Guidelines for measuring tax and commercial IFFs: Feedback on methods from pilot studies

Final event on Statistics and Data for Measuring Illicit Financial Flows in the Asia-Pacific region
Session 6b
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Outline

Part I Feedback from pioneering countries in Africa
Part II Feedback from pilot countries in Asia
PART I

FEEDBACK FROM PIONEERING COUNTRIES IN AFRICA
Method #1: Partner Country Method Plus

- Valuation: CIF/FOB
- Trade system
- Partner country attribution
  
  Data sources?

- Collaboration with customs experts nationally
- Collaboration with partner-country Customs
- Case-by-case
Method #1: Partner Country Method Plus

- UNCTAD Stat Transport Cost Database: https://unctadstat.unctad.org/EN/


- Other, e.g., Schuster & Davis (2020): Old dog, new tricks? The fitness of mirror trade analysis to detect illicit financial outflows from Africa (unctad.org)
Method #1: Partner Country Method Plus

• Reliability weighting: unreliable data on quantities -> drop

\[ w = 1 - \frac{|q_{IM,c,r,p,t} - q_{EX,c,r,p,t}|}{\max(q_{IM,c,r,p,t}, q_{EX,c,r,p,t})} \]

\[ Inbound_{c,r,p,t} = w \times (IM_{FOB,adj,c,r,p,t} - EX_{FOB,adj,c,r,p,t}) \]

\[ Outbound_{c,r,p,t} = w \times (EX_{FOB,adj,c,r,p,t} - IM_{FOB,adj,c,r,p,t}) \]
Method #1: Partner Country Method Plus

• More detailed step-by-step process
• Example code in R for initial parts
• Reporting table/scheme (e.g., by industry)

• Use in tandem with method #2: method #1 more as a risk assessment, for detailed measurement apply method #2
Method #2: Price Filter Method Plus

• Valuation CIF/FOB -> see method #1
• Addressing heterogeneity -> seek expert input / break data into homogenous groups
• Clearer distinction between statistical and free-market price filters
• Options in determining variation around central price, $\alpha$
  \[ price\ filter = central\ price \pm \alpha \]
• Code, step-by-step guide
Method #3: Global distribution of MNEs profits and taxes

• Sample, data source
• Treatment of negative profits; negative taxes
• Scenarios in model specifications
• Statistically insignificant coefficients
• Code, step-by-step guide
Method #4: MNEs vs domestic enterprises profit shifting

• Multiple data sources, linking
• Missing control group (e.g., no domestic firm in mining) -> entire economy (average)
Method #5: Flows of undeclared offshore assets indicator

• No mandatory declaration of assets (no wealth tax)
• Unavailable or inconsistent data sources

• Alternatives explored
  • OECD tax evasion by individuals work on South Africa
  • Method on remittances
  • Gravity model
Method #6: Flows of offshore financial wealth by country

• International and multiple data sources
• Global-level imbalance provided, country-led national breakdown and refinement?
PART II

FEEDBACK FROM PILOT COUNTRIES IN ASIA
Feedback

• Applying the methods – what worked, what didn’t work, related issues?
• Which data sources were explored and used? Data access?
• What was the biggest challenge / success applying the methods?
• How could the Guidelines (tools) be improved?
• The major biggest challenges / successes in the process.