

ILLICIT FINANCIAL FLOWS

A GLOBAL CONCERN

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Intended Learning Outcomes

At the end of the session, the participants should...

1. Relate IFFs to SDG 2030.
2. Identify IFFs and how they come about.
3. Appreciate technical challenges with IFFs for SAI Auditors.
4. Cite the technical definition of IFFs as per UNODC & UNCTAD.
5. Explain the UNO - IFFs Indicator Framework.
6. Recognise the latest IFFs global data.
7. Appreciate current efforts in combating IFFs by SAIs.

The Relationship Between IFFs and SDGs



A set of 17 aspirational "Global Goals" with 169 targets that were developed under the leadership of the United Nations through a broad, participatory process involving UN Member States, UN agencies, and civil society actors.

- Contained in UNGA Res. A/RES/70/1 of 25 September 2015: *Transforming our world: the 2030 Agenda for Sustainable Development*
- SDGs should serve to catalyze action at the national, regional, and global levels
- Successor to the MDGs (2000-2015) - Timeframe 2015-2030
- Monitored through a global set of around 250 indicators
- Indicators developed under the UN Statistical Commission, agreed “as a practical starting point” in March 2016 by the UNSC

SDG 16.4 “Significantly Reduce Illicit Financial Flows”



Combating Illicit Financial Flows



<https://www.youtube.com/watch?v=eTmDnETmxRE>

A Broad-Based Understanding of IFFs



Illicit financial flows refer to the movement of money or assets illegally across borders, typically for tax evasion, money laundering, or other illegal activities. They can be categorized as follows:

- Trade-based Illicit Financial Flows
- Criminal Activities Corruption and Bribery
- Tax Evasion
- Money Laundering

Technical Challenges of IFFs for SAI Auditors



The lack of consistent statistics on IFFs causes uncertainty about the size of and trends in illicit flows, how and where they originate, and their impact on development causing several challenges to SAI auditors when performing audits in this area:

- Conceptual challenges
- Ensuring validity and soundness of estimation methods
- Availability and limitations of data

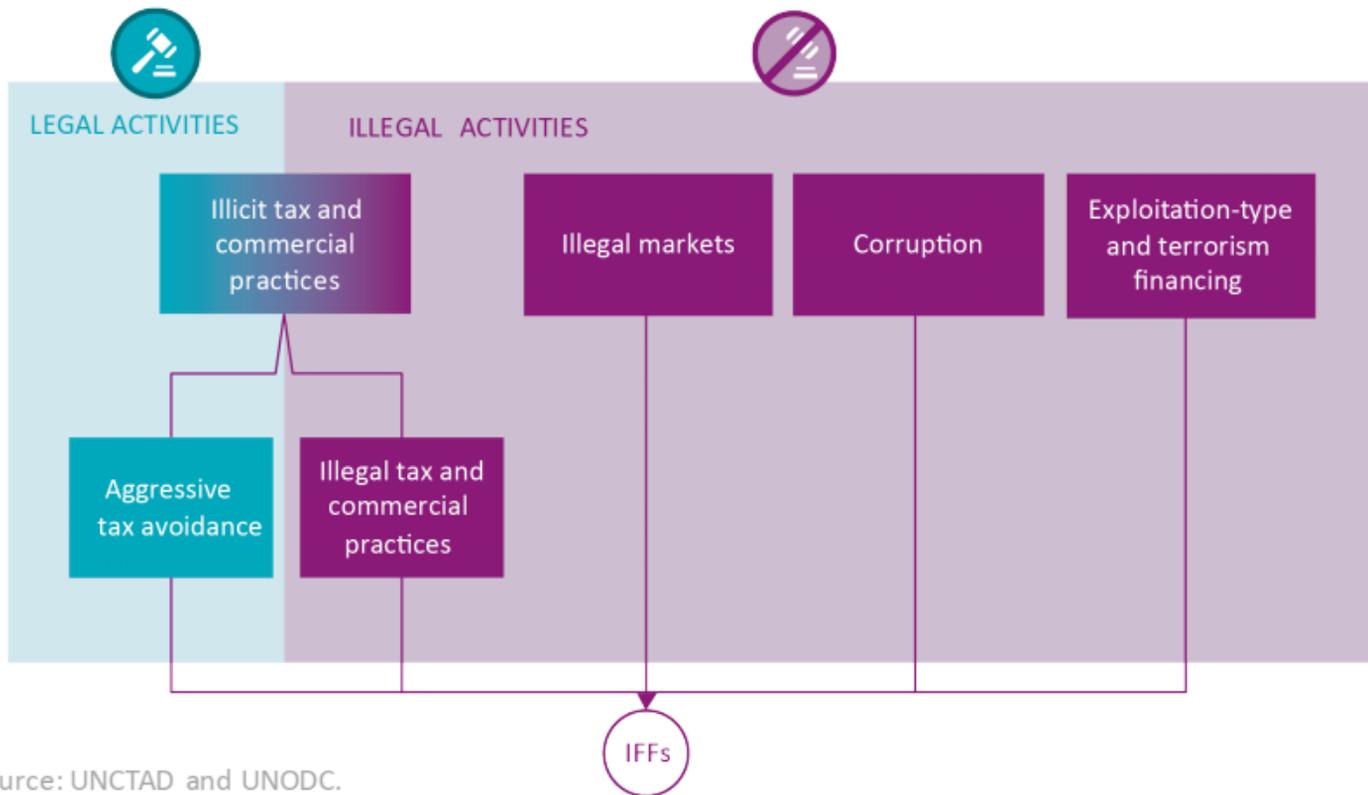
Conceptualization: The Technical Definition For IFFs



The statistical definition of IFFs: *“Financial flows that are illicit in origin, transfer or use, that reflect an exchange of value and that cross-country borders.”*

- 1) Tax and commercial activities.
- 2) Illegal markets.
- 3) Corruption; and
- 4) Exploitation-type activities and financing of crime and terrorism.

Categories of Activities That May Generate IFFs



Source: UNCTAD and UNODC.

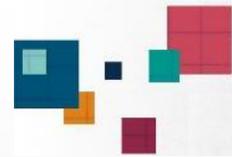
CATEGORIES OF IFFS
EXAMPLES OF ACTIVITIES BY ICCS CATEGORY

Tax and commercial practices	08041 Tariff, taxation, duty and revenue offences 08042 Corporate offences including competition and import/export offences; acts against trade regulations 08045 Market manipulation or insider trading, price fixing
Exploitation-type activities and terrorism financing (parts of sections 02, 04, 09)	020221 Kidnapping 0203 Slavery and exploitation 0204 Trafficking in persons 0302 Sexual exploitation 02051 Extortion 0401 Robbery 0501 Burglary 0502 Theft 09062 Financing of terrorism
Illegal markets	ICCS includes a long list of activities, including for example drug trafficking (060132), firearm trafficking (090121), illegal mining (10043), smuggling of migrants (08051), smuggling of goods (08044), wildlife trafficking (100312)
Corruption (section 0703)	07031 Bribery 07032 Embezzlement 07033 Abuse of functions 07034 Trading in influence 07035 Illicit enrichment 07039 Other acts of corruption

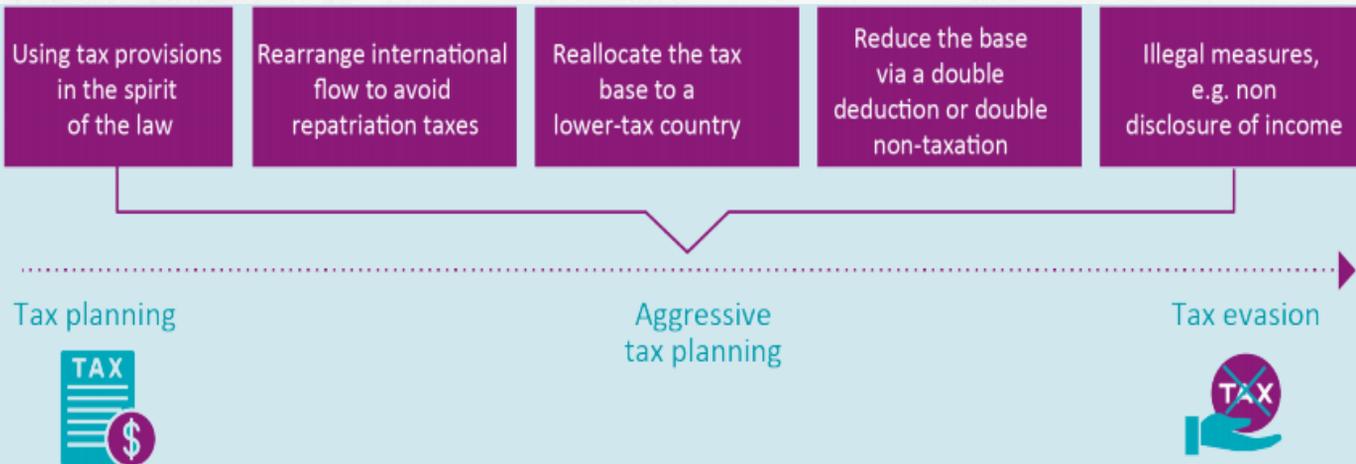
Source: UNODC, 2015.

Note: This list is only intended to provide some examples and is not exhaustive.

Boundaries of Aggressive Tax Planning



Not all IFFs stem from illegal activity. For example, the indicator includes aggressive tax avoidance as an illicit financial flow.



Source: Institute for Advanced Studies (2017).



Thus, IFFs have the following features:

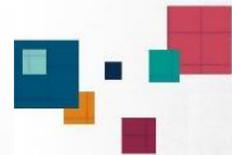
- Illicit in origin, transfer, or use.
- Exchange of value.
- IFFs measure a flow of value over a given time.
- Flows that cross a border.

First official estimates on illicit financial flows



- UNCTAD and UNODC lead global methodological work to develop statistical definitions and methods to measure IFFs to support Member States in monitoring progress towards target 16.4.
- To date, 22 countries across three continents have tested the measurement of IFFs.
- The experience shows that, while estimating illicit financial flows is challenging, it can be done.
- **If it can be measured, then it can be AUDITED!!!**

What Are The Numbers Saying Thus Far...



Statistics on SDG indicator 16.4.1 are **published**



<https://sdgpulse.unctad.org/illicit-financial-flows/>



22 countries on 3 continents **tested IFFs measurement**

9 countries
joining global
testing in 2023

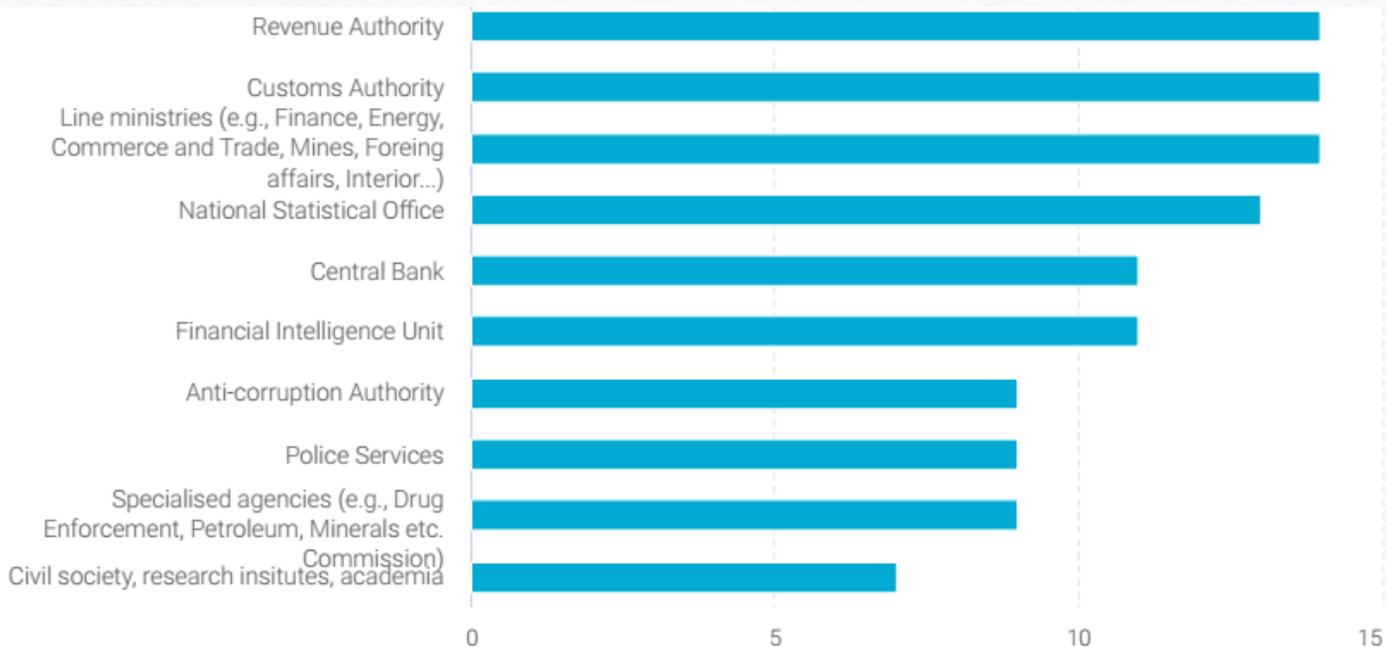


<https://sdgpulse.unctad.org/illicit-financial-flows/>

SAls Missing In Action



Multiple national stakeholders consulted to address tax and commercial IFFs



Source: UNCTAD, MPED, ECA and ESCAP

Note: The data indicate institutions involved in the measurement exercise in 14 countries

Where do we go from here...



- SAI-ACA Anti-corruption Seminar.
- Performance Audits on Anti-Money Laundering.
- Performance Audits on Tax based IFFs
- Digitalization of SAI – Anti-corruption tool kit.
- SAI – ACA Collaboration framework.

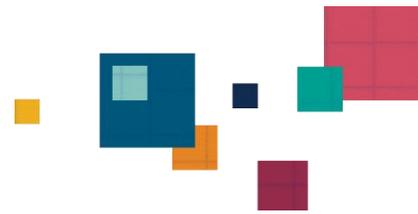
Now we have
**agreed
definitions and
tested methods**



THANK YOU FOR YOUR ATTENTION



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