Measuring Illicit Financial Flows
The Economic Elements

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Categories of activities that may generate IFFs

Source: UNCTAD and UNODC
IFFs emerging from tax and commercial practices

**Illicit tax and commercial IFFs** to conceal revenues and reduce tax burden:

- **Illegal tax and commercial IFFs**
  - Examples: Tariff, duty and revenue offences, tax evasion, competition offences and market manipulation
  - Often part of the non-observed, hidden or shadow economy.

- **IFFs related to aggressive tax avoidance**
  - Examples: Hiding profits or assets via the manipulation of transfer pricing, strategic location of debt and intellectual property, tax treaty shopping and the use of hybrid instruments and entities.
  - Can be part of legal business transactions. Only the illicit part of the cross-border flows belongs within the scope of IFFs.
Illegal v illicit

- While tax avoidance is legal, aggressive tax avoidance can be detrimental to sustainable development and is, therefore, included in the SDG indicator as an IFF.
- Statistics cannot be based on legality as national tax laws differ and audits are carried out retrospectively. Thus, the indicator is based on activities that may generate IFFs.
- As the boundary between legal, illicit, and illegal tax practices may be unclear, a continuum of activities from legal tax planning to illegal tax evasion can be used.

**Boundaries of aggressive tax planning**

- Using tax provisions in the spirit of the law
- Rearrange international flow to avoid repatriation taxes
- Reallocate the tax base to a lower-tax country
- Reduce the base via a double deduction or double non-taxation
- Illegal measures, e.g. non disclosure of income

Key features:

- **Country-Level**: Allows to measure IFFs at the level of countries (in line with SDG indicator framework)
- **Comprehensive**: Encompasses all types of illicit activities that cause IFFs
- **Compatible**: Aligned to established concepts and standards from economics and accounting. Liaising with new ‘Joint Informal Economy Task Force’ hosted by IMF to ensure consistency.
Main Activities

• UNCTAD/UNODC Task Force on the statistical measurement of illicit financial flows is developing methodological guidance for countries.

• Involvement of national statistical offices is critical as coordinators of the national statistical systems - data needed to measure IFFs are scattered across many organisations.

• Latin America IFF project led by UNODC in cooperation with UNODC-INEGI Centre of Excellence for Statistical Information;

• Africa IFF project led by UNECA & UNCTAD

• Asia IFF project led by UNESCAP with UNCTAD/UNODC
Next Steps

- Publication of UNCTAD-UNODC Conceptual Framework
- Call for pilot countries (now open)
- Development of methodological guidelines on IFFs from illicit markets
- Sharing of results from pilot studies in Latin America
- Development of methodological guidelines on IFFs relating to tax and commercial practices
- Sharing of results from pilot studies in Africa and Asia
Methodological guidelines on IFFs

• **Target audience:** National Statistical Offices
  – Data granularity and access
  – Statistical purpose, not administrative purpose

• **Selected methods, applications**
  – Three sets of criteria:
    • Soundness of methodology
    • Source data
    • Results

• **Internationally comparable estimates of SDG 16.4.1**

• **Country piloting 2021: call for pilots in Africa now!**
Thank you