

Illicit Trade Forum

Session 3: illicit trade and illicit financial flows

SDG 16.4.1 on IFFs

Statistical framework and measurement challenges

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Summary

Illicit trade is part of a broader problematic known as illicit financial flows (IFFs)

Illicit trade and all other types of IFFs have detrimental impacts on development

Assessing the magnitude and characteristics of IFFs is essential for guiding policy

IFFs in the SDG framework



IFFs in the SDG framework

SDG target 16.4 By 2030, significantly reduce IFFs and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organised crime

SDG indicator 16.4.1 Total value of inward and outward illicit financial flows

IFFs in the SDG framework

UNCTAD and UNODC custodians of SDG indicator 16.4.1

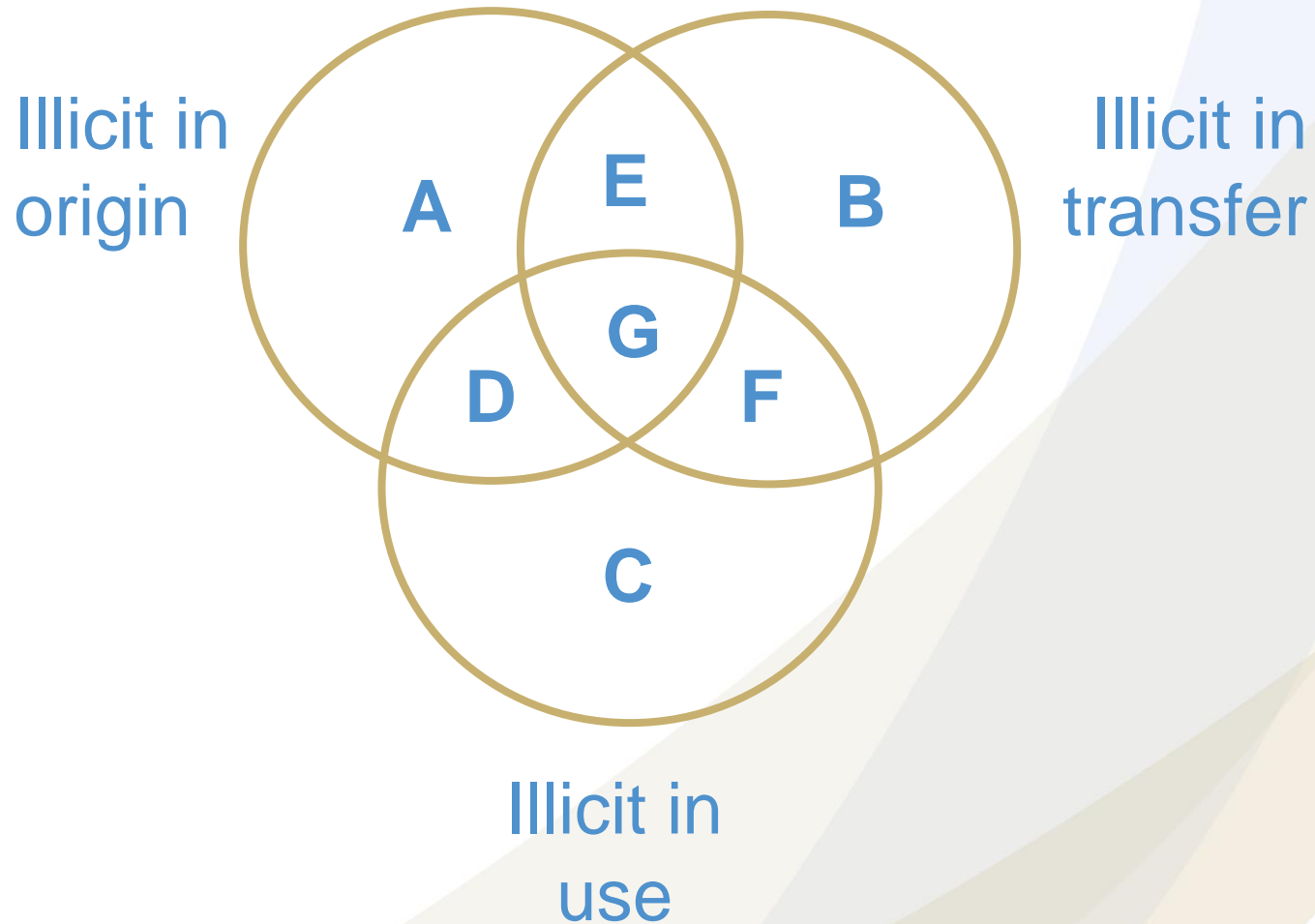
Initially a Tier III indicator (*no internationally established methodology or standards*)

In October 2019, indicator re-classified to Tier II (*indicator conceptually clear and internationally established, but data still not regularly produced*)

Definition of IFFs

Financial flows that are illicit in origin, transfer or use; that reflect an exchange of value instead of purely financial transactions; and that cross country borders

Definition of IFFs



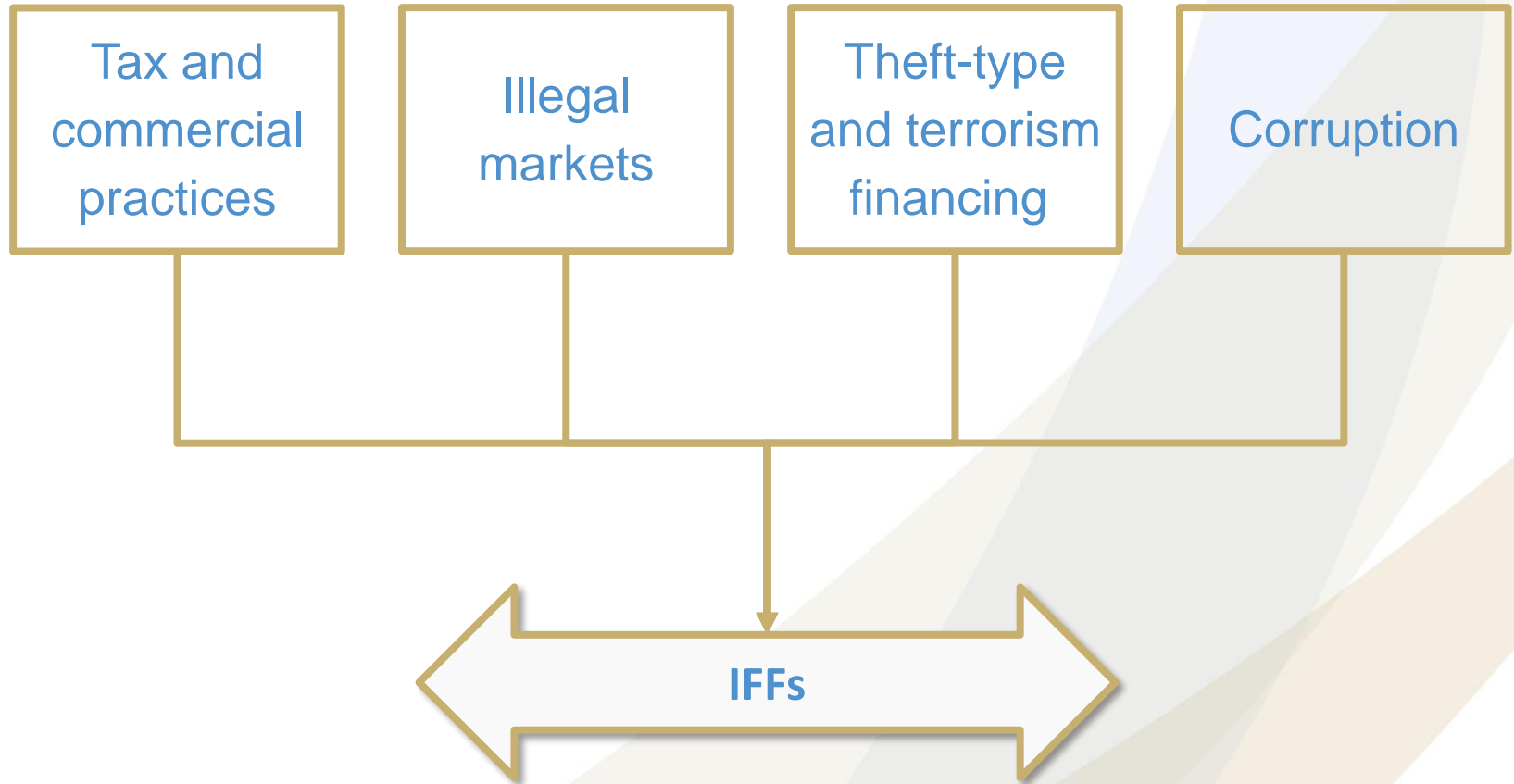
Typology of IFFs

IFFs can be classified from many angles:
sources, channels, impacts, actors
involved, motives

Chosen typology classifies IFFs according
to the underlying activities from where they
emerge

Different types of IFFs can be
interconnected

Typology of IFFs



Illicit trade and IFFs: examples

Trade from products that originate in illegal markets

Trade from products that violate regulations, quotas or restrictions

Trade of stolen products

Trade misinvoicing

Impact of IFFs on sustainable development

Direct impacts depend on specific IFF



Trade in illegal timber



Trade in products from IUU fishing



Trade of stolen oil

Impact of IFFs on sustainable development

However, there is also systemic impacts



State institutions & rule of law

Trust

Peace

Impact of IFFs on sustainable development

However, there is also systemic impacts



Resource mobilisation

Public & private investment

Effective policy

Measuring IFFs

Policy to reduce IFFs needs to be guided by information on their size and their characteristics (types, sources, channels)

Data on IFFs can also be used to evaluate the impact of policy

Disaggregated information is essential

Measuring IFFs

UNCTAD and UNODC propose a disaggregated approach to estimate the different types of IFFs

Each element can be estimated through different methodologies (top-down or bottom-up)

Estimates for each component aggregated for global figures of IFFs

Measuring tax and commercial IFFs

Potential measurement alternatives

- Mismatches (mirror trade statistics, banking deposits)
- Tax gap
- Differences in performance by type of actor
- Extended definitions (FDI)
- New sources of detailed information

Statistical challenges

Conceptual issues

Limited availability of reliable data

Estimates based on sensitive information

Dealing with double-counting and overlaps

Forthcoming UNCTAD activities

Development of methodologies for measuring IFFs from tax and commercial practices

Preparing guidelines for pilots in participating countries

Advancing development of SDG 16.4.1

Dissemination and advocacy

Conclusions

Growing recognition of the consequences of IFFs, including illicit trade, on development

Building a statistical infrastructure for IFFs is essential for monitoring trends and guiding policy

UNCTAD working with partners and member States in continuing progress on the development of SDG indicator 16.4.1

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