Measuring Illicit Financial Flows
The Economic Elements

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Categories of activities that may generate IFFs

Source: UNCTAD and UNODC
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.

*Source: Institute for Advanced Studies (2017)*
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
Thank you