek faster customs clearance and reduce costs or exporters who want smooth export processes and access to global markets.
- The project lasted 18 months and went through a normal development cycle. One of the lessons learned is up to today (project started in 2022), awareness raising is still taking place because some traders did not attend trainings. UN and Central Bank assisted with funding the project.

Discussion, conclusions and follow-up:

- Ghana, Namibia and Zambia are resource dependent countries; therefore Ghana developed a proposal for the new Government to form an Inter-agency coordination and collaboration committee on national resources with a sub-committee dedicated to IFFs. Other sub-committee focus on base erosion and profit shifting, on international trade (import and export), and on enforcement (police, organised crime unit, FIC). The overseeing of the work is done by the Vice-President, but sub-committees are reporting through the Ministry of Finance. Each sub-committees have lead agencies: data is the Ghana Statistical service, the enforcement is the FIC, and the base erosion and profit shirting is the Transfer pricing unit of the Ghana Revenue Authority. They all report to the Office of the Vice-President.
- In Zambia, audits were made because of incentives given to companies on goods and therefore a lot of under declaration happening (importation of spirits for example). In order to reduce IFFs, an advance income tax on remittances that are going outside was introduced in 2024 budget. It has been very effective, and the Government tried to collect the needed revenues to match the expenditures. A smart invoice system has also been implemented (electronic invoicing platform development by Revenue Authority) to enhance compliance

and streamline revenue collection. It provides a real time data transmission and taxpayers can access the system through different platforms

- ASYCUDA system is very well integrated and feed the TVS system in real time. And when it comes to IFFs there is a preventative lag.

Session 7: Introduction to measurement work

The session was moderated by **Ms. Amandine Rushenguziminega**. Presentations were made by **Mr. Bojan Nastav** and **Ms. Diana Camerini,** UNCTAD.

Highlights from Presentations:

- UNCTAD and UNODC are co-custodians of SDG indicator 16.4.1 on total value of inward and outward IFFs for 2030 Agenda for Sustainable Development. The work started in 2017 and, thanks to the support of a Task Force of international experts, in 2020 the two agencies published the *Conceptual Framework for the statistical measurement of IFFs*, providing a definition, concepts and classification of IFFs, and endorsed by Member States at the 53rd UN Statistical Commission in 2022.
- The main *Conceptual Framework* features are: disaggregated, bottom-up and comprehensive approach; allows to measure IFFs at country level; compatible with the SDG indicator framework; and aligned to established concepts and frameworks of national accounts and balance of payments. It also features a distinction between income generation and income management IFFs.
- 22 countries have piloted the methods, and 12 countries currently continue methodological refinement. The IFFs Statistical Framework is expected for 2025-2026, with aggregated estimates on tax/commercial and crime related IFFs.
- Methods measuring trade misinvoicing, aggressive tax avoidance, and tax evasion by individuals are the three main conceptual parts constituting tax and commercial IFFs. For each of those, two methods were identified:
    - Method #1: Partner Country Method Plus (PCM+): identifying IFFs from discrepancies detected by mirroring trade statistics between two trading partners.
    - Method #2: Price Filter Method Plus (PFM+): detect abnormal prices, deviating from arm's length price.
    - Method #3: Global distribution of profits and taxes: units within MNE are shifting their profits to lower-tax units. It is a tax semi-elasticity approach.
    - Method #4: MNEs vs Non-MNEs profit shifting: profit shifting detected by structural differences in business statistics.
    - Method #5: Undeclared offshore assets: assets declared offshore by citizens of country A vs assets of country A's citizens reported in other countries. The results are based on stocks rather than the flow so it would need to be transformed for the estimates. This methodology development is still in progress.
    - Method #6: offshore financial wealth: unreported wealth held abroad by individuals outside their countries. There are still a lot of question marks for this method too, and no application by countries yet, as for Method #5.
- The measurement process is as follows: 6 steps to conduct:
    - 1. Self-assessment questionnaire;
    - 2. Mapping of national agencies;
    - 3. Data availability and quality review by method;
    - 4. Method selection;
    - 5. Measurement plan;
    - 6. Compile and disseminate IFF statistics.

- It is a nationally driven/owned process, ensuring that any capacity built throughout the process stays with the country. Action plans are prepared to identify which actions, activities, tasks should be conducted immediately or in the next X years and with what outcome, and how much that would cost.

Discussion, conclusions and follow-up:

- Tax avoidance and evasion might not involve flows, but not paying the right amount of taxes, and there are not just flows crossing the border. However, the definition of the indicators requires to focus on flows, regardless of the wealth accumulated in the countries, which still matters in policy formulations.
- Measuring IFFs is indeed raising awareness on the quality of trade data and one of the benefits of engaging in this process is to stimulate work for their improvement.
- Method #4: MNEs vs Non-MNEs profit shifting is looking at the profit declared. It emerged that significant interest payments paid to tax havens, which could be a signal of IFFs. Method #3: Global distribution of profits and taxes controls for the issue of endogeneity and uses OECD average ETR database, but ideally it should use data calculated from each individual company (microdata-based).
- Methodological Guidelines mention that discrepancies (mirror-trade, in method #1) can emerge from exchanges between different trade systems and territories (special vs general trade systems and special economic zones). Comtrade 2016 survey has shown that different trade systems are in place, so there is no "one solution fits all" to address such statistical gaps, as this depends on specific country and partner countries' trade systems. The recording of these transactions has also to do with historical discrepancies in the recording approaches of residents - nonresidents transactions: trade statistics record whatever crosses the borders, regardless of change in ownership, while this change matters in Balance of Payment or System of National Accounts framework.

Session 8: Existing systems supporting measuring IFFs

The session was moderated by **Mr. Shebo Nalishebo,** national consultant, Zambia. Presentations were made by **Mr. Raouf Benzarti**, ASYCUDA, and **Mr. Francis Kairu**, Tax Justice Network Africa (TJNA).

Highlights from Presentations:

ASYCUDA

- ASYCUDA valuation model is considered as a tool for IFFs.
- ASYCUDA is one the main support programme of UNCTAD, supporting more than 103 economies in the world, participate to more than 13 single window projects, 100 experts working with the programme trying to implement the system in countries and how to improve it.
- The programme is a tool helping customs administration to cover all clearance process from the pre arrival to the pre departure, helping countries to collect taxes and give statistics on foreign trade information.
- The Valuation tool is part of the risk management engine of ASYCUDA and is based on declared data and information shared by traders. The engine has several tools, on customs experience, on machine learning (helping detect fraud or risky operations), and on valuation.
- The ASYCUDA Valuation system is based on what is already declared on transaction value. The Valuation Database (AVD) is WTO compliant and GATT Principles. It uses method 1, which is Transaction Value (TV). It gives tools to the customs to specify which HS code or good should be controlled by the system as well as the transaction. If the TV is not satisfactory, through

risk management, the AVD provides data based on methods 2 and 3. The system maintains two modes of valuation control which are:
    - 1. Automatic pre-clearance value control
    - 2. Post clearance value control
- The benefits are enhanced identification and control, streamlined customs operations, improved valuation accuracy, enhanced valuation process, recalculation and adjustment, efficient form retrieval and performance monitoring.
- Some countries are using the valuation tool such as Burundi, Côte d'Ivoire, DR Congo, Mauritania, Togo, Uganda and Zambia. They are also linking it with other tools or information to other administrations (such as Central bank on flow of money, or if the value is connected with what is declared at the Central Bank).
- The Valuation tool can help detect the market value and start investigations into money laundering or IFFs or any funds leaving the country.

Tax Justice Network Africa (TJNA)

- The Anti-IFFs Policy Tracker tool was a collaboration between the African Union, African Tax Administration Forum (ATAF) and TJNA. They looked at existing recommendations from various high-level reports on how best tackle IFFs. The methodology went through a process of validation, and it was first tested and strengthened, before the tool itself could be developed.
- The development of the tracker tool was a process of transforming recommendations into 44 indicators, themselves into 4 clusters (*I. legislative and policy framework, II. information and data framework – III. Institutional framework – IV. Inter-agency cooperation*). The assessment process is a traffic light system, and measures how a country looks like. There is weight (5, 10, 15) attached to the indicators, as a risk assessment system and give a score per indicator.
- Series of validation meetings, with representatives of AU member states, NGOs, ATAF joint technical committee enabled the tool to be improved and made it more responsive to feedback received. Other important information about the tool: it is limited to tracking tax related IFFs only; the indicators are SMART; it allows for cross-country comparisons; it tracks progress through a period; the tool avoid duplication and redundancy; and it was ensured that the tool receive as much legitimacy as possible.
- The tool was first pilot tested in Namibia, using existing expertise and avoiding duplicating efforts. 5 new Pilot are planned between February and May 2025: Gabon, Cabo Verde, Ghana, Uganda, Côte d'Ivoire.

Discussion, conclusions and follow-up:

- Useful to incorporate the policy tracker into peer review mechanisms, otherwise scoring on each of the indicators could be problematic for the country. This is a learning curve, and the piloting process is to test the methodology and ensure to improve the methodology because all countries are not the same.
- The tracker tool is heavy in assessing implementation therefore political will is very important.
- ASYCUDA system is trying to create its own valuation database based on declared value system. Some countries try to connect the valuation database with another database. Linking data to the Central Bank for example, or Ministry of Finance, helps countries to control all the financial flows, and see how much goods are imported and exported and supposed money to enter the country.
- Regarding the control of funds, this is not the customs' role but Central banks or other agencies can step in and cross the information and do investigations.

Wednesday, 5 February 2025

Policy Expert Group Meeting

Welcome and Opening Remarks

The meeting was opened by **Mr. Paul Akiwumi**, Director of the Division for Africa, LDCs and Special Programmes, UNCTAD. The director welcomed participants, including H. E. Ambassador Extraordinary and Plenipotentiary, Permanent Mission of the Republic of Ghana to the United Nations Office in Geneva, and the Deputy Permanent Representative, Permanent Mission of the Republic of Zambia to the United Nations office in Geneva, country representatives from Ghana, Namibia and Zambia, as well as participants from academia and policy institutions.

The Director outlined the objective of the policy expert group meeting, which was twofold as below:

- To propose a suitable framework for identifying policies in a standard format for African countries but reflecting national priorities; and
- To ascertain the framework through an expert-led review.

Session 9: Keynote Plenary Session

The session was moderated by **Ms. Habiba Ben Barka**. The keynote plenary presentation was made by **Prof. Gilles Carbonnier**. Thereafter, there were two interventions from **H.E. Ambassador Emmanuel Kwame Asiedu Antwi** (Ghana), and the Deputy Permanent Representative **Mr. Trevor Sichombo** (Zambia). The interventions were followed by the plenary panel, which consisted of the following panelists: **Ms. Penelao Kapenda**, **Mr. Allan Mukungu**, **Mr. Junior Davis**, **Ms. Ruth Wamuyu Maina – Ndung'u** and **Prof. Gilles Carbonnier**.

Highlights from Presentations:

- Against the backdrop of rising debt, declining ODA and the energy transition, domestic resource mobilization is now, more than ever, a priority for developing countries with utility in financing the SDGs, the energy transition and the climate crisis.
- IFFs have implications for tax revenue, with various sources reporting different values of IFFs for different types of IFFs.
- While there has been progress made in understanding the sources and revenue losses from IFFs, some areas have faired better than others. For instance, while undeclared private wealth has declined, trade related IFFs remain a challenge to identify and measure.
- Within the policy space, several factors affect implementation of policies including: push and pull factors; short term policies vs medium to long term policies; willingness to engage in structural adjustments; and, international cooperation.
- Ghana, Namibia and Zambia referenced policies that have been undertaken within their countries to combat IFFs including: regulation to address illegal markets, smuggling and trade mis invoicing; financing IFF National Offices, and institutionalization of IFF measurements.
- Other observations included a note on trade agreements, which are not in themselves facilitators of IFFs, but trade obligations may constrain policy space. There is need to review the new and existing measures to be in line with trade obligations.
- Finally, it was noted that development of a standardized approach to strengthen analysis of IFFs could ensure more targeted policies to combat IFFs.

Discussion, conclusions and follow-up:

- To effectively curb the flow of IFFs, it is important to make IFFs a domestic political and foreign policy priority.
- To understand the extent of IFFs, data, and therefore measurement of IFFs, must be prioritized as a policy option.
- Policies that reduce the flow of IFFs are revenue enhancing, revenue that can be utilized for debt service payments, and government spending on the social sector such as education and health. Since the marginal benefits from social sector spending accrue most to women and the poor, then policies that curb IFFs has benefits for women and the most vulnerable populations.
- Multilateralism is imperative for international cooperation policies to curb IFFs.

Session 10: A policy Framework approach

The session was moderated by Ms. Anja Slany. Presentations were made by **Ms. Christine Awiti**, **Ms. Anastasia Maga** and **Ms. Diana Camerini**.

Highlights from Presentations:

- A policy analytical framework for assessing and analyzing illicit tax and commercial practices, with the main aim of proposing (apply) suitable targeted policy options was introduced. The three key pillars of the analytical framework are:
    - Assess: This pillar focusses on identifying sources of illicit tax and commercial IFFs considering the macroeconomy and structure of a country;
    - Analyze: The pillar aims to identify the mechanisms through which illicit tax and commercial IFFs manifest within an economy, with particular scrutiny on the types of IFFs; and
    - Apply: once the mechanisms have been identified, targeted policies will be proposed and implemented.
- An example of how well targeted policies can reduce IFFs and lead to better government revenue collection was demonstrated using the country case study of Kyrgyzstan. Since the introduction of an electronic invoicing system, tax revenue from trade has increased.
- Estimating IFFs can provide benefits in two ways: first, estimates reveal the sources of IFFs and therefore the areas most prone to IFFs, for instance which products are most prone to loss of revenue through IFFs; and second, estimates of IFFs can be used to detect and prevent IFFs, as well to inform policies analysis for implementation of targeted policies.

Session 11: Assess - An overview of African economies - macroeconomy and economic structure

The session was moderated by **Ms. Habiba Ben Barka**. Presentations were made by **Ms. Anastasia Nesvetailova**, **Mr. Clovis Freire Junior**, and **Prof. Léonce Ndikumana**.

Highlights from Presentations:

- The globally fragmented regulatory space provides opportunities for corporate arbitrage, where corporate arbitrage is defined as 'strategic corporate maneuvering between different jurisdictional niches, with the aim of avoiding or minimizing regulation. Profit shifting is an example of IFFs resulting from corporate arbitrage.

- The economic structure of a country matters for IFFs, for instance, commodity dependent countries tend to have higher risk of IFFs than non-commodity dependent countries. Thus, diversification tends to reduce vulnerability.
- Previous research shows that disaggregating trade data exposes mispricing, with factors such as high CIF/FOB on lower value products being a potential mechanism for IFFs.
- The mechanisms through which capital flight (which consists of unrecorded financial outflows from a country) manifest include: unrecorded or mis invoiced trade; unrecorded private financial flows; and leakages of public debt inflows.
- Nonetheless, capital flight is only a subset of illicit financial flows, which extends to smuggling, recorded but illicit flows such as money laundering and abusive transfer pricing.

Discussion, conclusions and follow-up:

- The global financial system, and therefore the macroeconomic system plays a role in facilitating IFFs through bank accounts, intermediate companies and shell companies. Base erosion and profit shifting reforms are an important policy option to address corporate arbitrage.
- Policies that include value addition and diversification will lower IFFs, thereby strengthening revenue collection.
- In addition to micro, macro and institutional policies, political will is key in strengthening the fight against illicit financial flows.
- Research and reports on IFFs should be disseminated to governments. The need for continued research and collaboration in addressing financial flows was emphasized.

Thursday, 6 February 2025

Session 13: Analyze - Presentation on past policies and linkage to IFFs

The session was moderated by **Ms. Amina Ebrahim**. Presentations were made by **Mr. Allan Mukungu**, **Mr. Lucas Milan-Narotzky**, and **Ms. Ahene Codjoe**.

Highlights from Presentations:

- An analysis for VAT and CIT finds that tax incentives are awarded arbitrarily using discretionary measures, lacks cost benefit analysis, have significant gaps in data collection and reporting, and additionally, there are insufficient skilled human and financial resources, as well as institutional frameworks to capture tax expenditures.
- Tax expenditures with implications for IFFs are evidenced in both source countries through push factors (for instance through extractive taxation that encourages trade mis invoicing to benefit from lower taxes) and destination countries through pull factors (for instance through patent boxes and tonnage tax).
- A review of the value chain for mining in Ghana finds that perverse incentives can arise from incentives provided to mining firms at the licensing stage, which lead to loss of revenue for governments through IFFs in the assaying, selling and exports stages through for instance mis reporting of quantity, mis invoicing, misclassification and through services utilized at the export stage.

Discussion, conclusions and follow-up:

- Recommendations included centralizing and revisiting tax expenditure and tax incentives policies, integrating tax expenditure reporting into regular budgeting, and establishing robust legislative frameworks.
- Multilateral agreements have advantages over bilateral agreements when it comes to curbing tax expenditure based illicit financial flows, for instance exchange of information and harmonization of SEZ statistics.
- In addition to risks to IFFs from perverse incentives, there will be more likely a complex web of IFFs where there exist artisanal and small-scale mining, see for instance gold in Ghana.

Session 14: Group Discussions on Analyze

Highlights from the discussion:

- The need to clarify the definition and concepts used to define and measure IFFs was emphasized, for instance, IFFs are flows that cross a border and affect the foreign exchange market, that is, net exports vs net capital flows.
- In addition, it was noted that money lost due to underpayment of taxation within a country, should not be equated to IFFs, unless the flows cross a border.

Conclusions and follow-up:

- The resulting impact of the IFF can generate additional revenue losses to the source country, in addition to revenue losses generate within the country.
- Some revenue gains in recipient countries can be IFFs, this is the case in many European countries and some tax heaven African jurisdictions.
- Finally, policies that reduce revenue losses could also reduce the flow of IFFs.

Session 15: Apply - Policies to combat IFFs

The session was moderated by **Ms. Ama Ahene Codjoe**. Presentations were made by **Ms. Ruth Wamuyu Maina – Ndung'u**, **Mr. Bojan Nastav**, **Ms. Amina Ebrahim** and **Mr. Clovis Freire Junior**.

Highlights from Presentations:

- The discussion highlighted some vulnerabilities to IFFs within Free Trade areas, since they will be prone due to the following characteristics: the nature of trade; reduced border controls; technology, which presents new ways of structuring transactions to mask IFFs; limited cooperation and coordination between actors; and mismatches in legislative and administrative frameworks.
- In addition, the importance of data as a policy objective was emphasized since: not only does data guide policy makers in determining the source and magnitude of IFFs but also provides an avenue for monitoring progress of policies implemented.
- Country specific research, using MNCs transactional level data, tax data and firm level data from audited reports for India, Kenya, Nigeria, South Africa and Uganda reveals that tax incentives may inadvertently lead to profit shifting by MNCs.
- Finally, structural transformation and economic diversification, especially regarding critical energy transition minerals (CETM) for mineral rich African countries, could greatly reduce

perverse incentives that lead to loss of government revenue through IFFs by creating alternative sources of income and alternative economic activities.

Discussion, conclusions and follow-up:

- For the AfCFTA, adoption of a harmonized approach between countries to combat IFFs, including the introduction of IFFs related exceptions in the AfCFTA agreement.
- Curbing IFFs will entail raising awareness, communication and political will.
- IFFs data can strengthen country level assessment of IFFs, analysis and evidence-based policy making.

Friday, 7 February 2025

Session 17: Plenary – A policy Framework

The session was moderated by **Prof. Léonce Ndikumana**. The panel members were **Mr. Asuo Afram**, **Ms. Indileni Nanghonga** and **Mr. Shebo Nalishebo**.

Highlights from Presentations:

- Measurement of IFFs is an important prerequisite to combating IFFs.
- The triple AAA framework links measurement phase of IFFs to policy phase and ensures evidence-based policies to curb IFFs are implemented.
- It is especially imperative for resource rich economies to carry out an assessment and analysis of the resource sectors to better understand where the risks occur, and what types of IFFs are associated with the natural resource sectors.
- The triple AAA policy framework is aimed at guiding governments, institutions and stakeholders in addressing the systemic, legal and operational challenges associated with IFFs in African economies, and especially in resource rich economies.

Closing Remarks:

Closing remarks were provided by **Ms. Anu Peltola**, Director, UNCTAD Statistics Services **and Mr. Junior Davis**, Head of Policy Analysis and Research Branch, UNCTAD ALDC.