

Policy Expert Group Meeting

IFFs: Evidenced Based Policies

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2. Background
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4. Our Work
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➤ 1. Key Messages: Triple A (AAA)

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To implement targeted IFF policies, it is imperative to understand the source and the mechanisms for IFFs.

- ▶ *Assess*: Carrying out country specific assessments to understand the source of IFFs
- ▶ *Analyse*: Carrying out incisive review to better understand the mechanisms through which IFFs manifest.
- ▶ *Apply*: Implementation of targeted policy options to mitigate the flow of IFFs.

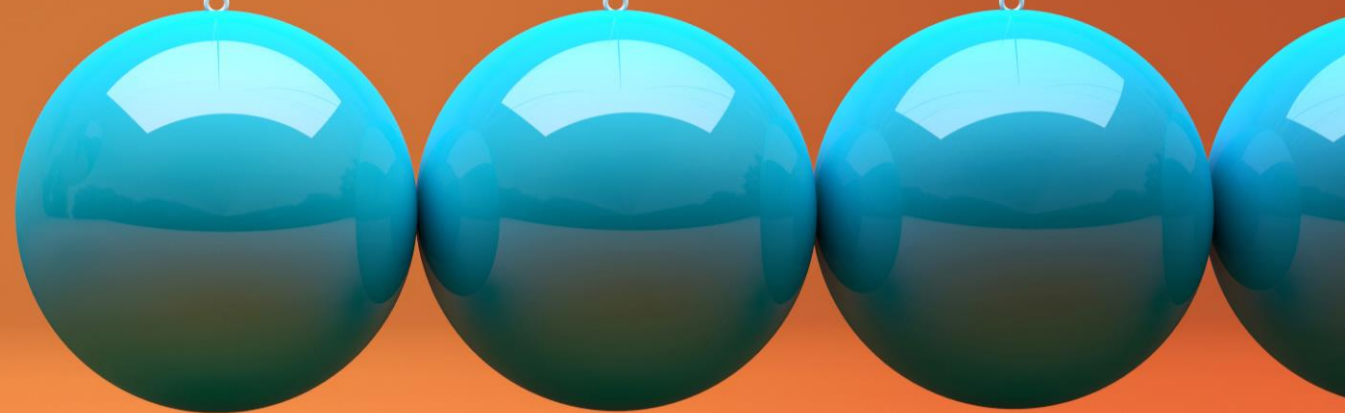


2. Background

➤ 2 Background

OSF Funded IFF project

- ▶ Objective: measurement and *targeted policies* that reduce the flow of IFFs
- ▶ Countries: Ghana, Namibia and Zambia
- ▶ ALDC - PARB Mandate: Structural transformation and economic diversification
- ▶ Intersection: stemming the flow of IFFs could strengthen revenue collection and enhance sustainable development.
- ▶ **Note:** research shows that countries with less IFFs have better social sector indicators – thus, IFFs tend to thrive where institutions are less inviolable.



3. Our Approach

➤ 3. Our Approach

Statistical Definition of IFFs:

- ▶ Illicit in origin, transfer or use;
- ▶ Exchange of value;
- ▶ A flow of value over time (as opposed to a stock measure);
and
- ▶ **Flows that cross a boarder.**

➤ **3. Our Approach**

Types of IFFs:

- ▶ **Illicit tax and commercial practices (aggressive tax avoidance and illegal tax and commercial practices);**
- ▶ Illegal markets;
- ▶ Corruption;
- ▶ Exploitation type and terrorism financing.

➤ 3. Our Approach

Development Approach
GA Res. 71/213

- ▶ FOCUS AREA - ***Illicit Tax and Commercial practices***
- ▶ Acc. to International Classification of Crime for Statistical Purposes (ICCS)
- ▶ Tax and commercial practices (trade misinvoicing; tax evasion and aggressive tax avoidance)

➤ 3. Our Approach

Assess – Sources of IFFs

- ▶ Economic background, for instance: customs unions (implications for tariffs/applications may generate perverse incentives), currency unions/fixed exchange rates, financial systems, other policies such as restrictions on imports.
- ▶ Past Policies, for instance: SEZs and EPZs might have implications for trading systems.

➤ 3. Our Approach

Assess – Sources of IFFs

- ▶ Definition of IFFs – ***flows that cross a border***, therefore:

$$Y - C - G = I + \mathbf{X-M}$$

$$S = I + \mathbf{NCO}$$

- ▶ The foreign exchange market can therefore be represented by:

$$\mathbf{X-M=NCO}$$

- ▶ Nonetheless, in reality, markets are marred by frictions which either cause or create opportunities for IFFs.

3. Our Approach

Assess – Sources of IFFs

$$\begin{aligned}\text{NCO} &= (\text{value} * \text{quantity})X - (\text{value} * \text{quantity})Y \\ &= \text{inward flows} - \text{outward flows} \\ &= (\text{licit} + \text{illicit})X - (\text{licit} + \text{illicit})Y\end{aligned}$$

3. Our Approach

Assess – Sources of IFFs

- ▶ Factors that might affect net exports and net capital outflows, and that might create opportunities for IFFs:
 - Exchange rates of domestic currency for foreign currency
 - Type of goods being exported and market prices
 - Government policies on international trade/government policies on foreign ownership of domestic assets
 - Real interest rates paid on domestic vs foreign assets
 - Perceived economic and political risks of holding assets

➤ 3. Our Approach

Analyze – Mechanisms through which IFFs manifest

Types of IFFs – Focus on illicit tax and commercial practices

Frictions, potential sources for IFFs	Flow, activity
Exchange Rate Regimes	Trade misinvoicing – fraudulently mis declare quantity or value of traded goods
Types of goods exported – Commodity dependent economies	Tax avoidance/ trade misinvoicing/ Tax evasion – strategic location of debt
Government Policies on international trade/ foreign ownership of domestic assets	Trade misinvoicing/Tax evasion/Tax avoidance – acts related to strategic location of debt
Perceived economic and political risks of holding assets	Trade misinvoicing/Tax evasion – fraudulently mis declare quantity or value of traded goods

➤ 3. Our Approach

Apply – policy options for curbing IFFs

- ▶ Once an assessment has been carried out, and the associated mechanisms identified, suitable policy options can be designed and applied.
- ▶ **Attribute - measurement is imperative!** For two reasons:
 - (i) it is important to understand where the IFF flows are;
 - and (ii) magnitude – without measurement, we do not know the magnitude of IFFs, also for reporting on SDG Indicator 16.4.1

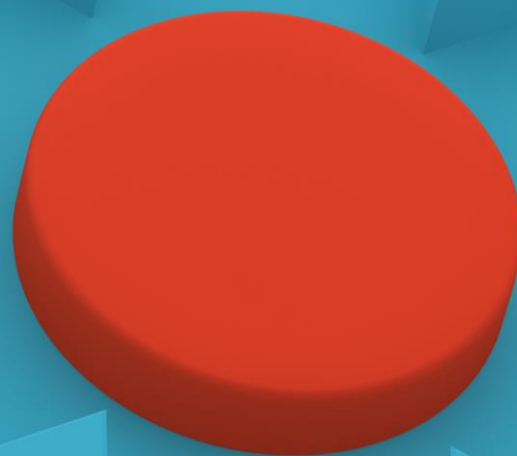


> 4. Our Work

4. Our Work

Open Society Foundation Project

- ▶ 3 countries
- ▶ Policy phase to begin in April 2025
- ▶ Use the framework to identify sources of IFFs and select suitable policies, e.g., use the ATAF-TJNA policy tracker
- ▶ Country reports including focused policy recommendations in September 2025



5. Conclusion

➤ 5. Conclusion

- ▶ *Assess*: Finding the source of IFFs.
- ▶ *Analyse*: Mechanisms through which IFFs manifest.
- ▶ *Apply*: From the first two As above, IFFs can be reduced, and revenue raised through sound policy options.

Thank you

