



ILLICIT FINANCIAL FLOWS

Steve MacFeely
UNCTAD Chief Statistician

Workshop on measuring informal economy

Session 3

Specific aspects of measuring informal economy

The 2030 Agenda - SDG 16

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

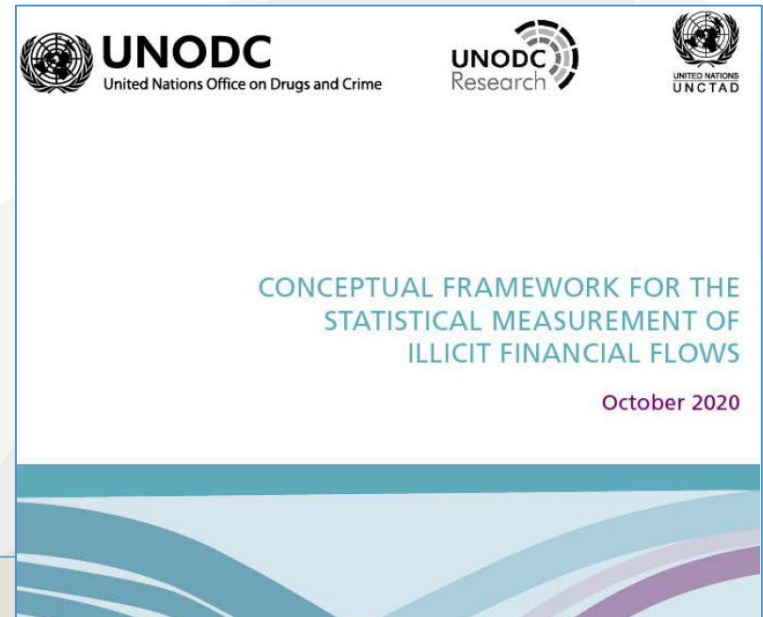
- Target 16.4: By 2030, significantly reduce illicit financial flows
- Indicator 16.4.1: Total value of inward and outward illicit financial flows (IFFs)
- UNODC and UNCTAD assigned as custodian agencies

Development process

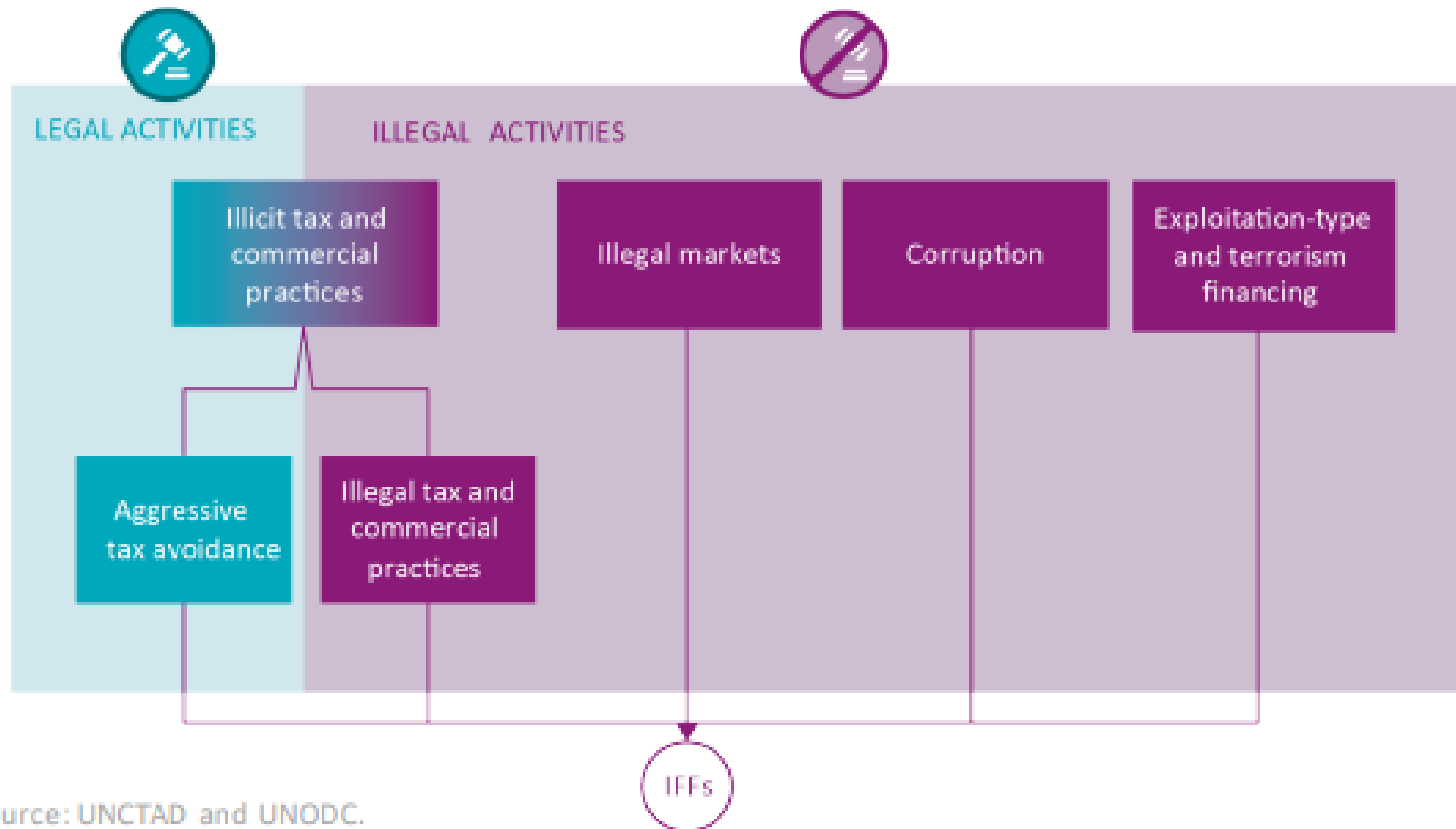
- UNODC and UNCTAD, as indicator custodians, needed to seek international agreement on:
 - What constitutes IFFs?
 - How to measure them?
- 2017-2018 wide expert consultations to take stock of research and concepts related to IFFs
- Jan 2019-(ongoing) Statistical Task Force
 - Eurostat, OECD, UNSD, IMF, ECA, UNCTAD and UNODC
 - NSO, tax or customs of Brazil, Colombia, Finland, Ireland, Peru, United Kingdom, South Africa etc.
- Concept and methods – guidance for NSOs
- Country pilots starting in 2021

Conceptual Framework for IFF measurement

- In October 2019, IAEG-SDGs approved the methods proposal for SDG 16.4.1 -> reclassification to Tier II
- In October 2020, [Conceptual Framework](#) detailing the concepts and definitions was published
- Financial **flows** are defined as “illicit in **origin, transfer or use**, and reflect an **exchange of value** and that **crosses country borders**”
- **Available in English and Russian**
(soon French)
- Testing in country pilots 2021-



Categories of activities that may generate IFFs



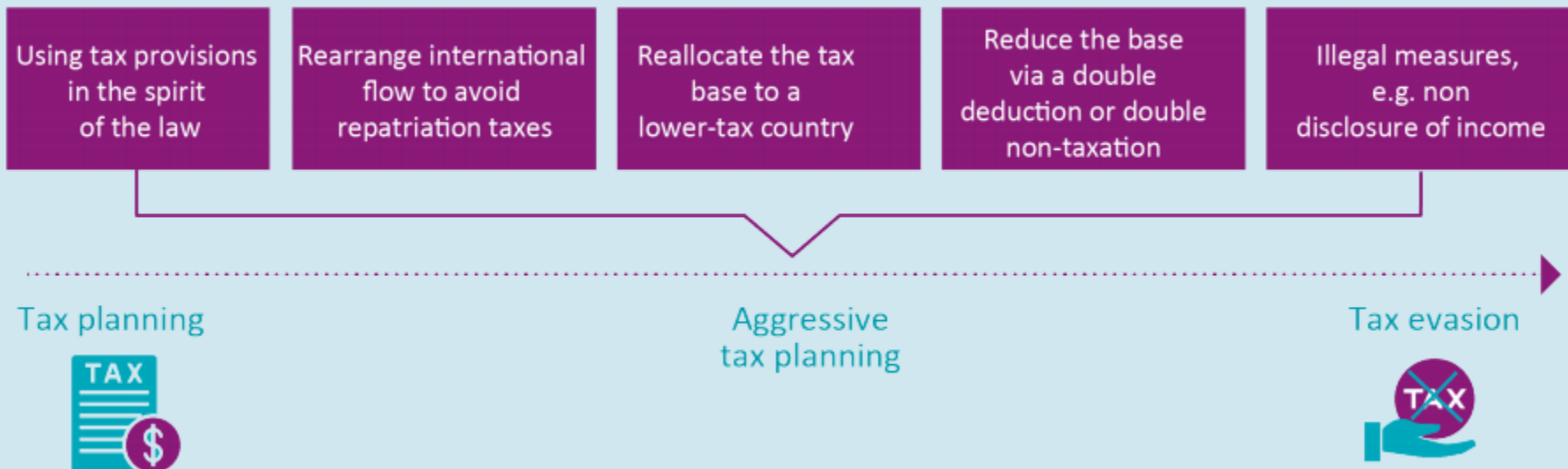
Source: UNCTAD and UNODC.

IFFs from tax and commercial practices

- Illegal tax and commercial IFFs
 - Examples: Tariff, duty and revenue offences, tax evasion, competition offences and market manipulation
 - Often part of the non-observed, hidden or shadow economy.
- IFFs related to aggressive tax avoidance
 - Examples: Hiding profits or assets via the manipulation of transfer pricing, strategic location of debt and intellectual property, tax treaty shopping and the use of hybrid entities.
 - Can be part of legal business transactions. Only the illicit part of the cross-border flows belongs within the scope of IFFs.

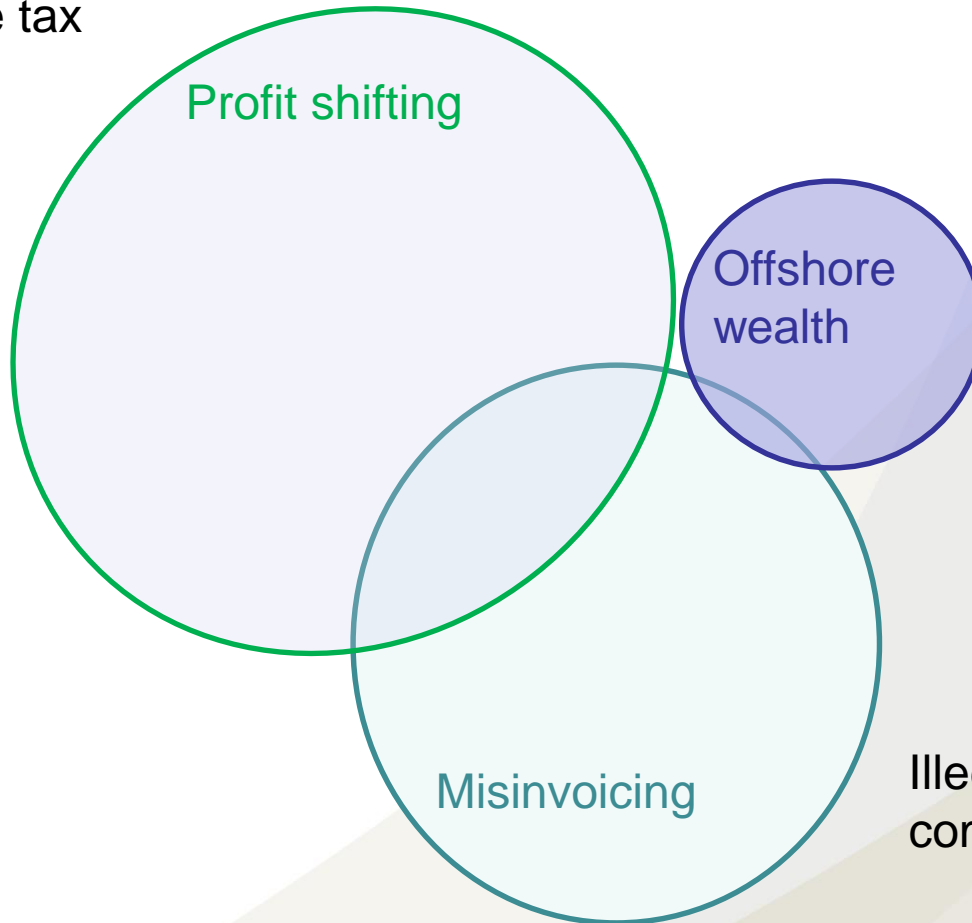
From tax planning to tax evasion

- Tax avoidance is legal, but aggressive tax avoidance can be detrimental to sustainable development
- Statistics cannot be based on legality as national tax laws differ and audits are carried out retrospectively. Thus, the indicator is based on activities that may generate IFFs.



Main types of tax and commercial IFFs

Aggressive tax avoidance



Illegal tax and commercial IFFs

Official statistics and IFFs

- IFFs divert funds from the 2030 Agenda
 - Flows are significant – no data to guide policy response
- IFFs cannot be measured with a single data source
- Inter-agency collaboration will be central
 - NSOs, tax, customs, revenue authorities, financial intelligence centers, central banks, law enforcement, ministries
- Official statistics form the basis for SDG reporting
 - IFF concepts and methods aligned with the SNA and BoP
 - Methods based on microdata use
 - NSOs' experience in measuring illegal activities, non-observed economy, LCU work on MNE data etc.
 - Key enablers: NSO coordination role, datasets and mandate
- Gradual approach – similar to SNA exhaustiveness work

Next steps

- Guidelines on methods suggested for pilot testing and practical instructions for pilots upcoming
- UN Development Account Projects with UNODC and Regional Commissions:
 - Africa, 2018-2021(2022)
 - Asia and the Pacific, 2020-2023
 - Latin America, finished 2020
- Pilots in the projects and with interested countries!
- Future: Statistical Framework to Measure IFFs
 - Refined methods with the Conceptual Framework for global endorsement by the UN Statistical Commission