Project components Measurement & Policy pillars

OSF Project – Regional Kick-off Workshop

22 February 2024

UNCTAD STAT & ALDC

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Outline

- **PART I: Recap**
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- **PART II: Project components**
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  - Key actors

- **PART III: Measurement pillar**
  Intra-country cooperation
  IFFs measurement
  Material & tools
  Training modules
  SDG 16.4.1 reporting
  Statistical framework

- **PART IV: Policy pillar**

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PART I

RECAP

Previous project: *Defining, estimating and disseminating statistics on IFFs in Africa (2017-2022)*

- 2017-2018: **IFF expert consultations** and a stock take of IFF research

- January 2019: **UNCTAD/UNODC Task Force** on the Statistical Measurement of IFFs

- October 2019: SDG metadata (16.4.1) on concepts and methods was approved by IAEG-SDGs and UN Statistical Commission

- October 2020: Conceptual Framework for the Statistical Measurement of IFFs

- May 2021: Methodological Guidelines to measure Tax and Commercial IFFs

- June 2021-September 2022: **UNECA/UNCTAD Pilot testing** activities in 11 African countries

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Conceptual Framework & Methodological Guidelines

As co-custodians of SDG 16.4.1, the **UNCTAD and UNODC are mandated to develop methodologies, and collect and report statistics on IFFs**

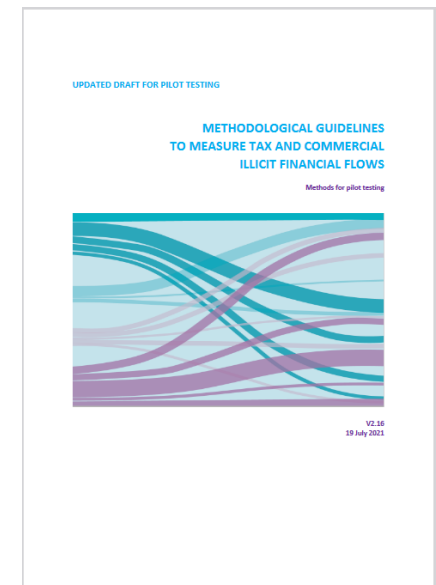*UNCTAD-UNODC **Conceptual Framework** for the Statistical Measurement of Illicit Financial Flows (2020)*

*"Financial **flows** that are illicit in **origin, transfer or use**, that reflect an **exchange of value** and that **cross country borders**."*

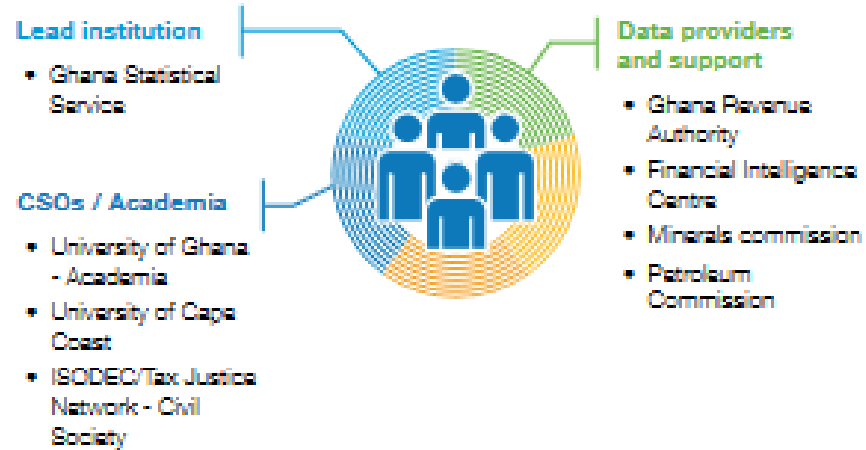Endorsed by **UN Statistical Commission** in March 2022

*UNCTAD Draft **Methodological Guidelines** to Measure Tax and Commercial IFFs (2021)*

Ghana

2. Organisations of the Technical Working Group

Lead institution
- Ghana Statistical Service

CSOs / Academia
- University of Ghana - Academia
- University of Cape Coast
- ISODEC/Tax Justice Network - Civil Society

Data providers and support
- Ghana Revenue Authority
- Financial Intelligence Centre
- Minerals commission
- Petroleum Commission

3. Methods used

Method ❶
**Partner Country Method Plus**

Method ❷
Price Filter Method Plus
These methods were used to produce estimates of IFFs for the period 2012-2021

Experience with the methods shows PFM is easy to use since it does not require trade data from partner countries.

4. Magnitude of IFFs

For the period 2000-2012, preliminary estimates for gold, cocoa and other extractive industries show that between Ghana, the US and the EU, inward and outward IFFs amounted to **US$8.44 billion.**

Inward and outward IFFs:
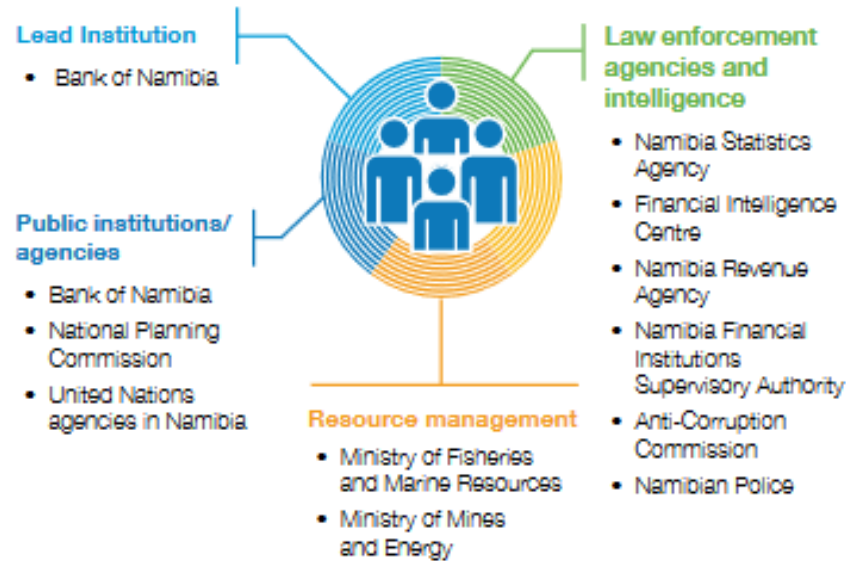**US$8.44 billion**

USA

EU

GHANA
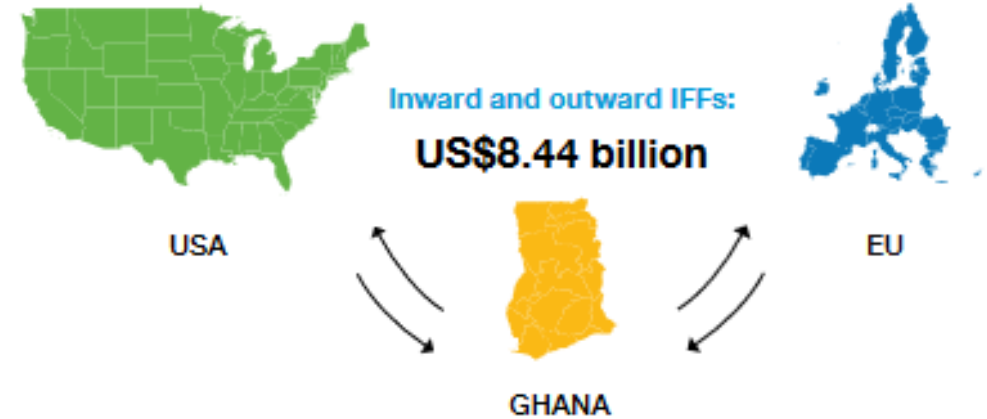
The way forward...

This project has generated interest among policymakers and academics who want to understand the impact of IFFs, locally, and so take the necessary steps to prevent further damage.

Data availability has been the biggest challenge so far, with detailed, item-level (HS10) trade data needed from Ghana and partner countries. Efforts to collect this data from Ghana's customs are currently underway with the help of the Ministry of Finance, which will collate the figures and ensure general acceptability for all stakeholders.

Namibia

2. Organisations of the Technical Working Group

Lead Institution
- Bank of Namibia

Public institutions/ agencies
- Bank of Namibia
- National Planning Commission
- United Nations agencies in Namibia

Resource management
- Ministry of Fisheries and Marine Resources
- Ministry of Mines and Energy

Law enforcement agencies and intelligence
- Namibia Statistics Agency
- Financial Intelligence Centre
- Namibia Revenue Agency
- Namibia Financial Institutions Supervisory Authority
- Anti-Corruption Commission
- Namibian Police

3. Methods used

Method ❶
Partner Country Method Plus

Method ❷
Price Filter Method Plus

4. Magnitude of IFFs

Results using **Method ❷** have been summarised as the following:

Statistical Method

Inward IFFs
US$4.5 billion

Outward IFFs
US$34.1 billion

Market Price Method

Inward IFFs
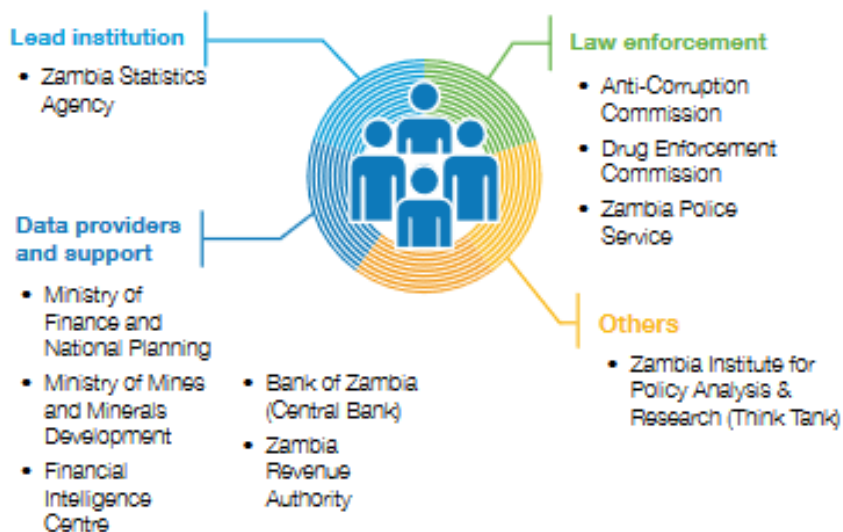**US$19.6 billion**

Outward IFFs
US$4.7 billion

The way forward...

- Train participating countries on the other four methodologies from UNECA and UNCTAD
- Set up a secretariat with sole responsibility for IFFs
- Improve data capture at customs, ensure data verifications and strengthen correct declarations
- Implement mechanisms for the independent verification of the number of commodities exported and imported from and into Namibia

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Zambia

2. Organisations of the Technical Working Group

Lead institution
- Zambia Statistics Agency

Data providers and support
- Ministry of Finance and National Planning
- Ministry of Mines and Minerals Development
- Financial Intelligence Centre
- Bank of Zambia (Central Bank)
- Zambia Revenue Authority

Law enforcement
- Anti-Corruption Commission
- Drug Enforcement Commission
- Zambia Police Service

Others
- Zambia Institute for Policy Analysis & Research (Think Tank)

" All institutions have complementary roles in the process. The members were appointed by the Secretary to the Treasury to ensure buy-in at the highest level and day-to-day activities delegated to the National Statistical Office, an authority in data collection, measurement and dissemination."

3. Methods used

Method ❶

Partner Country Method Plus
Led by the Zambia Statistics Agency

Method ❸

Global distribution of multinational enterprises' (MNEs) profits and corporate taxes
Led by Zambia Revenue Authority

4. Magnitude of IFFs

Method ❶

The preliminary findings based on seven major trading partners, show that US$44.9 billion was potentially mis-invoiced during the period 2012-2020:

- Obtained trade statistics (merchandise imports and exports) for 2012-2021 and compared between ZamStats and UN Comtrade data
- Used at least 80% of the total trade by year to determine major partners
- Identified 22 countries as major partners
- Highlighted countries with significant mirror discrepancies for both inbound and outbound trade

Method ❸

Obtained database of MNEs operating in Zambia during 2019-2020 from International Taxation Unit, Zambia Revenue Authority:

- Classified MNE's based on number of employees; total value of sales; operating profit; profit before tax; profit after tax; tax paid; total fixed assets; and total assets
- Profiled MNEs based on the above variables to determine which thresholds to use

The way forward...

- Determine a more holistic picture of trade mis-invoicing
- Account for remaining asymmetries
- Establish a mechanism for better tracking the effective destination of Zambian exports
- Explore the use of weighting procedures
- Complement the findings with qualitative methods
- Further analysis on the use of the Price Filter Method

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PART II

PROJECT COMPONENTS

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Project activities

Objective: To strengthen the statistical capacities of selected developing countries in Africa to measure tax and commercial IFFs and develop evidence-based policy responses to curb them.

Outcomes

OC1: Strengthened statistical capacity to measure and disseminate selected types of tax and commercial IFF statistics *(strengthen capacities and disseminate results)*;

OC2: Enhanced policy formulation and targeted action towards curbing tax and commercial IFFs: *(inform policies)*;

Outputs

- **OP1.1: One regional workshop (online),** kick-starting activities with pioneering countries and sharing the project implementation plan.

- **OP1.2: Three national training workshops (in-person)**

- **OP1.3: National measurement work** in pioneering countries to apply the selected methods, compile estimates of IFFs and provide analysis of the findings;

- **OP1.4: One regional workshop (in-person)** where pioneering countries sharing experience, lessons learned and challenges of the measurement of tax and commercial IFFs.

- **OP2.1: Three national policy workshops (in-person)**

- **OP2.2: National action plan/policy formulation work** with advisory services on data and research strategies tailored to national needs assessment

- **OP2.3: One regional workshop (in-person)** closing activities

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Project timeline

Outcome	Output #	YEAR 1 2024				YEAR 2 2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
OC1	OP1.1	▓							
	OP1.2		▓	▓					
	OP1.3			▓	▓	▓			
	OP1.4					▓			
OC 2	OP2.1						▓	▓	
	OP2.2							▓	▓
	OP2.3								▓

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Key actors

UN Agencies

✓**UNCTAD Statistics**

Measurement

✓**UNCTAD ALDC**

Policy

✓**ECA & RCOs**

To keep abreast of the activities and support when available

Country

- National focal point institution

  E.g.: NSO, Central Bank

- National consultant

  Working as link between UN agencies and country actors and implementing estimates

- Key national stakeholders on measurement & policy

  Stakeholders actively engaged in the process

- Other stakeholders

Intra-country collaboration

- **National Coordination mechanism**
- Coordinated by **National focal point** (NFP) institution
- Multiple **Technical working groups** (measurement & policy)
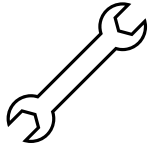
Objectives:

- Coordinated data availability assessment and data collection
- Discussion and application of methods
- Consolidation, dissemination, reporting – Global SDGs indicators database

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IFFs measurement

Step 1
Self-assessment questionnaire

Step 2
Mapping of national agencies

Step 3
Data availability and quality review by method

Step 4
Method selection

Step 5
Pilot testing plan

Step 6
Compile and disseminate IFF statistics

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Materials and tools

1. **Conceptual framework** for the statistical measurement of IFFs

2. **Methodological guidelines**

3. **Self-assessment questionnaire and preliminary risk assessment**

4. **Data availability assessment**

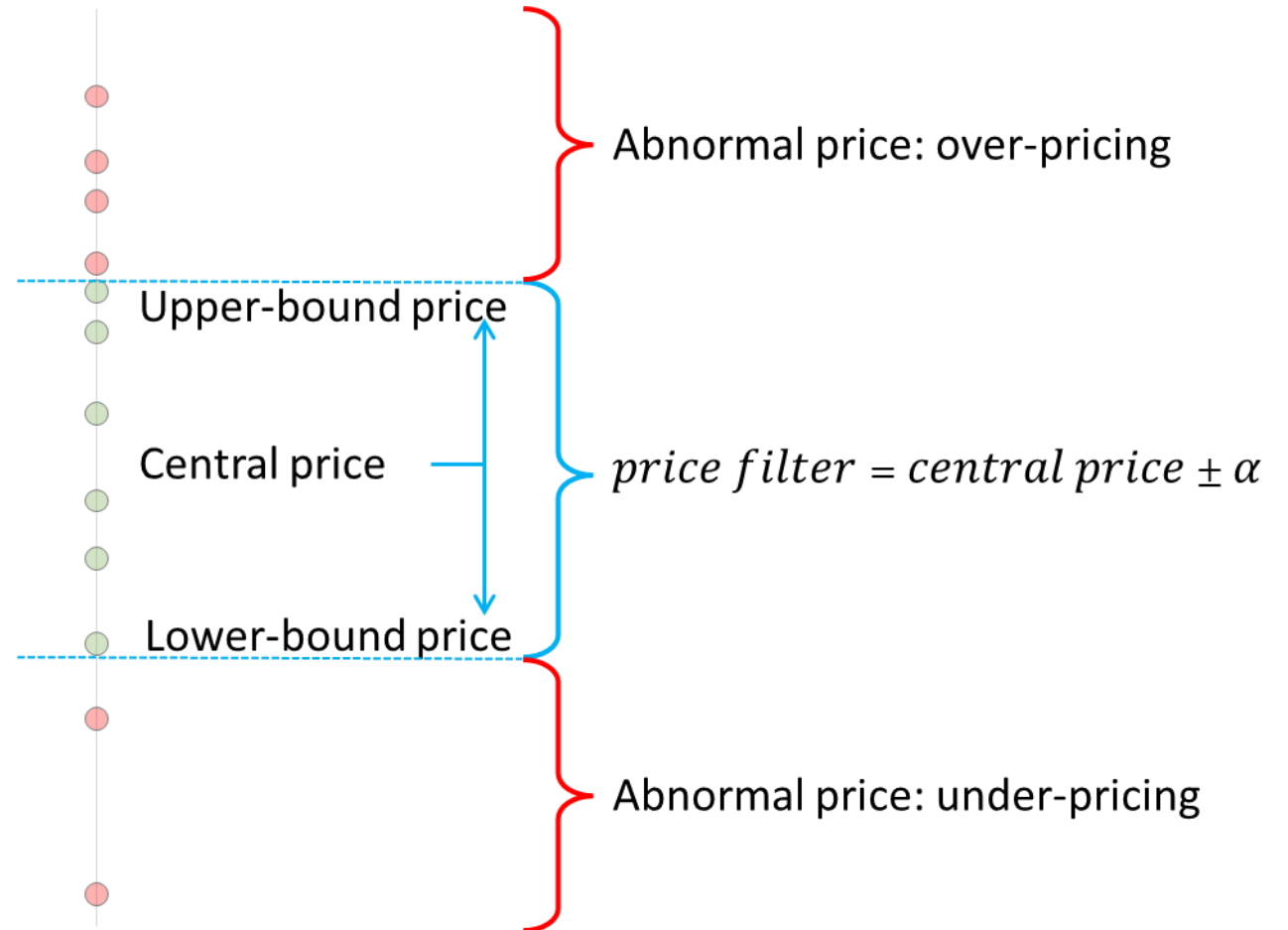5. **Data collection**

6. **Training and E-learning**

Training modules

- Tax and commercial IFFs
  - M#1: PCM+
    - Mirroring trade values by trading partners
    - Many factors for discrepancies -> [inspect!]
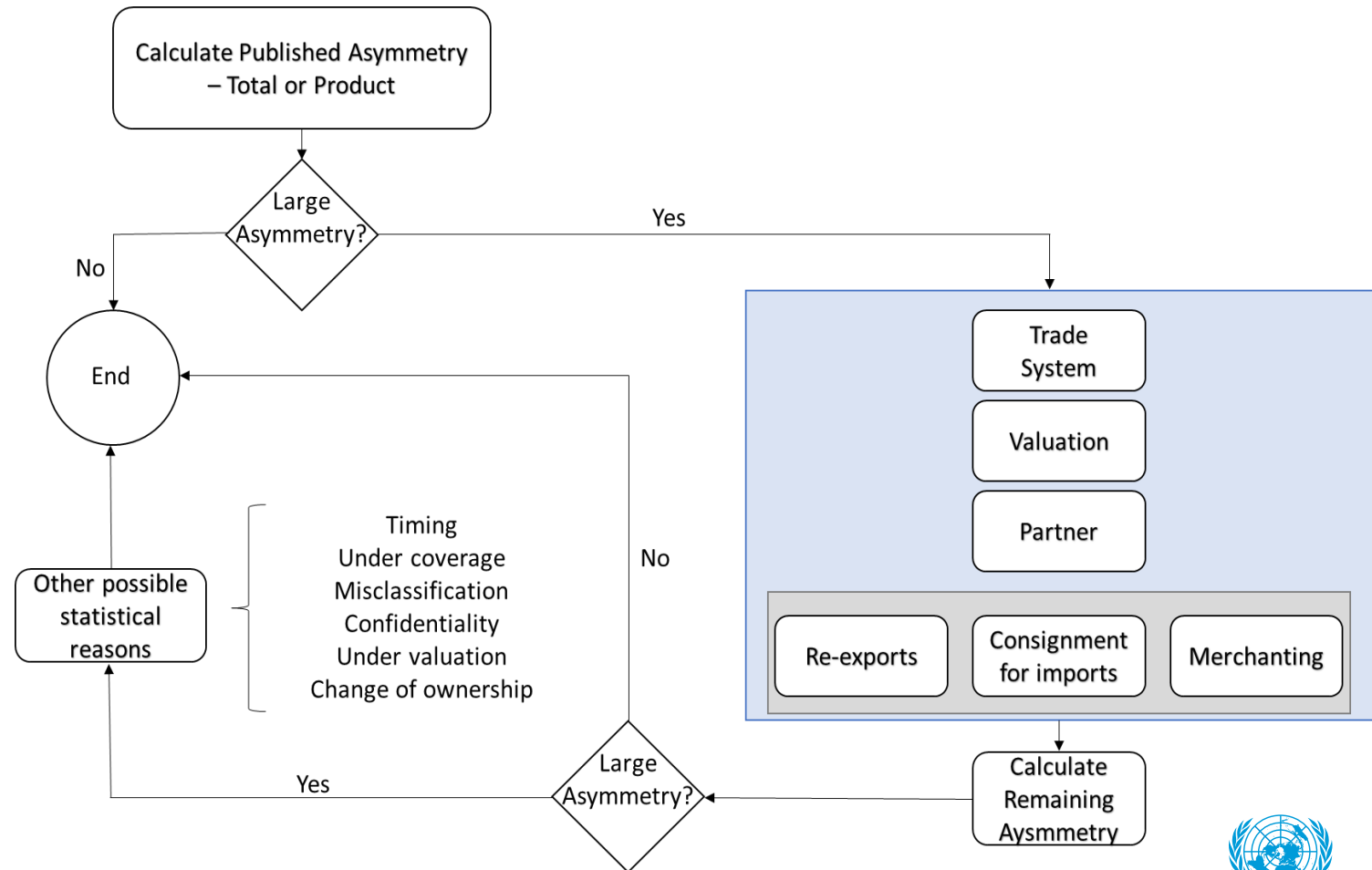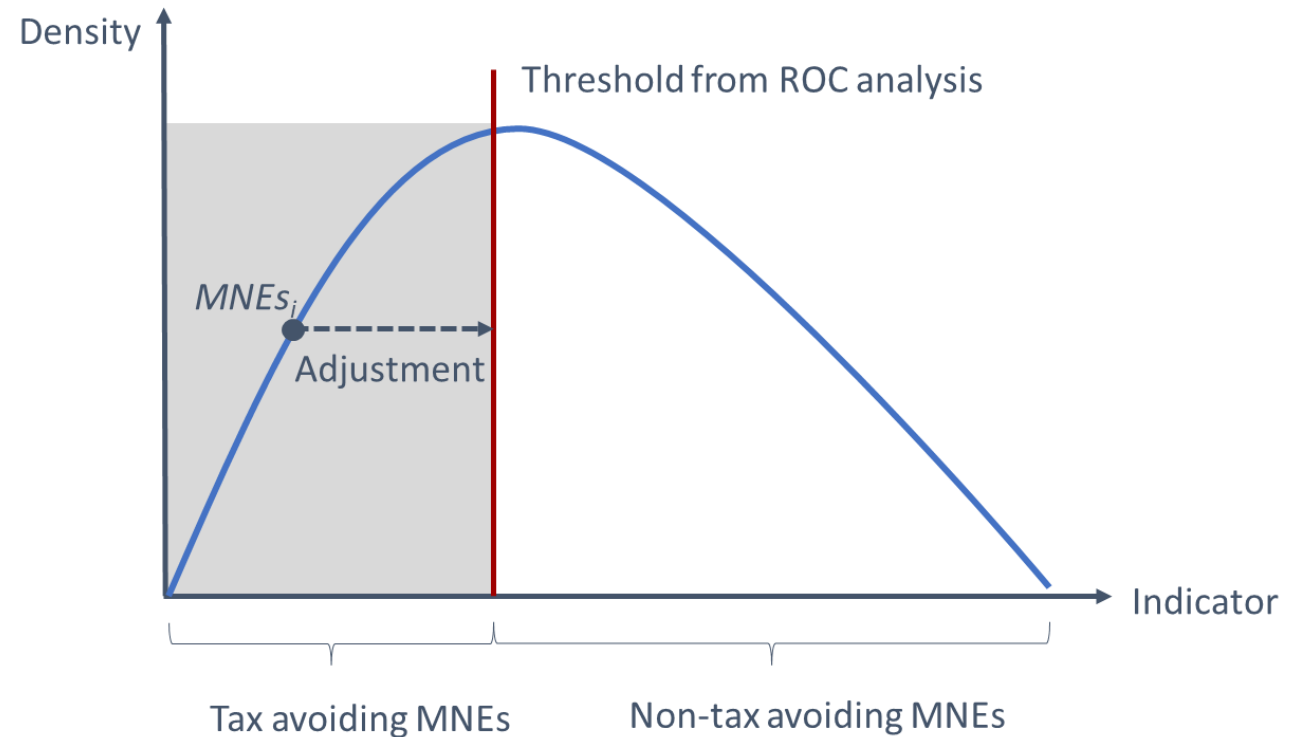
Training modules

- Tax and commercial IFFs
  - M#2: PFM+
    - Detect abnormal prices, deviating from arm's length
      - Central price?
      - Variation?

Abnormal price: over-pricing

Upper-bound price

Central price

$price\ filter = central\ price \pm \alpha$

Lower-bound price

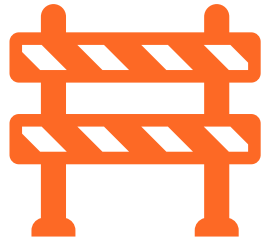Abnormal price: under-pricing

Training modules

- Tax and commercial IFFs
  - Aggressive tax avoidance
    - M#3: Tax semi-elasticity approach: shift profits to lower-tax units within MNE
    - M#4: Compare MNE to domestic

Training modules

- Tax and commercial IFFs
    - Tax evasion by individuals
        - M#5: offshore wealth

        - M#6: undeclared offshore assets

- Assumption:

internationally reported > reported to national authorities

$$\phi_i = \sum_j \beta_{j,i} - \alpha_i$$

BIS LS
OECD CRS

National Tax Authority

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SDG 16.4.1 reporting

Global SDGs indicators database

Objective

2 aggregated estimates:

total inward IFFs and total outward IFFs

+ Indicator 16.4.1, Series : Total value of inward illicit financial flows **DI_ILL_IN**

+ Indicator 16.4.1, Series : Total value of outward illicit financial flows **DI_ILL_OUT**

Disaggregation

Other possible disaggregation:

IFFs type ──→ **Geographic**

TXC: Tax and commercial
ILL: Illegal market
COR: Corruption
ETF: Exploitation type and
terrorism financing

Region
Subregion
Country

IFFs sub-type

| TXC_TMI :Trade misinvoicing |
| TXC_TAV: Tax evasion |

────→ **Economic sector**

….
ILL_DRG: Illicit drug
ILL_SOM: Smuggling of migrants
….
ETF_TIP: Trafficking in persons

ISIC4_A: Agriculture, forestry and fishing
ISIC4_B: Mining and quarrying
ISIC4_C: Manufacturing
ISIC4_D: Electricity, gas, steam and air
conditioning supply
ISIC4_E: Water supply; sewerage,
waste management and remediation
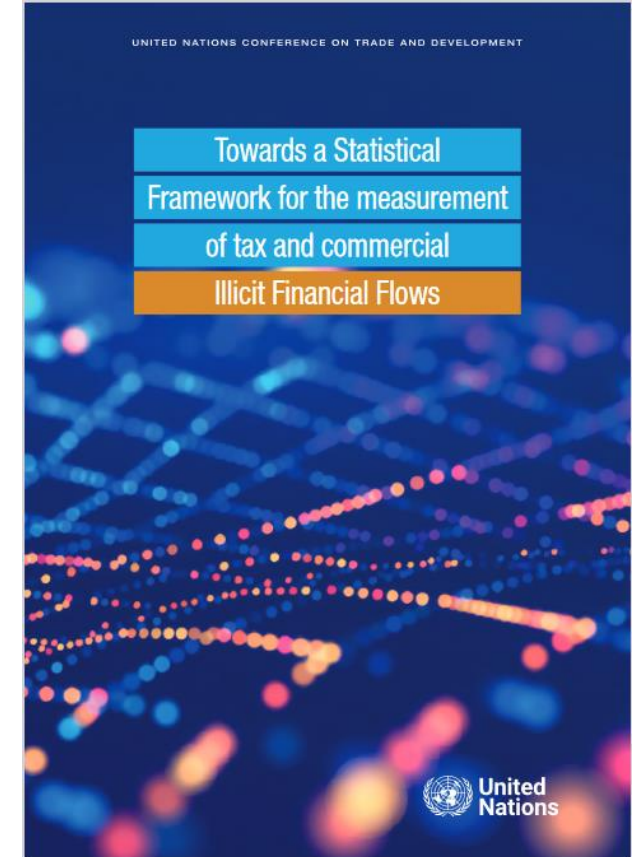activities
……

Statistical framework

- Towards a [Statistical Framework](#)
  - Concepts
  - Methods
  - Tools

- Statistical Framework:

ready for 2026 UN Statistical Commission

PART IV

POLICY PILLAR

Objective (s)

- Identify country specific policy measures for curbing IFFs, improve tax collection and raise domestic revenues.
  - Focus on trade-based IFFs: illegal tax and commercial IFFs (trade mis-invoicing).

Based on UNCTAD 2021 and UNODC 2015: IFFs from Illegal Tax and Commercial Practices

Level (3)	Activities	Flows
08041	A1. Activities against public revenue provisions	F1. Transfer of wealth to evade taxes, i.e., flows related to undeclared offshore wealth:
08042	A2. Acts against commercial or financial regulations	o Outright undeclared (concealed e.g., in secrecy jurisdictions)
08045	A3. Market manipulation or insider trading	o Undeclared via instruments (Phantom corporations or shell companies, tax havens)
07019	A4. Other acts of fraud/acts of commercial fraud	
08049	A5. Other acts against public administration or regulatory provisions/other illegal and commercial tax acts	F2. Mis-invoicing o Under/over pricing o Multiple invoicing o Over/under reporting of quantities o Misclassification of tariff categories

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Focus areas for policy analysis

1. Method 1: Partner Country Method Plus
   - Tax law and tax policy reform options
   - Multiple invoicing
   - Miss-classification of Tariff codes

2. Method 2: Price Filter Method Plus
   - Addressing over pricing/under pricing
   - Multiple invoicing

- Country specific report with relevant policy options/lessons learned

Thank you!