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
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
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

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
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.
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

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<th>Unofficial and preliminary estimates</th>
<th>Tax and commercial IFFs</th>
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| **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.
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/TWGAs 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
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.
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
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
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

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
**Methodology:**


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

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**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)