Measuring illicit financial flows from commercial and tax-related practices

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UNCTAD, UNECA, UNODC
The questions

- Many motivations, a few ways to estimate them
- What is the scale of illicit financial flows?
- What are the best ways to measure or estimate them?
The structure

1. Trade
2. Capital and wealth
3. Profit
Trade and money laundering

Uncontained

*Trade is the weakest link in the fight against dirty money*
Trade

- Mispriced or misquantified trade (in goods)
- Either between related or unrelated business partners
- Pioneering and research frontier estimates
Trade - pioneering

- Country- and product-level (aggregate) data
- IMF’s Direction of Trade Statistics, UN’s Comtrade
- Excellent country coverage
- Trade mirror statistics and abnormal prices
- Combined with capital: Global Financial Integrity and Ndikumana and Boyce
- Abnormal prices - Pak and Zdanowicz
- Criticism of methodology, assumptions
- Pioneering studies highlight the importance
Trade - research frontier

- Transaction-level data (customs), recent and convincing
- Difference between actual and comparable prices
- Limited country coverage and comparability
- US, UK, France, Denmark, South Africa
Trade - useful for the indicator?

- Coverage vs. credibility: both with Comtrade?
- The real research frontier?
Illicit Financial Flows from Developing Countries: 2004-2013

(in billions of U.S. dollars, nominal)

Source: Global Financial Integrity

Get the data
Capital and wealth

- Capital account (rather than current account - trade)
- Offshore wealth - undeclared wealth in tax havens
Capital flight and capital account anomalies

- IMF’s balance of payments data
- Net errors and omissions - the Hot Money ‘Narrow’ method
- Global Financial Integrity
- Difference between capital inflows and outflows - the World Bank Residual method
- Ndikumana & Boyce (sub-Saharan African countries)
- Henry (offshore wealth)
- Criticism: Differences = anomalies = illicit
- This might be suitable for some countries, e.g. Russia
Wealth in tax havens

- Henry and other earlier estimates, stocks and flows
- Undeclared wealth held in tax havens
- Zucman and Alstadsaeter, Johannesen, & Zucman
- IMF’s balance of payments - global offshore wealth
- Other data: Swiss central bank and BIS - allocation
- Good: use of data, methodology, country coverage
- Still, these are estimates, not measurements
Capital and wealth - useful for the indicator?

- The estimates’ logic useful, the data not so much
- What other data could be used?
Profit misalignment of US multinationals

Source: Cobham and Janský (2018)
Profit shifting

- Profit shifting by multinational enterprises to tax havens - international corporate tax avoidance
- One-country detailed estimates, e.g. Dowd, Landefeld, Moore (2017) or Guvenen et al. (2017) for the US
- An increasing number of estimates for many countries
- 9 such studies differ in methodology, data and results
<table>
<thead>
<tr>
<th>Reference</th>
<th>USD bn</th>
<th>Data</th>
<th>Country-level</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMF’s Crivelli et al. (2016)</td>
<td>600</td>
<td>Revenue</td>
<td>No</td>
</tr>
<tr>
<td>Cobham &amp; Janský (2018)</td>
<td>500</td>
<td>Revenue</td>
<td>Yes</td>
</tr>
<tr>
<td>UNCTAD (2015)</td>
<td>200</td>
<td>FDI</td>
<td>No</td>
</tr>
<tr>
<td>Janský &amp; Palanský (2017)</td>
<td>80+</td>
<td>FDI</td>
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<td>Johansson et al. (2017), OECD</td>
<td>100-240</td>
<td>Orbis</td>
<td>No</td>
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<tr>
<td>Claustring (2016)</td>
<td>280+</td>
<td>FDI</td>
<td>Yes</td>
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<tr>
<td>Cobham &amp; Janský (2017)</td>
<td>133+</td>
<td>FDI</td>
<td>Yes</td>
</tr>
<tr>
<td>IMF (2014)</td>
<td>180</td>
<td>National ac.</td>
<td>Yes</td>
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<tr>
<td>Tørsløv, Wier, &amp; Zucman (2018)</td>
<td>230</td>
<td>Other</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Profit shifting leads to annual revenue losses of 100-600 billion USD.

The first six estimates based on regression analysis.

The latter three estimates - straightforward methodologies and official statistical data.
What all the estimates have in common

- Illicit financial flows are real and measurable
- Estimates of varying quality, availability and coverage
- Overlaps and double-counting not easily identified
- Need for more credible measurements and better data
- Our proposals
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<th>Capital and wealth</th>
<th>Profit shifting</th>
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