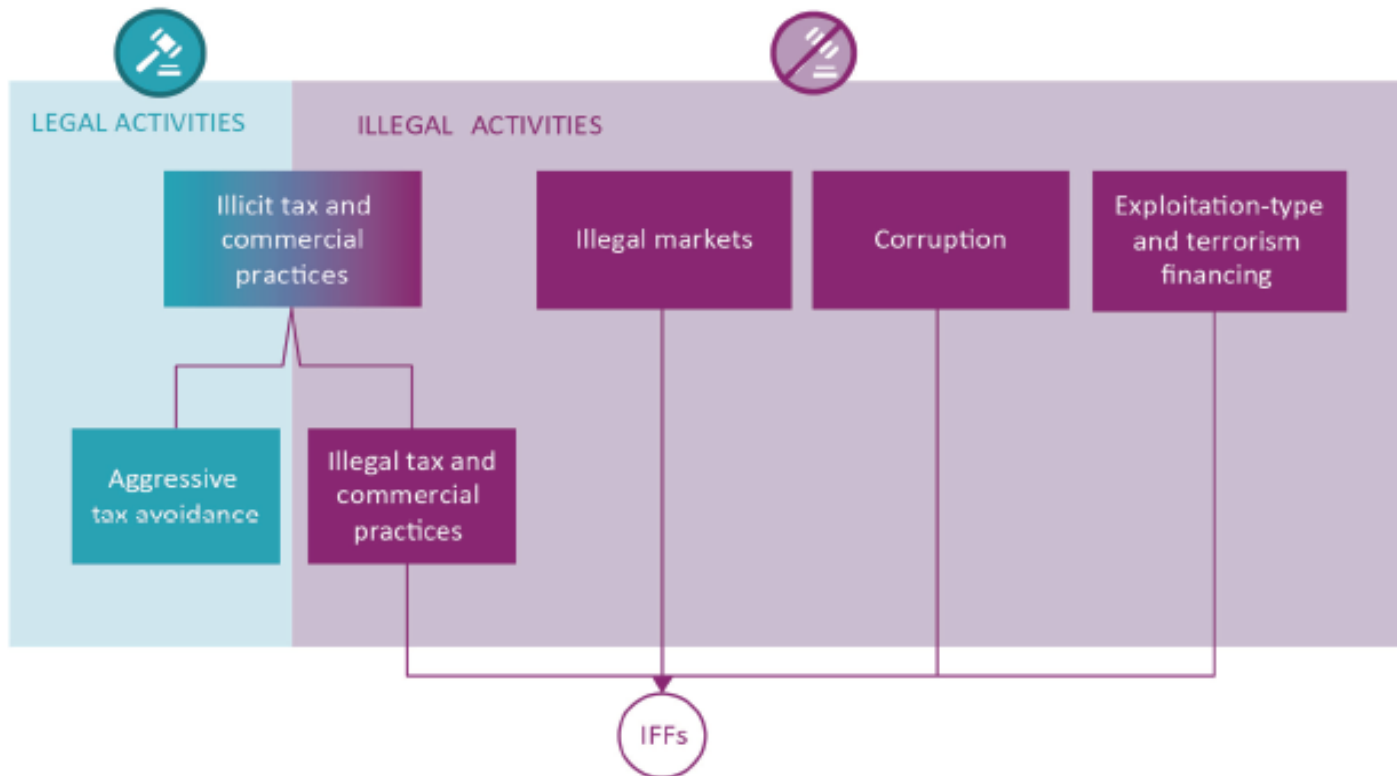




# Measuring Illicit Financial Flows The Economic Elements



# 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.



# Statistical Framework for Measuring IFFs

## 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
- Pilot countries in Africa and Asia selected
- 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 for Africa: June to November 2021.







**Thank you**

