Conceptual framework for the statistical measurement of Illicit Financial Flows

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Illicit financial flows related to trade, tax, and criminal activities
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IFFs at the crossroad of multiple policy agendas

- Instrument for tax evasion or avoidance
  - loss of public resources

- Instrument for committing/facilitating corruption
  - rule of law erosion

- Vehicle to foster illegal markets or invest related proceeds
  - weakening of justice system and rule of law

- Vehicle to finance terrorism
  - threat to state security
Why is it important to measure IFFs?

1) Quantify resources to mobilize for the financing of the **2030 Agenda for Sustainable Development**

2) Define the **magnitude of the different sources** of IFFs and allow proper comparison

3) **Understand channels** of cross-border illicit transactions, to guide policy makers to define and improve tackling measures

4) **Monitor** impact of different policy actions to tackle IFFs
2030 Agenda

Goal 16 – Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

• **Target 16.4**: By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime

• **Indicator 16.4.1**: Total value of inward and outward illicit financial flows (in current US Dollars)

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**UNCTAD and UNODC**

• As co-custodians of SDG 16.4.1, the two agencies are mandated to collect and report statistics on IFFs

• SDG 16.4.1: previously Tier III, no agreed statistical definition and methods to measure IFFs

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IFFs for statistical purposes

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

Monetary measure of:
• International transfers of illicitly earned capital
• (Originally) legal capital transferred illicitly
• (Originally) legal capital transferred internationally for illicit purposes

Core Elements:

- Illicit origin transfer use
- Cross-Border not domestic
- Flows no stocks no net flows
Four types of IFFs

LEGAL ACTIVITIES

Illicit tax and commercial practices
Aggressive tax avoidance

ILLEGAL ACTIVITIES

Illegal markets
Corruption
Exploitation-type and terrorism financing
IFFs from illegal markets/activities

**Illegal markets**
- Drug trafficking
- Firearms trafficking
- Smuggling of migrants
- Smuggling of goods
- Wildlife trafficking
- Illegal mining
- ...

**Corruption**
- Bribery
- Embezzlement
- Abuse of functions
- Trading in influence
- Illicit enrichment
- Other acts of corruption

**Exploitation-type and terrorism financing**
- Trafficking in persons
- Kidnapping
- Slavery and exploitation
- Sexual exploitation
- Extortion
- Robbery
- Burglary
- Theft
- Financing of terrorism
- ...

**Productive activities**

**Non productive activities**
Dual focus in Measuring IFFs

**Income Generation**
- Illicit financial flows connected to illicit markets and their functioning
- Linked to transnational supply and demand of illicit goods and services

**Income Management**
- Illicit financial flows to manage income generated from illicit activities
- Linked to consumption and investment patterns of illicit actors
IFFs from tax and commercial practices

**Aggressive tax avoidance**
- Transfer mispricing
- Strategic location of debt
- Strategic location of intellectual property
- Tax treaty shopping
- Hybrid instruments and entities

**Illegal tax and commercial practices**
- Tariff, duty and revenue offences
- Tax evasion
- Competition offences
- Market manipulation

Legal activities

Illegal activities
Illegal vs illicit

Boundaries of aggressive tax planning

- Using tax provisions in the spirit of the law
- Rearrange international flow to avoid repatriation taxes
- Reallocate the tax base to a lower-tax country
- Reduce the base via a double deduction or double non-taxation
- Illegal measures, e.g. non-disclosure of income

Tax planning → Aggressive tax planning → Tax evasion

Conceptual Framework for Measuring IFFs

- **Country-Level**: Allows to measure IFFs at the level of countries (in line with SDG indicator framework)
- **Disaggregated**: separate estimates for each IFF type
- **Comprehensive**: Encompasses main types of illicit activities that cause IFFs
- **Compatible**: Aligned to established concepts and standards from economics and accounting
- **Endorsed by UN Statistical Commission** in March 2022
Methodological Guidelines

- **UNCTAD/UNODC Task Force** on statistical measurement of IFFs

### Tax and commercial IFFs
- Trade misinvoicing by entities
  - Method#1: PCM+
  - Method#2: PFM+
- Aggressive tax avoidance or profit shifting by MNE
  - Method#3: Tax semi-elasticity
  - Method#4: MNE vs domestic units
- Transfer of wealth to evade taxes by individuals
  - Method#5: Offshore assets
  - Method#6: Offshore financial wealth

### Crime-related IFFs
- Drug trafficking
- Smuggling of migrants
- Trafficking in persons
- Wildlife trafficking
- Illegal mining
Pilot testing methodologies

- **Multi-stakeholder process**, led by statistical authorities
- **Data scattered** across many agencies
- Pilots in several countries
- 22 countries by end 2022
- Supported by UNODC/UNCTAD & ECA, ECLAC, ESCAP
- Early results to refine methodologies
Co-custodians to promote statistical work

• Conceptual **transparency**: Conceptual Framework
• Robust and **statistically sound** estimates: Methodological Guidelines
• Support countries and enhance **statistical capacity**
• Provide **evidence base** for policy formulation and action
What the future brings?

• Continue working with Task Force
• Continue working with countries: express need to receive support
  • UN Development Account global project on IFFs 2023-2026
  • Technical cooperation

• Statistical Framework for the measurement of IFFs
• SDG reporting and monitoring on SDG indicator 16.4.1
More information

UNODC
UNCTAD
UNCTAD SDG Pulse
UNCTAD-ECA Africa project
UNODC-UNCTAD-ESCAP IFF Asia Project
UNODC-UNCTAD IFF Latin America project