

Experience in Measuring Tax and Commercial IFFs and Establishing Inter- agency Collaboration

The Case for South Africa

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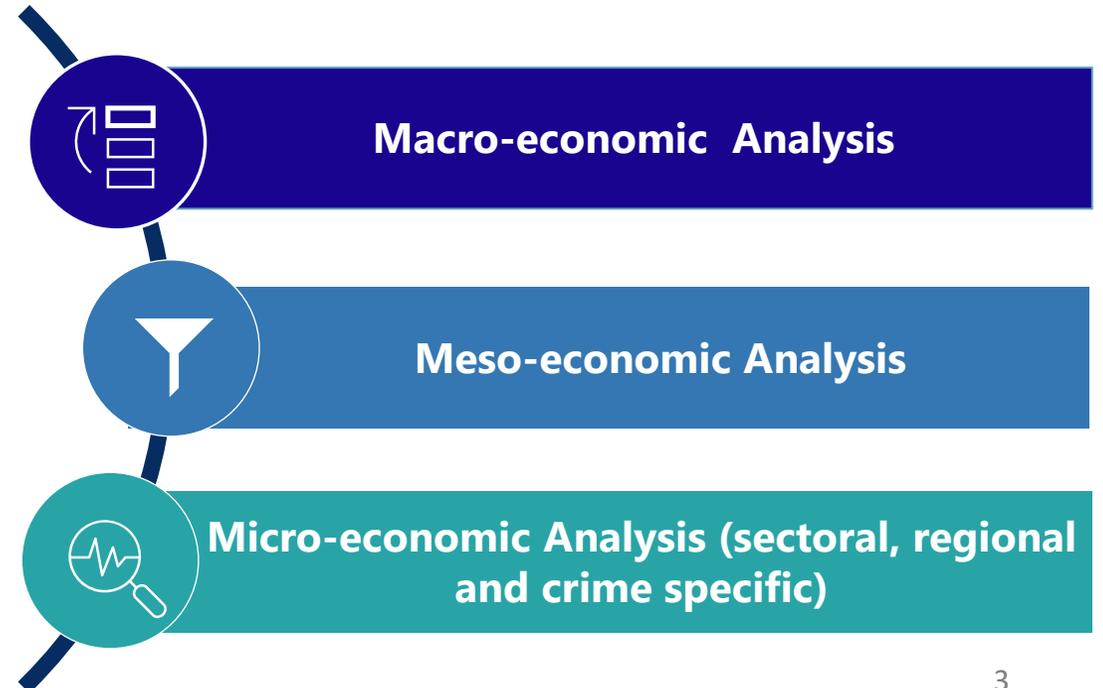
A Strategy to Curb IFFs

Research and measurement – the key to understanding IFFs



- A strategic unit was set up in the **FIC**, to run pilot project, reporting to the Director and providing advisory work to the Minister of Finance.
- The pilot quantified the extent of the illicit economy (IE) and illicit financial flows (IFFs) using a number of different approaches and models.

- Due to the clandestine nature of the illicit economy and IFFs we used a variety of models, at a *macro-, meso- and micro-economy level*, developing an integrated approach, **creating a threat and risk assessment tool**.
- The research **filtered through from the macro research level, using National Accounts and other macro data, through the meso analysis, down to micro level analyses using transactional data, guiding investigations**



Models and Data Tools

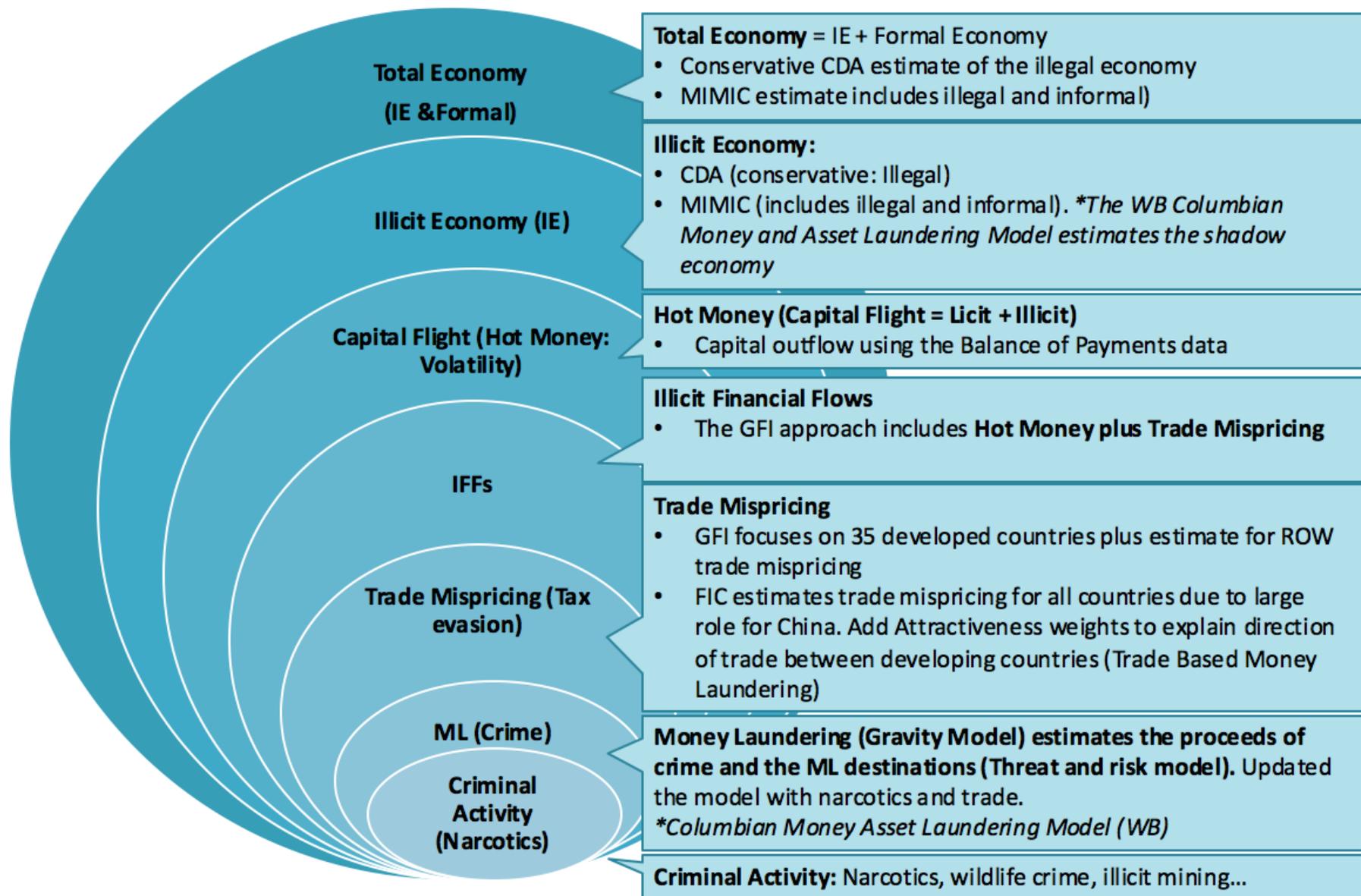
Research Key:

1	Commercial IFFs
2	Corruption
3	Theft-type and Terrorism
4	Illegal Markets
5	Illicit Economy
6	Non-specific IFFs

Illicit Economy		
Macro-Level	Meso-Level	Micro-Level
Black Money Models 4 1 Currency Demand Model Shadow Economy Model 5 Multiple Indicators Multiple Causes (MIMIC) model	Meso-sector Models or Research Papers 6 Follow the Money (research paper) 5 Illicit Economy and Illicit Flows: Microsimulation using the General Household Survey and Income and Expenditure Survey 6 Work in progress: replication of the World Bank Columbian IFF Study ¹⁹	Micro-sector Models or Research Papers 4 Narcotics assumption base model. 4 Rhino poaching 4 Wildlife trade including: - Elephant ivory smuggling - Tiger and lion bone smuggling 4 Timber and coal smuggling
Illicit Financial Flows		
Macro-Level	Meso-Level	Micro-Level
Illicit Flows Macro Models 1 SARS Tax Evasion Model (Tax GAP model) 4 Gravity Money Laundering Model – without trade 4 1 Gravity Money Laundering Model with Trade (TBML) 1 Hot Money Model	Illicit Flows Meso Models 1 Trade Mis-invoicing by country and by product category (99 sectors – HS level 2) 1 Transfer Mis-invoicing background research paper 1 TBML background research paper and 4 TBML Model (hybrid DOTS-Walker Gravity Model)	Illicit Flows Micro Models or Research Papers 6 Crypto currencies and BITCOIN 2 Corruption Analysis Report 1 Occupational fraud and fraud profiling reports 4 Cybercrime Report
Databases:		
<ul style="list-style-type: none"> Narcotics (macro crime stats) StatsSA narcotics survey including drug use survey, and micro survey data of seizures) Crime statistics at municipal level for the by country, by police precinct and municipality 	<ul style="list-style-type: none"> Macro data on tax, crime, money supply, tax evasion, etc. Trade (SIC level 4) for South Africa trading with the rest of the world (sector and product) including FOB stats from the South African Revenue Service (SARS) 	

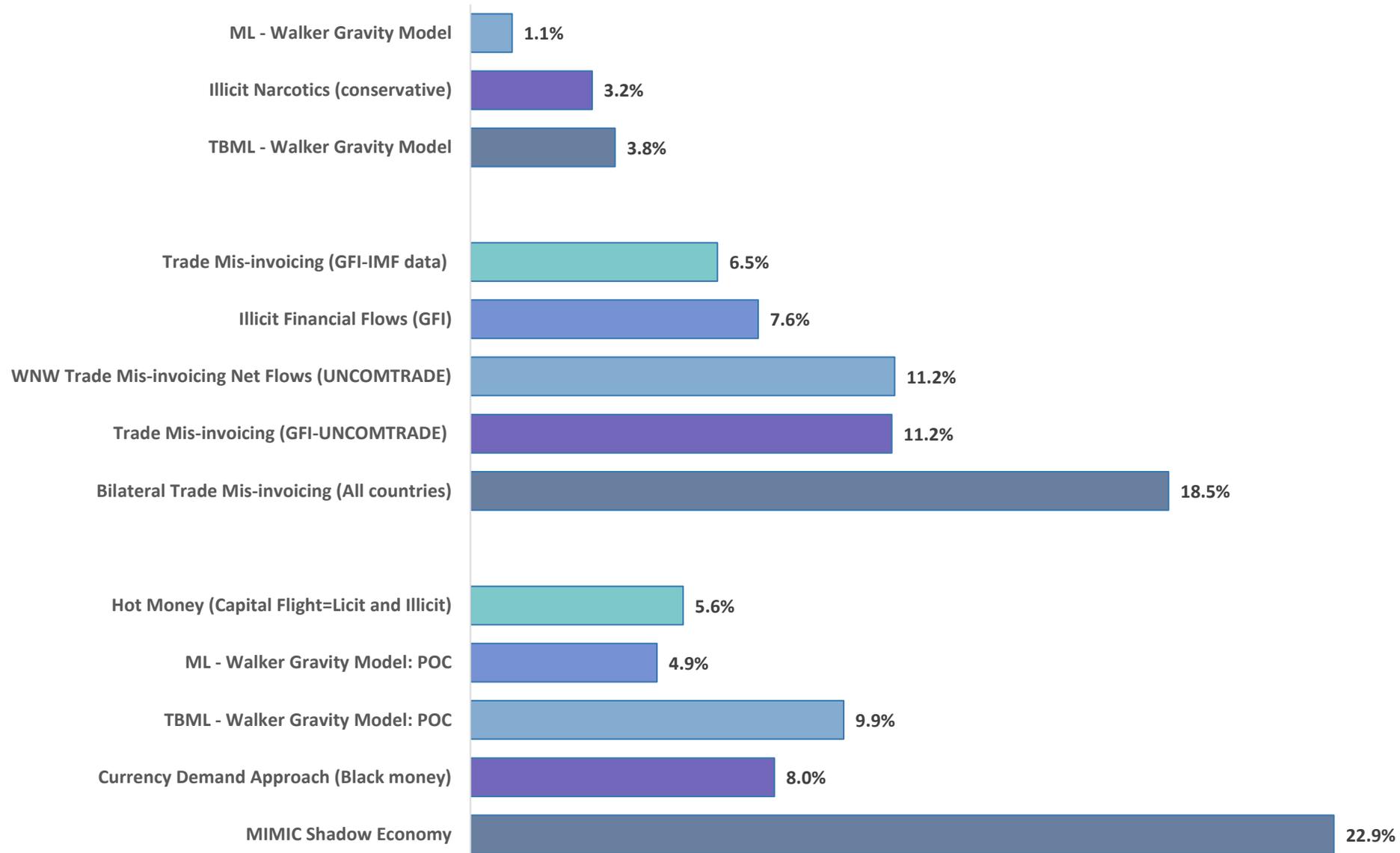
IFFs Modelled in South Africa

Macro, micro and meso models



Illicit Economy and IFFs for South Africa

2012 Results



Illicit Economy and IFFs for South Africa

Cooperative Governance can be formal

Formal
engagements:
MOUs/MOAs

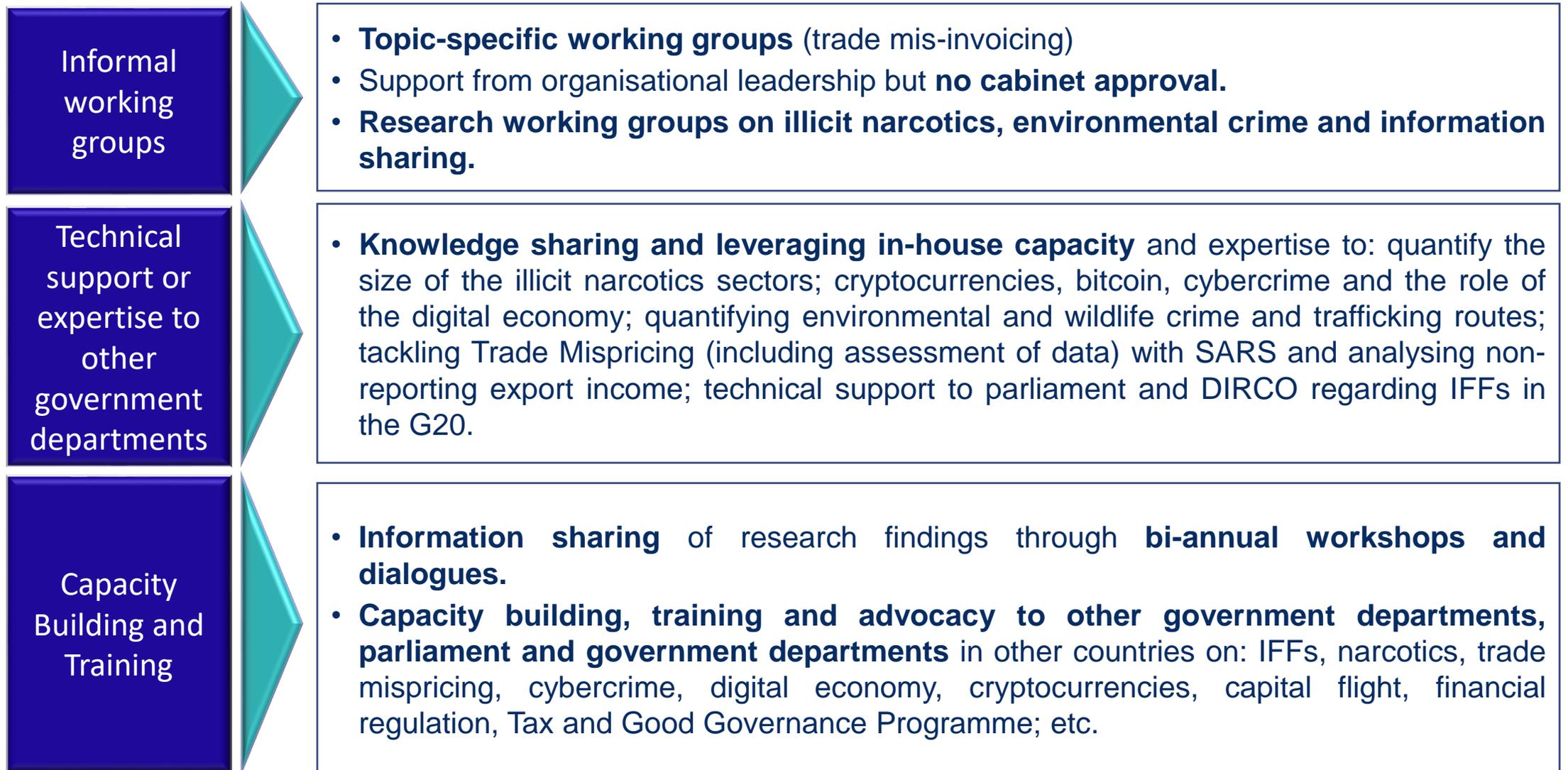
- Between **local and foreign government departments** in the **tax, customs, law enforcement and AML/CFT** arenas
- Necessary for **accessing data for threat and risk assessments**, investigations/cases.
- South Africa has more than 80 MOAs with FIUs in other countries. There is an MOA between FIU and the Central Bank but not the Revenue Authority. Investigations result in a more collaborative approach.

MOAs/Task
forces/Inter-
departmental
workings
groups for
specific
purposes

- The IFF unit at the FIC had an **MOA with GFI to implement a real-time benchmark pricing tool.**
- A separate MOA was developed to **access skills through a skills exchange programme.**
- **Working groups/Task teams/Task Forces** were established for specific purposes: **research, policy, capacity building, information sharing, strategic interventions for international engagements/commitments.**
- **Formalised through cabinet/ministerial approval.**
- **Inter-departmental Working groups on IFFs, Illicit narcotics and Bitcoin/Cryptocurrencies**

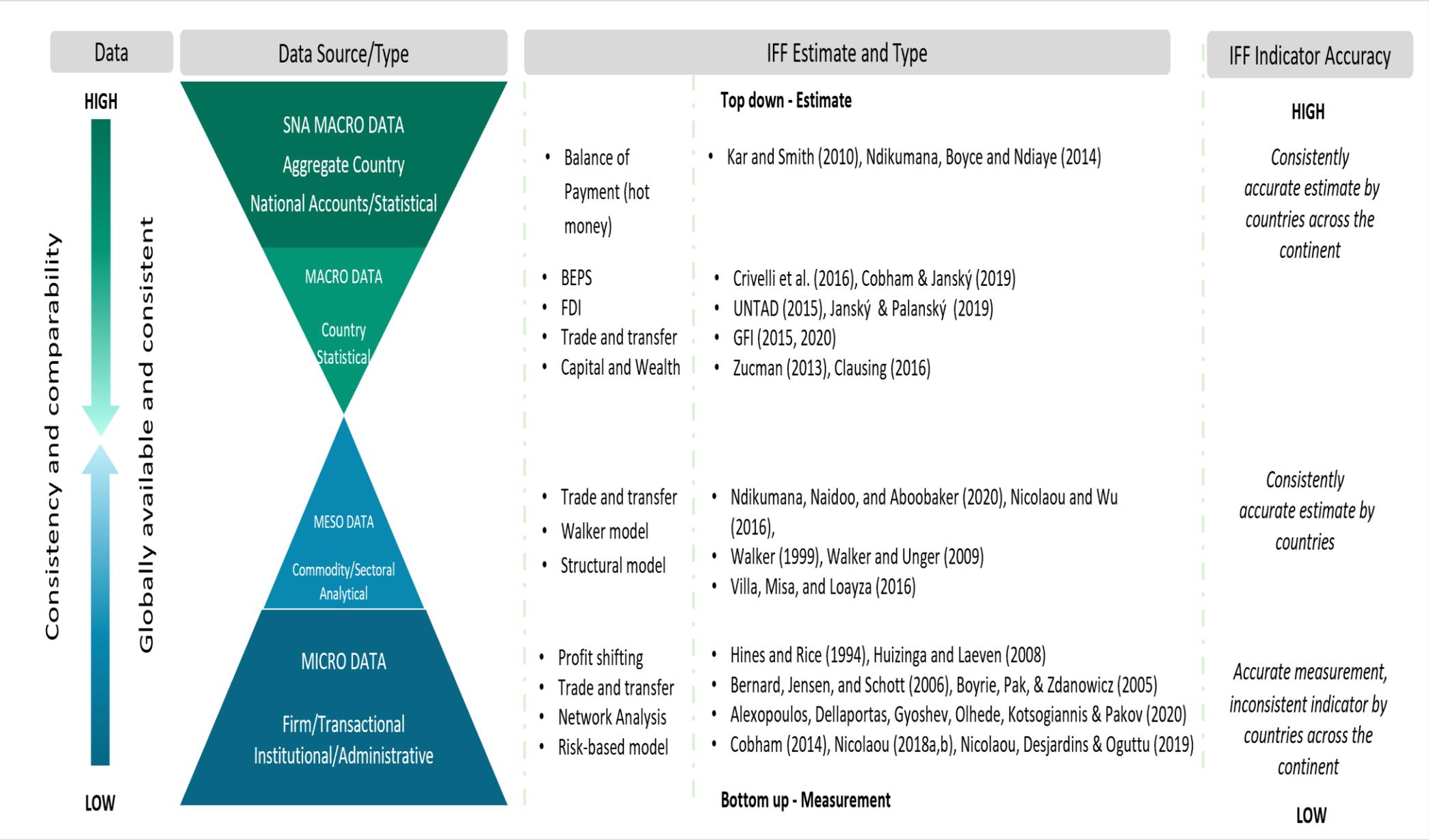
Illicit Economy and IFFs for South Africa

Cooperative governance can be informal or provide training



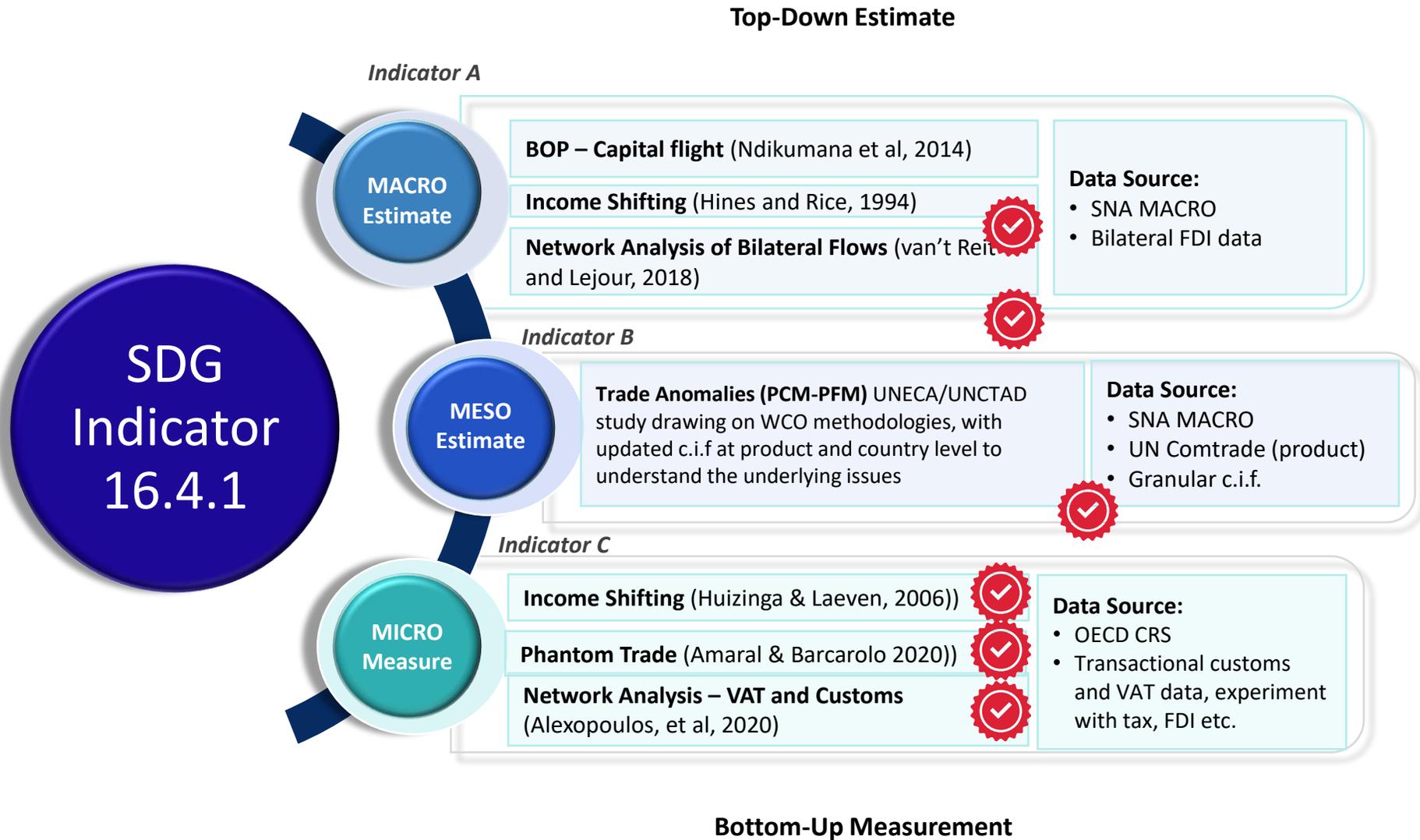
Latest Commercial IFF Models for South Africa

Insights from the South African IFF Measurement Guideline



Latest Commercial IFF Models for South Africa

Insights from the South African IFF Measurement Guideline - 2021



Tackling IFFs

A holistic approach

01

Risk Assessment

Analyse your various IFF risks. UNCTAD has an IFF self assessment questionnaire. GIZ has developed an IFF Risk Assessment tool for governments, which highlights the IFF legislative, policy, operational, capacity, M&E, enforcement and information sharing weaknesses

02

IFF Task Force

The Task Force should be an inter-departmental working group focusing on IFFs at a strategic, tactical and operational level. The TF should receive it's mandate from the highest office in the country or Cabinet.

03

Measure IFFs

Research and quantify IFFs. The research should look at new techniques to move monies out of a country and measurement to quantify the problem. Macro, meso and micro studies should be performed. Micro being the most ideal.

04

Link and Analyse

Its imperative to work with administrative and other data sources. Data needs to be cleaned, maintained and linked. Linking transactions to legal entities, individuals, PEPs and identity information is necessary. Social Network Analyses and transaction chain analyses are critical. Using AI&ML with big data is the key to curbing IFFs. individuals to transactions

05

Build Capacity and Raise Awareness

There is a desperate need to raise awareness on IFFs and its various components in the broader government community. A government wide public and private drive to address IFFs is important. Its not just for statisticians, but politicians, policy makers and citizens.

06

Cooperative Governance is the Key to Addressing IFFs

Working together, sharing information within a country, across government, the private sector and civil society is key to addressing IFFs. Cooperative governance requires working across agencies, across jurisdictions, across disciplines and across institutions.

The screenshot displays the 'Auditor General' IFF Risk Assessment tool. It features a questionnaire table with columns for 'QUESTION', 'CRITERION', 'IF RISK OR PROBABILITY', 'IF RISK OR IMPACT OF PROBABILITY', 'IF RISK TEST BOX', 'IF THREAT OF IMPACT', 'CRITERION FOR THREAT OR IMPACT OF CONSEQUENCE', 'IF THREAT TEST BOX', and 'SECONDARY DATA SOURCES'. The table is color-coded by risk level: High (Red), Medium (Yellow), and Low (Green). Below the table is a 'Probability and Impact' matrix with 'Probability' on the y-axis (Low, Med, High) and 'Impact' on the x-axis (Low, Med, High). The matrix is divided into four quadrants: High Probability/Low Impact (Green), High Probability/Medium Impact (Yellow), High Probability/High Impact (Red), and Low Probability/High Impact (Orange). Overlaid on the matrix are four overlapping circles representing different governance areas: 'Cooperative Governance' (center), 'Transparency' (bottom-left), 'Operational' (top-right), and 'Legislation' (bottom-right).

Questions

