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# COMBATING ILLICIT FINANCIAL FLOWS FROM DEVELOPING ECONOMIES

**G-24 Technical Group Meeting, Lima, Peru, March 14-15, 2019**

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# CONTENTS

- ❑ UNCTAD intergovernmental and project-based work on IFFs/measurement of IFFs
- ❑ Core issues of discussion: scope and definitions
- ❑ Multilateral policy responses and options

# UNCTAD WORK AREAS (DGDS) - OVERVIEW

- Intergovernmental Group of Experts on Financing for Development – 1<sup>st</sup> session, November 2017, Geneva,
- Co-custodian of SDG Indicator 16.4.1 (with UNODC)
- UN Development Account Project on *Defining, estimating and disseminating statistics on illicit financial flows in Africa (2018-2021)*



## UNCTAD WORK AREAS – IGE FfD

- *Intergovernmental Group of Experts on Financing for Development – 1<sup>st</sup> session, November 2017, Geneva,* [<https://unctad.org/en/pages/MeetingDetails.aspx?meetingid=1442>]

### *Agreed Policy Recommendations:*

4. *Recognizes* that illicit financial flows are estimated to amount to several times global official development assistance (ODA) and have a harmful effect on development and that measures to **enhance the regulation of and transparency in the shadow and regular financial systems** must therefore include steps to curb illicit financial flows, and the activities that underlie their occurrence, and ensure the return of illicit funds to the legitimate country of origin;

## UNCTAD WORK AREAS –IGE FfD

6. Stresses the need for redoubling of efforts to substantially reduce illicit financial flows by 2030, eliminating them, including by **combating tax evasion and corruption** through strengthened national regulation and increased international cooperation, to **reduce opportunities for tax avoidance** and considering inserting **anti-abuse clauses in all tax treaties**, to **enhance disclosure practices and transparency in both source and destination countries**, including by seeking to ensure **transparency in all financial transactions** between Governments and companies, with respect to relevant tax authorities, and to make sure that all companies, including multinationals, pay taxes to the Governments of the countries **where economic activity occurs** and value is created, in accordance with national and international laws and policies;

## UNCTAD WORK AREAS- IGE FfD

7. *Recognizes* that the range of issues related to illicit financial flows, and the activities that underlie their occurrence including among others, **crime-, corruption- and tax-related practices** and their interrelatedness, makes illicit financial flows a complex subject, and stresses therefore the need for transparent and comprehensive statistical indicators to estimate and typify illicit financial flows;
  
9. *Emphasizes* also the importance of continued efforts to ensure effective country-by-country reporting of relevant data, and takes note of the new Organization for Economic Cooperation and Development standards and related work in this regard, as well as the illicit financial flow vulnerability measures developed by the High-level Panel on Illicit Financial Flows from Africa;

# UNCTAD WORK AREAS – SDG Indicator 16.4.1



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

By 2030, reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime

UNODC and UNCTAD co-custodians



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# UNCTAD WORK AREAS – SDG Indicator 16.4.1

United Nations Statistical Commission  
[Functional Commission of UN  
ECOSOC]

- Chief Statisticians from all member states

Inter-Agency Expert Group – SDGs  
(IAEG-SDGs)

- Facilitation of implementation of agreed indicator framework for SDGs
- As of 13 Feb 2019: 101 Tier I indicators, 84 Tier II indicators, 41 Tier III indicators (of which 16.4.1 is one)

Tier I: conceptually clear, internationally established methodology or standards, data regularly produced by large number of countries

Tier II: as Tier I but data not regularly produced by countries

Tier III: no internationally established methodology or standards as yet available



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# UNCTAD WORK AREAS – SDG Indicator 16.4.1

- Two UNODC/UNCTAD Expert Consultations
  - Vienna, 12-14 December 2017  
[www.unodc.org/unodc/en/data-and-analysis/statistics/expert-consultation-iff.html](http://www.unodc.org/unodc/en/data-and-analysis/statistics/expert-consultation-iff.html)
  - Geneva, 20-22 June 2018  
<https://unctad.org/en/pages/MeetingDetails.aspx?meetingid=1864>
- ... to discuss and analyze primarily conceptual issues and implications for statistical measurement
- Two work streams (in close coordination): UNODC crime-related IFFs, UNCTAD tax-related IFFs, discussions about corruption-related IFFs ongoing (double counting)
- UNODC-UNCTAD-UNECA Statistical Task Force

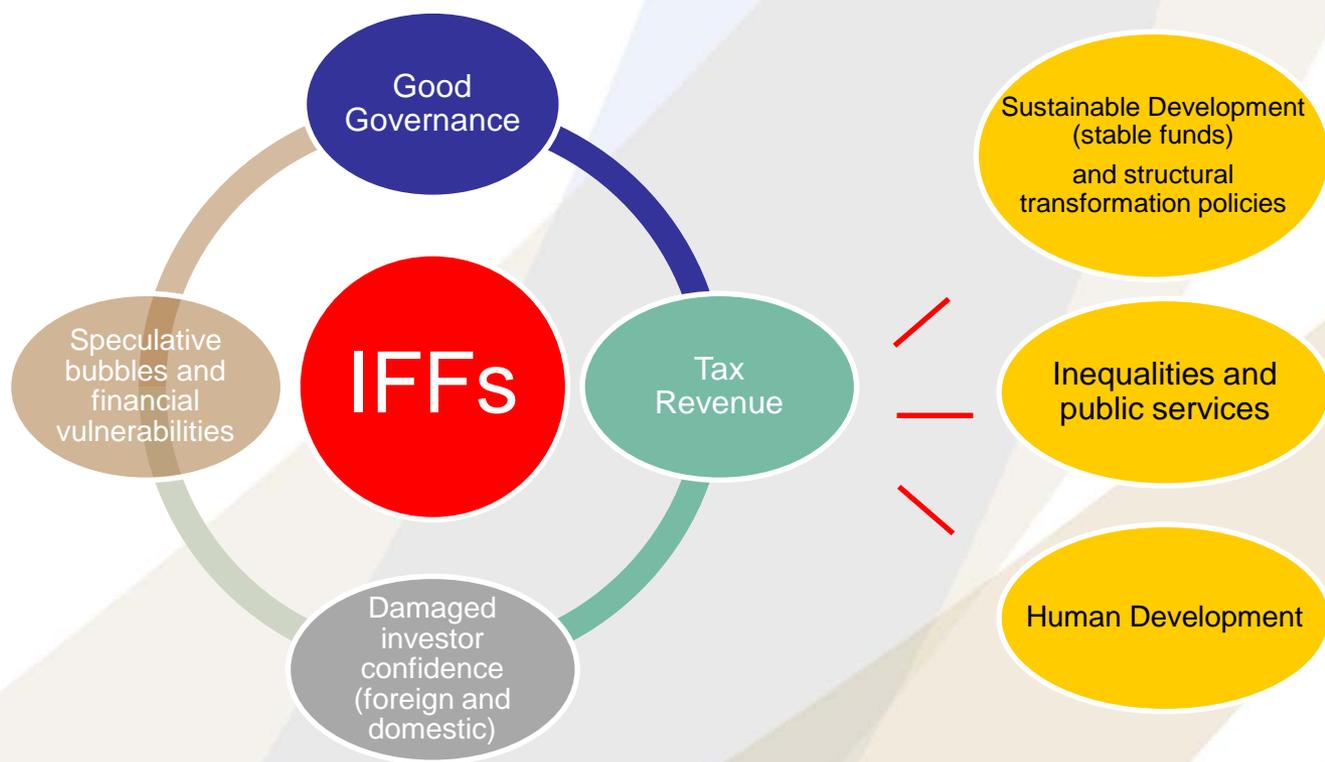
# UNCTAD WORK AREAS – UN DA project 2018-2021

- UNCTAD/UNECA project on ‘Defining, estimating and disseminating statistics on illicit financial flows in Africa’  
<https://unctad.org/en/Pages/Statistics/U NDA-Project-1819Y.aspx>
- 9 national pilot studies in Africa (Nigeria, Senegal, South Africa, Tunisia, Tanzania, Zambia, Zimbabwe, 2 TBC)



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# CORE DISCUSSION: SCOPE AND DEFINITIONS



## KEY ESTIMATES

- One study estimates that 10 per cent of world gross product was held as private offshore financial wealth in October 2017. Existing data does not allow for a reliable estimate to determine what part of this wealth has been fully disclosed to tax authorities. (Alstadsæter, A., N. Johannesen, and G. Zucman (2017))
- UNODC (2014) has estimated that, in 2009, illicit flows stemming from criminal proceeds amounted to some 3.6 per cent of global GDP, equivalent to about US\$ 2.1 trillion, with illicit drugs generating the largest share of income from transnational organized crime. As a share of GDP, all crime proceeds tend to be higher in developing countries and to be laundered more frequently abroad.



## KEY ESTIMATES

- The 2015 Report of the AU/UNECA High-Level Panel on Illicit Financial Flows from Africa suggests that, at a conservative estimate, IFFs from the continent amount to between US\$ 30 and 60 billion per year and have increased rapidly over the past decade. Related studies suggest that IFFs from Africa exceeded amounts required to cover the continent's external debt in 2008 and may have been equivalent to all of official development assistance received by Africa between 1970-2008.
- The Economic Commission for Latin America and the Caribbean (ECLAC 2017) estimates that IFFs reached a total of \$765 billion for the period from 2004 to 2013, equivalent to 1.8 per cent of regional GDP on average throughout this period.
- UNCTAD (2015) estimated that profit shifting from developing countries results in annual (tax revenue) losses of around USD 91 billion.

## KEY ESTIMATES

- The most recent (2017) estimates of global losses due to corporate profit-shifting and tax avoidance range from US\$ 150-500 billion annually. (IAFT Report on FfD 2018: 44)
- One estimate suggests that, if the profits of multinational enterprises were accounted for in the areas where their economic activity occurs, these businesses would pay a combined US\$ 500-650 billions more in annual corporate taxes. Approximately US\$ 200 billions of this amount would go to developing countries, significantly more than current official development aid estimated at just above US\$ 140 billions. ( Garcia-Bernando, J., E. Heemskerk, F. Takes and J. Fichtner. 2017)



# CORE DISCUSSION: SCOPE AND DEFINITIONS

- **Requirements for useful Indicator estimates**
  - **Feasibility:** use of available statistics and techniques or feasible innovations, applicability across large number of developing countries
  - **Policy sensitivity:** indicator can be targeted (reduced) through feasible policies
  - **Precision:** indicator targets relevant flows that are damaging to development and whose reduction will improve development outcomes

# CORE DISCUSSION: SCOPE AND DEFINITIONS

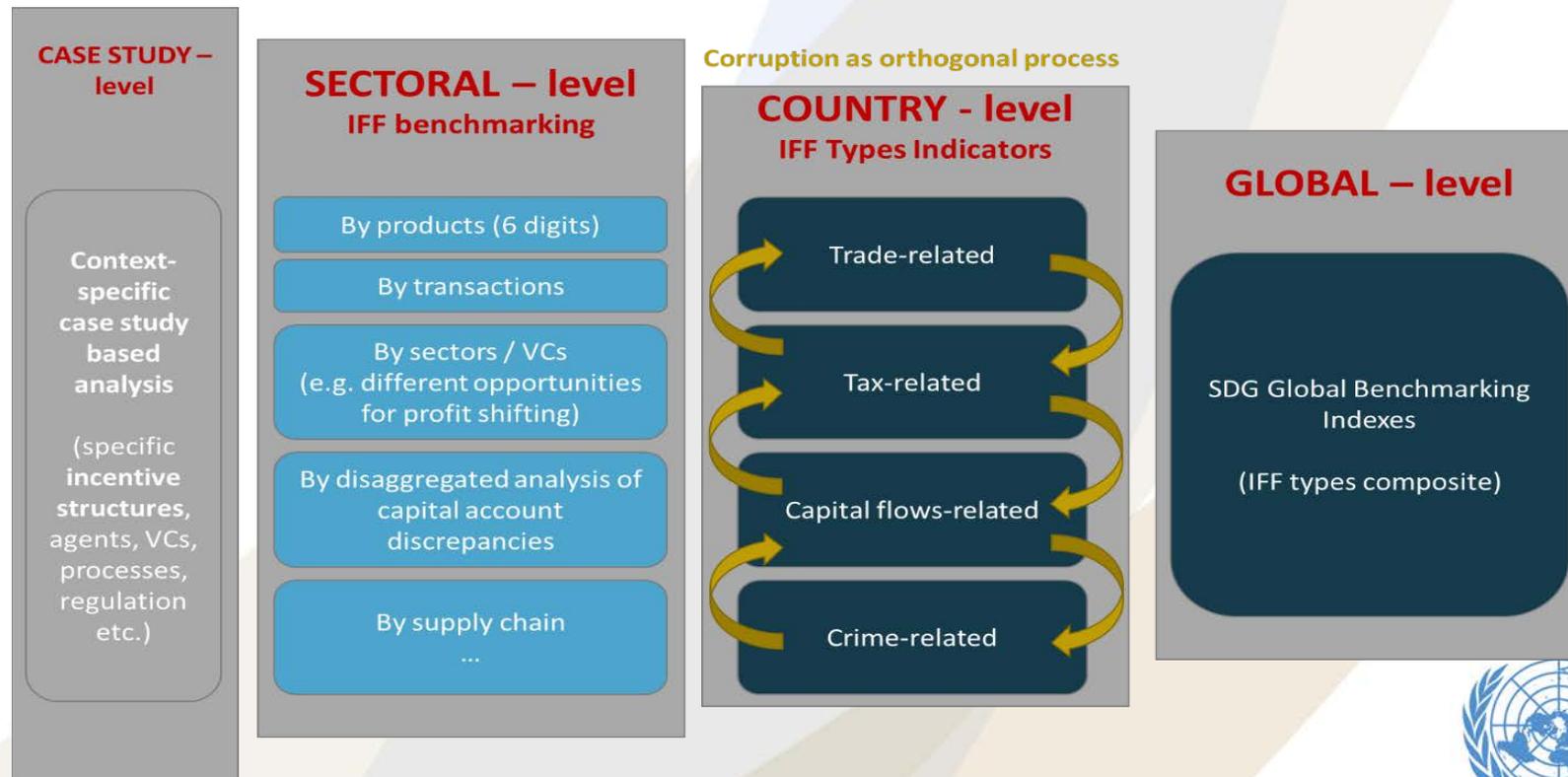
- **Implications for Definitions**

- **Relevance** to developing country context: capture flows that are damaging to developmental outcomes, whether illegal or illicit (abusive)
- **Dynamism**: Take account of need to reduce IFFs while ALSO developing legal and institutional frameworks: legalistic definition systematically disadvantages developing countries with as yet weak 'rule of law' and high vulnerability to abuse
- **Subjective elements**: *Both* 'likely/actual damage' and 'legal' criteria are subjective: What constitutes social or developmental damage? But similarly: Why assume that existing laws are sufficient to avoid social damage?
- **Incompleteness**: Accept that lists of flows identifiable as IFFs will not be 'complete', but should reflect those flows most generally and widely associated with damaging or abusive (as well as illegal) behaviours or activities (parallels with anti-competitive behaviours and regulation)



# CORE DISCUSSION: SCOPE AND DEFINITIONS

- **Multi-level operationable indicators?**



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## Core policy options (multilateral)

- **Participation:** increased voice for developing countries in OECD and G20 processes; better coordination and integration of multiple regional initiatives in the developing world
- **Transparency**
  - UN: Financial Transparency Convention
  - Country-by-country reporting for all MNEs
  - Public registers and improved multilateral automatic information exchange
- **Regulate on specific abusive practices**
  - Consider role of digital technologies (easier ‘abuse’ versus potential for improved measurements)
  - UN: Reconsider UNset (abusive business practices)
  - Unitary taxation (with formulary apportionment) /enterprise analysis



**Thank You**



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