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Statistical Framework for Measuring Illicit Financial Flows (IFFs)
SDG 16.4.1

UNITED NATIONS
UNCTAD

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The framework: 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)
- UNODC and UNCTAD, as co-custodians of indicator 16.4.1, are mandated to develop the statistical methodology

IFFs for statistical purposes

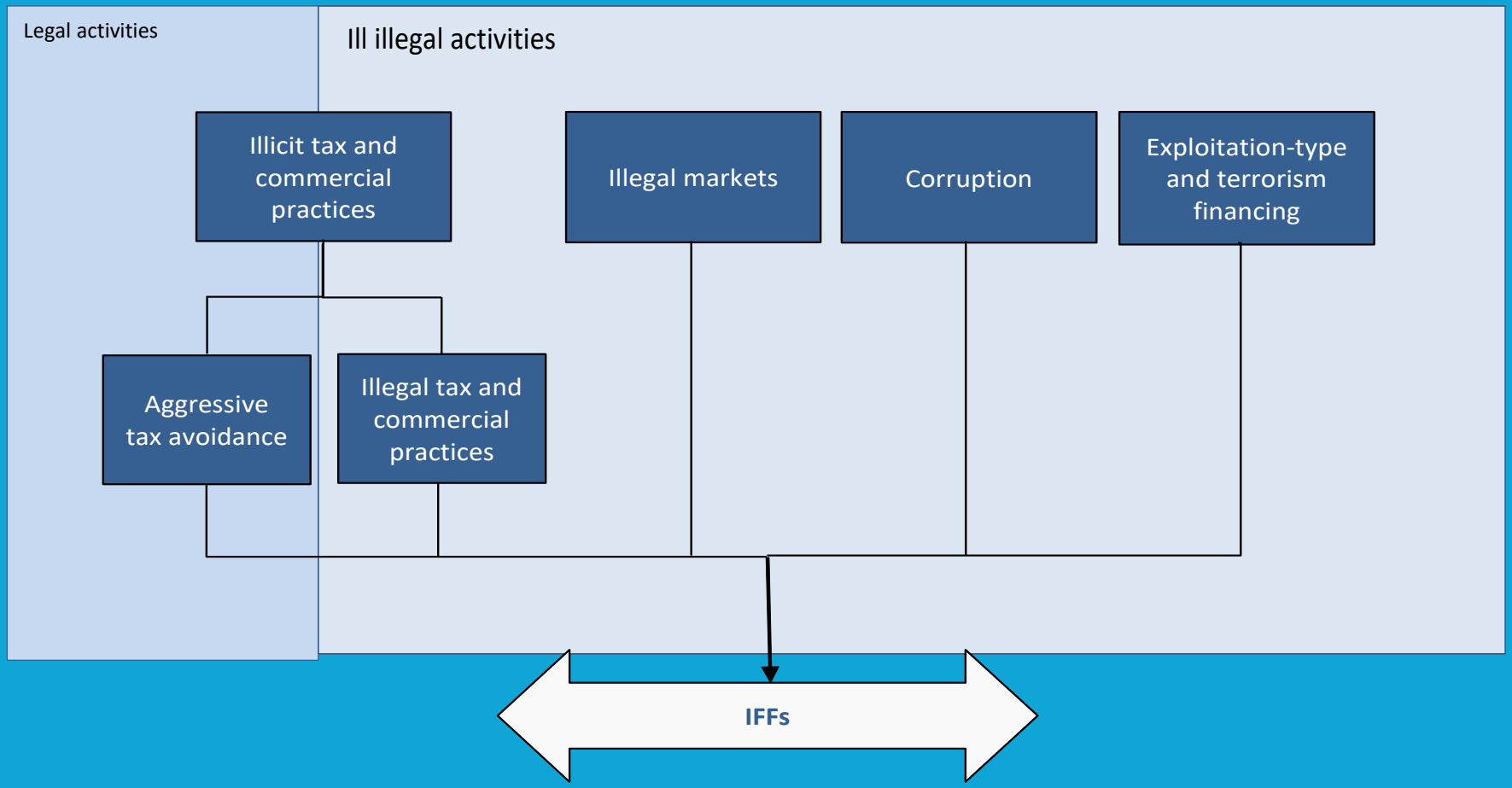
Monetary measure of:

- International transfers of illicitly earned capital
- (Originally) legal capital transferred internationally for illicit purposes
- (Originally) legal capital transferred illicitly

Core Elements:

- **Illicit**
- **Cross-Border** (not domestic)
- **Flows** (not stocks)

Categories of activities that may generate IFFs

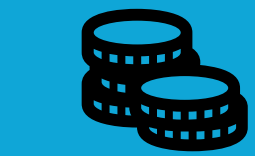


Example: IFFs emerging from drug trafficking

IFF

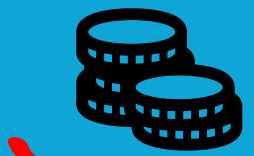
Country A

IFF



Drug processing,
wholesale and retail sale

Value is generated







Dual Focus in Measuring IFFs

Income Generation

- Illicit financial flows connected to illicit markets and their functioning
- Supply and demand of illicit goods and services generate cross-border financial flows

Income Management

- Illicit financial flows generated to manage the income generated from illicit activities
- Consumption and investment patterns of illicit actors

Statistical challenges for measuring IFFs related to drug trafficking

Illicit Income Generation

- **Challenge**: Comprehensively measuring economic activities related to transnational drug trafficking and corresponding IFFs
- **Data/information sources**: Existing data on drug production, trafficking, consumption and market prices

Illicit Income Management

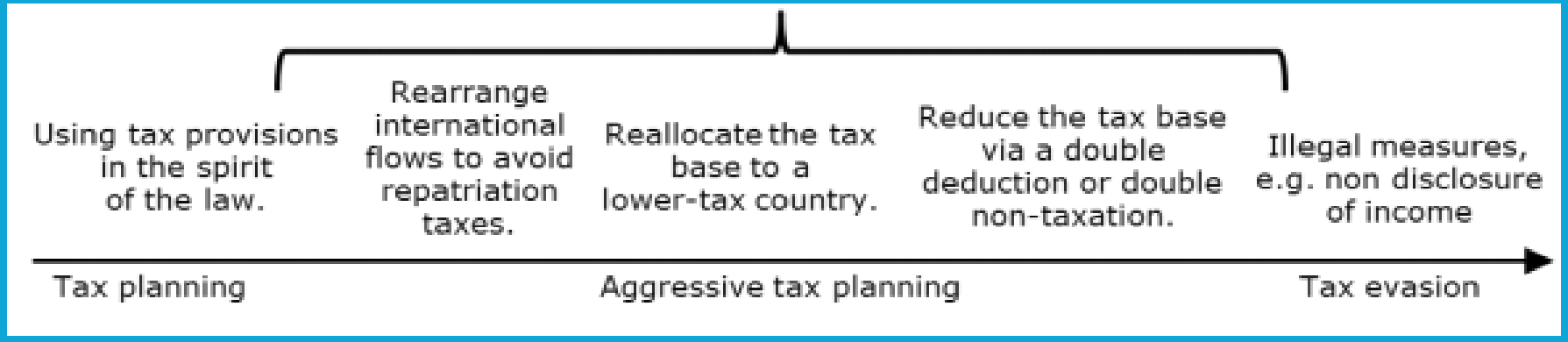
- **Challenge**: Measuring international transfers of illicit proceeds derived from drug trafficking
- **Data/information sources (currently explored)**: Financial intelligence data on suspicious transactions; Qualitative information from national experts/practitioners; Confiscation data.

IFFs emerging from tax and commercial practices

- **Illicit tax and commercial IFFs** to conceal revenues and reduce tax burden:
  - **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 instruments and entities.
    - Can be part of legal business transactions. Only the illicit part of the cross-border flows belongs within the scope of IFFs.

Illegal v illicit

- While tax avoidance is legal, aggressive tax avoidance can be detrimental to sustainable development and is, therefore, included in the SDG indicator as an IFF
- 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.
- As the boundary between legal, illicit, and illegal tax practices may be unclear, a continuum of activities from legal tax planning to illegal tax evasion can be used.



Statistical Framework for Measuring IFFs

Key features:

- **Country-Level:** Allows to measure IFFs at the level of countries (in line with SDG indicator framework)
- **Comprehensive:** Encompasses all types of illicit activities that cause IFFs
- **Compatible:** Aligned to established concepts and standards from economics and accounting

Main activities

- **UNCTAD/UNODC Task Force on the statistical measurement of illicit financial flows is developing methodological guidance for countries**
- **Latin America IFF project led by UNODC in cooperation with UNODC-INEGI Centre of Excellence for Statistical Information;**
- **Africa IFF project led by UNCTAD & UNECA**
- **Involvement of national statistical offices is critical as coordinators of the national statistical systems - data needed to measure IFFs are scattered across many organisations**

UNODC-UNCTAD IFF project in Latin America

Project activities:

- Dec 2017 –> Kick-off expert group meeting
- July 2018 –> Second technical expert group meeting
- Nov 2018 –> Regional meeting
- 2019-2020 –> Pilot activities, including national workshops



Institutions/stakeholder involved	Role/data collected
National statistical offices	Coordination, focal points for the project
Financial intelligence units	Data providers (STRs, financial transactions)
Law enforcement agencies	Data providers (Seizures, information on traffickers, trafficking routes…)
Think tanks/academia	Methodological development, expert information

Future steps

- **Publication of UNCTAD-UNODC Conceptual Framework**

- **Development of methodological guidelines on IFFs from illicit markets**
- **Sharing of results from pilot studies in Latin America**
- **Development of methodological guidelines on IFFs relating to tax and commercial practices**
- **Sharing of results from pilot studies in Africa**