UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
UNCTAD

Session 1

Custodians and Regional Commissions’ work on IFF measurement

UNDA Project “Measuring and Curbing Illicit Financial Flows”

Inter-regional workshop

Day 1 - 20 September 2023

UNODC United Nations Office on Drugs and Crime
United Nations Economic Commission for Africa
United Nations ECLAC
United Nations ESCWA
ESCAP Economic and Social Commission for Asia and the Pacific
UNECE
United Nations UNCTAD

Outline

I. Custodians' mandates and roles on IFFs measurement

II. SDG indicator 16.4.1 measurement experiences and results

- Latin America
- Africa
- Asia
- Egypt

III. Regional Commissions work on IFFs measurement

- ESCWA work in the Arab region

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Custodians and RCs mandates and roles on IFFs measurement

- 2030 Agenda for Sustainable Development
  - UNCTAD-UNODC co-custodians of SDG Indicator 16.4.1
  - Conceptual framework
  - Methodological development
  - Pilot testing
- Regional Commissions regional work and mandates related to measurement

https://unctad.org/publication/conceptual-framework-statistical-measurement-illicit-financial-flows

Measuring crime IFFs in Latin America – DA10

Pilot testing in Latin America (measurement) DA10:

Between 2018 and 2020, UNODC conducted a set of activities to test the methodological guidelines to measure IFFs in Latin America.

Four countries reached:

- Mexico (Drug trafficking and smuggling of migrants)
- Colombia (Drug trafficking and illegal gold mining)
- Ecuador (Smuggling of migrants)
- Peru (Drug trafficking)

Measuring crime IFFs in Latin America – DA10

First estimates reveal that, for example:

- Mexico: Drug cartels generated inward IFFs for an estimated **$12.1 billion USD** on average between 2015 and 2018.
- Colombia: Cocaine trafficking was estimated to have generated inward IFFs between **$1.2 and $8.6 billion USD** between 2015 and 2019,
- Peru: Cocaine trafficking-related inward IFFs (**$1.3-$1.7 billion USD**) representing 3.5 to 4.5 per cent of total exports.
- Ecuador: Smuggling of migrants related IFFs of **$13.6 Million USD** on average over the period 2016–2018

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Measuring tax and commercial IFFs in Africa – DA11

Project "Defining, estimating and disseminating statistics on IFFs in Africa" (2018-2022)

- Early stages, 2018-2020: focused on development of the UNCTAD-UNODC Conceptual Framework for the statistical measurement of IFFs, and UNCTAD published draft Methodological Guidelines to measure tax and commercial IFFs.

- Early 2021: UNECA, UNCTAD and UNODC launched a call for interest for African countries to join the pilot testing of IFFs measurement.

- Between 2021 and 2022, Methodologies on tax and commercial IFFs were pilot tested in 11 African countries: **Angola, Benin, Burkina Faso, Gabon, Ghana, Mozambique, Namibia, Nigeria, Senegal, South Africa and Zambia.**

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Measuring tax and commercial IFFs in Africa – DA11

- **All countries** tested methods to **measure trade misinvoicing by entities**
- **3 countries** tested methods to **measure tax avoidance by Multinational Enterprises (MNEs)**

- **Methods on tax avoidance by MNEs and flows of offshore wealth are more challenging** due to data availability
- **Access to customs and other data is problematic** for many countries
- **Data confidentiality** is a **concern and affects access to data**

Unofficial and preliminary estimates	Tax and commercial IFFs
Burkina Faso Africa	**Trade misinvoicing** was preliminary estimated at **$6.8 billion inward and outward IFFs** in different sectors, such as beverages, petroleum and ore between 2011 and 2020.
Gabon Africa	**Trade misinvoicing** was preliminary estimated to have generated **$65 billion inward and outward IFFs** between 2010 and 2021.
Ghana Africa	**Trade misinvoicing** was preliminary estimated at **$8.4 billion inward and outward IFFs** with the United States of America and the European Union between 2000 and 2012.
Namibia Africa	**Trade misinvoicing** was preliminary estimated to have generated **$19.6 billion inward IFFs**, and **$4.7 billion outward IFFs** between 2018 and 2020.
South Africa Africa	**Trade misinvoicing** was preliminary estimated at **$21.9 billion inward IFFs**, and **$40.4 billion outward IFFs**, most prevalent in precious metals and stones, and electrical machinery and equipment in 2017.
Zambia Africa	**Trade misinvoicing** was preliminary estimated to have generated **$44.9 billion inward and outward IFFs** based on seven major trading partners between 2012 and 2020.

Measuring trade mis-invoicing in Africa - DA8

DA 8 - Preventing trade Mis-invoicing in African Countries (2018-Dec 2021)

- Original objective of the project was to develop and implement a capacity building framework to address trade mis-invoicing at country level.
- This included development of IT-based hard tools to support customs improve areas such as inadequate or fragmented trade data, lack of inter-agency co-ordination and exchange of information among relevant agencies within and among countries.
- Due to high costs of proposed tools , and significant lack of inter-operability among them with existing software systems in Customs administrations, approach to the project had to be adjusted
- The new project approach was thus to complement the work on IFFs measurement being undertaken under DA11, focusing on the measurement aspects of Trade Mis-Invoicing in African Countries.
- Upon global consensus on the methodological approaches, a study on bilateral trade asymmetries was conducted

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Measuring trade mis-invoicing in Africa

DA 8 - Key results achieved on Trade Mis-invoicing

- A study on bilateral trade asymmetries in African countries(2017-2019): total IFF inflows(excluding intra-Africa trade) from both import and export mis-invoicing: **$123b** ; Total outflows(excluding intra Africa trade):**$160b)**.
- A dedicated manual was produced to guide member States in estimating bilateral trade asymmetries and identify points of vulnerability for dedicated policy efforts to curb IFFs through trade mis-invoicing.

A new ECA-AUC project in Gabon

- A joint scoping mission to engage with stakeholders/TWGs to agree on actual country's risks and vulnerabilities;
- Gabon's national action plan (output of DA11) now updated to reflect new developments ,
- A new project to build on work done under DA11 is under development-AUC/GIZ

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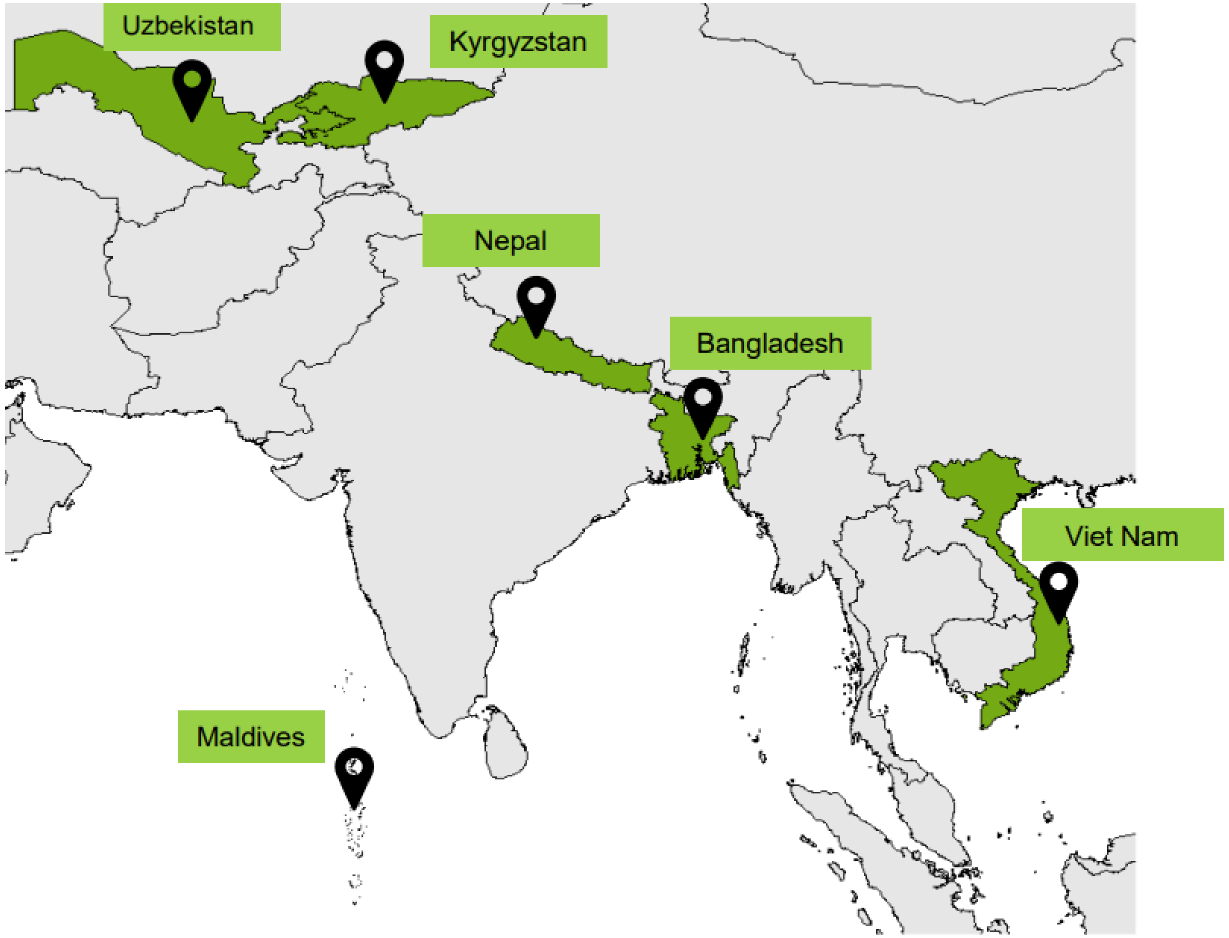
Measuring IFFs in Asia – Overview

After the pilot in Latin America, a follow up project was conducted in Asia to consolidate existing methodologies and develop new ones in a different regional context in terms of IFFs dynamics, predicate offences and statistical capacity. Both crime-related IFFs and tax and commercial IFFs measurement methods were tested.



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Measuring crime-related IFFs in Asia – DA12

UNODC measurement of IFFS in Asia (DA12 project)

- Bangladesh (Drug trafficking)
- Nepal (Drug trafficking & forced labour)
- Maldives (Drug trafficking)
- Viet Nam (Wildlife trafficking)

Measuring crime-related IFFs in Asia – DA12

- Bangladesh: Total outflow of IFFS related to drug trafficking is $**480 million USD** (range: $100 to $2,423 million USD) between 2017-2021.
- Maldives: Trafficking of drugs such as cannabis, heroin, ecstasy and cocaine have generated an average of **$16.3 million USD** (range: $8.0 to $19.5 million USD) in outward IFFS per year between 2020-2021.
- Nepal: outward IFFs from heroin were estimated at $**4.59 million USD** (range: $1.81 to $10.90 million USD) between 2019-2021.
- Viet Nam: Capacity building exercise conducted. No estimates produced.

Measuring tax and commercial IFFs in Asia – DA12

ESCAP measurement of IFFs in Asia (DA12 project)

Kyrgyzstan: IFFs from Trade misinvoicing, Offshore tax evasion, illicit remittances, and grey reexport. In 2017-2020 the largest source of tax and commercial IFFs for Kyrgyzstan was trade, ranging between $7.7 and $11.3 billion (or 148-151% of total trade) annually between 2017 – 2020 with inflows dominating the IFF structure. Kyrgyzstan was also subject to inward IFFs from illicit remittances, which were estimated to range between $0.3 and $1.6 billion annually (or 13-61% of total remittances) in 2017-2020. Outward IFFs from offshore tax evasion did not exceed $0.2 million annually over the period of 2017-2020.

Uzbekistan IFFs from Trade misinvoicing, Offshore tax evasion, illicit remittances. Estimation demonstrated a high value of IFFs from trade, which were directed both inward and outward and ranged between $14.7 and $23.1 billion, or 52-69% of total trade value annually over 2017-2020. Other methods showed possible inward IFFs from illicit remittances ranging between $530 million and $1.7 billion (or 7-53% of total remittances) and outward IFFs from offshore tax evasion in 2018 with the value of $4.9 million.

Measuring IFFs in Egypt

Tax and commercial IFFs:

- *Partner Country Method Plus*
  - Top 10 commodities, EX and IM
  - Challenges:
    - CIF/FOB margin -> internal database under construction; consult external sources
    - Trade system -> liaise with partner-country Customs
    - Partner-country attribution: country of origin, destination -> inspect
- *Price Filter Method Plus:*
  - Top 5 commodities, IM
  - Challenges:
    - Central price: international price? Location?
    - CIF/FOB valuation -> own database under construction; consult external sources
    - Heterogeneity of products -> detailed discussions with Customs experts

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Measuring IFFs in Egypt

Tax and commercial IFFs:

- *Global distribution of MNEs profits*
    - Tax semi-elasticity approach
    - Assuming shifting profits to lower-tax units
    - Which tax rate to use?
    - Nationally available data -> sample
    - Variables: treating negative profits? Treating negative taxes?
    - Model specification: 25 scenarios!
    - Statistically insignificant regression estimates -> refine methodology

Measuring IFFs in Egypt

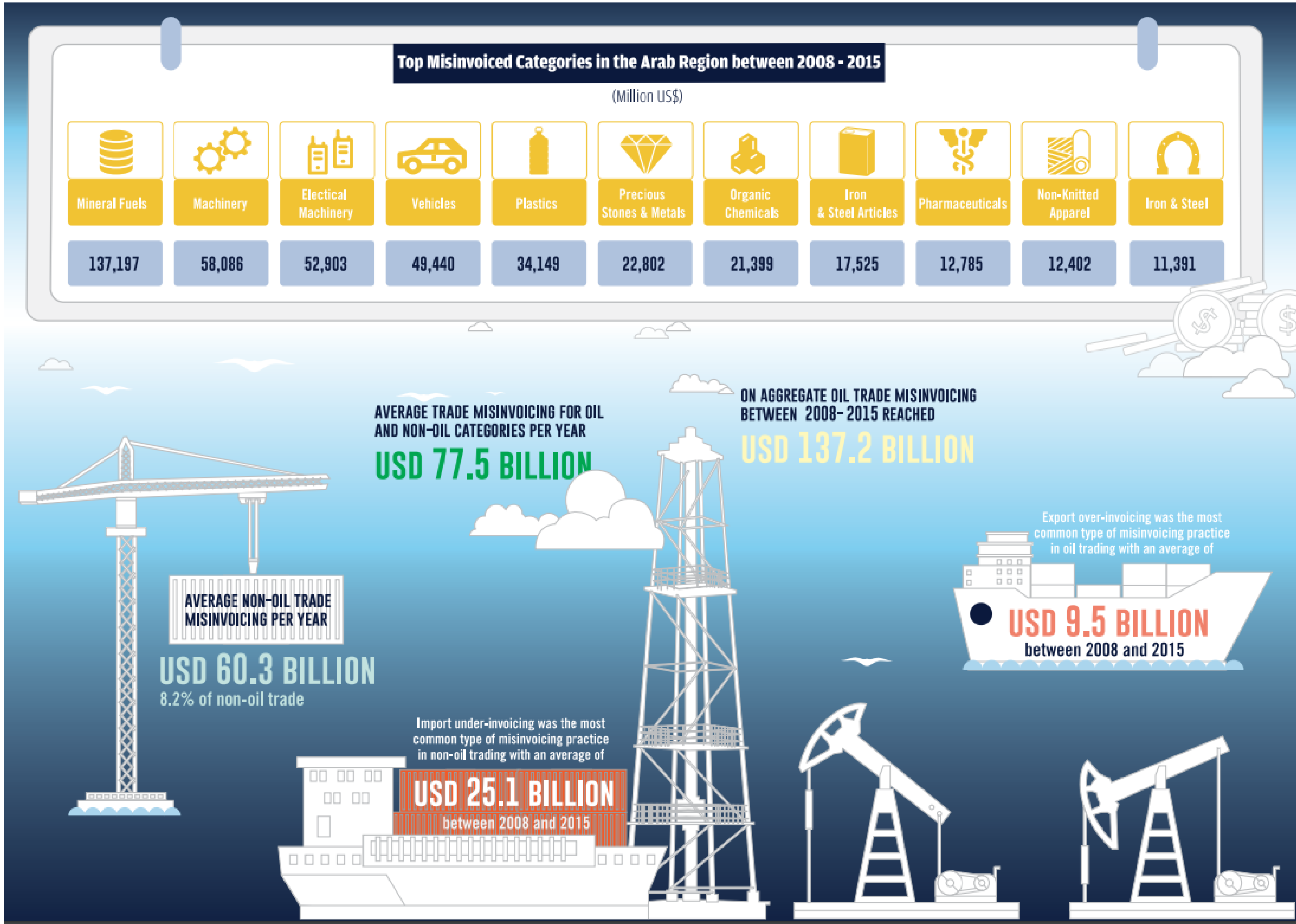
Crime-related IFFs : focus on drug trafficking

- Achievement: 12 officials trained (FIU, ministry of interiors, Ministry of Social Solidarity, Ministry of Planning and Economic Development, Central Agency for Public Mobilization and Statistics) in June 2022
- Several data collected, but critical data gaps still exist

Trade Based IFFs in Arab Economies

Methodology:

- The methodology is aligned to the Economic Commission for Latin American and the Caribbean (2016) and by the High-Level Panel on Illicit Financial Flows from Africa, ECA (2015)
- Introduces two variations to capture the dynamics of intra and extra regional preferential & non-preferential trade misinvoicing
- Estimating IFFs and misinvoicing in terms of gross value



Tax Based IFFs in Arab Economies

Shared Prosperity Dignified Life

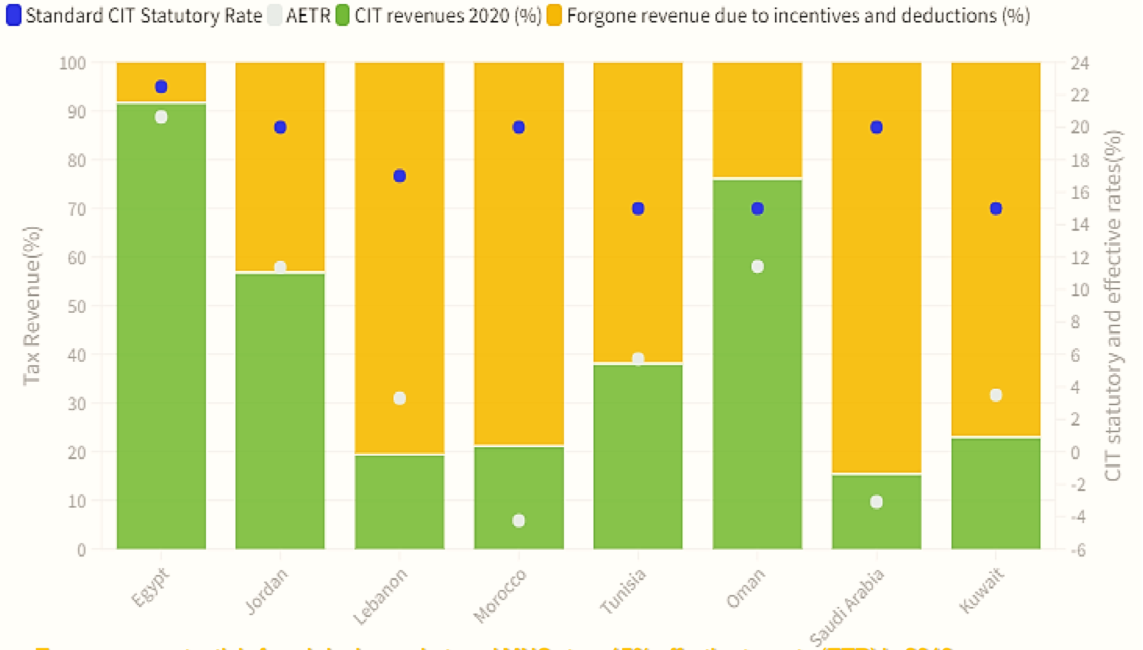
What we know:

More than 60 percent of MNCs in the Arab region are undertaxed

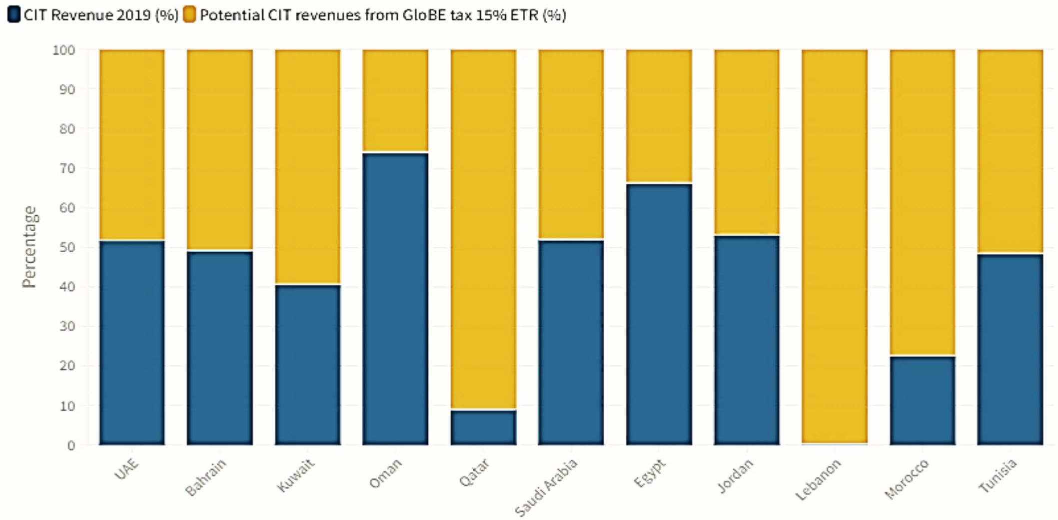
- Arab countries are losing **40%** of their potential CIT revenues on average due to tax incentives and deductions

- The Arab region is losing **38%** of its potential tax revenue, equivalent to **$2.3** billion, due to MNCs paying less than 15% ETR

CIT incentives and deductions in selected Arab countries, 2019-2020



Tax revenue potentials from bringing undertaxed MNCs to a 15% effective tax rate (ETR) in 2019

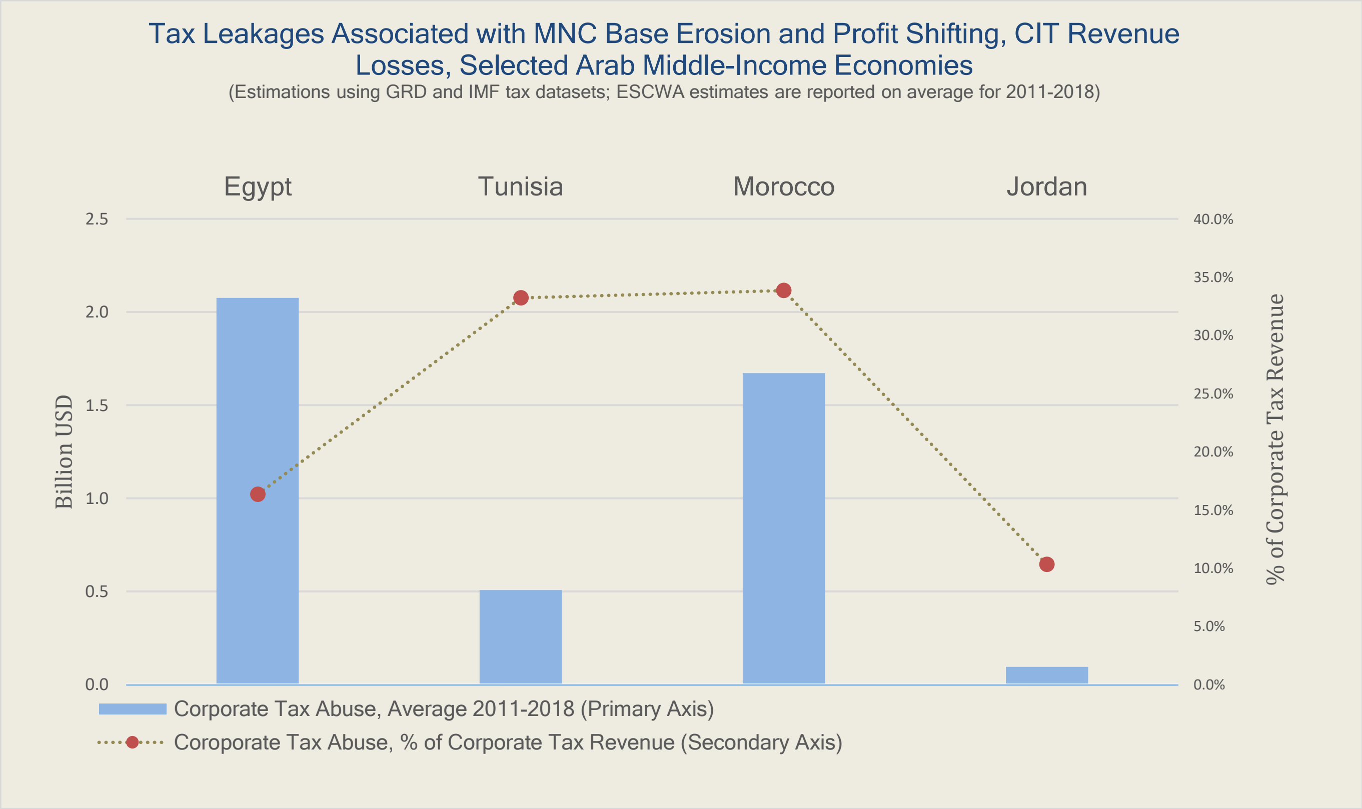


Tax Based IFFs in Arab Economies

Methodology:

- Generalized Method of Moments **(GMM)** using 38-year panel data for 174 countries (1980-2018)

- Corporate tax evasion/avoidance losses can be captured by **turning off** the tax haven channels



Egypt on average lost **$2.1** billion in corporate tax evasion/avoidance (compared to **$2.1** billion based on CBCR,2017)
Jordan on average lost **$100** million in corporate tax evasion/avoidance (compared to **$87** million based on CBCR, 2017)
Tunisia on average lost **$500** million in corporate tax evasion/avoidance (compared to **$250** million based on CBCR,2017)