GSS/ISODEC TRAINING WORKSHOP ON MEASURING IFFS IN WEST AFRICA

MONITORING AGGRESSIVE TAX PLANNING TO DETECT BASE EROSION AND PROFIT SHIFTING BY MNEs

(Bishop Akolgo-Consultant-IFFs)

METHOD 2-AGGRESSIVE TAX AVOIDANCE- Global Distribution of MNEs' profits and Corporate Taxes

- The method proposed in the literature looks at the distribution of profits of an MNE among its units globally based on microdata and relates it to the corresponding corporate tax rates and underlying economic activity of a particular unit to measure aggressive tax avoidance.
- It assumes that an MNE unit is likely to shift profits out of the country if another unit's tax regime induces a lower tax rate. The method tests a regression model linking MNE unit's profits as a dependent variable with its economic activity, general conditions of a country, and tax rate differences between rates faced by the MNE unit in a country and rates faced by units in other countries.

METRICS AND LIMITATIONS

- To overcome some of the limitations, the proposed method suggests using **effective tax rates**, **quadratic tax** variable specification, **quartiles of consolidated revenues** to form subsamples, and tools to confirm and interpret results.
- **The effective tax rate** provides a more comprehensive representation of a country's corporate income taxation, while
- **the quadratic tax variable** specification accounts for uneven tax-sensitivity across various tax jurisdictions.
- **The quartiles of consolidated revenues** to form subsamples address potentially varying tax sensitivity depending on the size of MNE.
- Finally, two tools serving as proxies for the role of the unit within MNE are proposed: **Location of the unit and Economic activity** of a unit to assess to a certain degree the technological nature and role of each unit within the MNE's production chain.

STEPS FOR A MODEL TO MEASURE AND MONITOR

1. **Collect financial data**: The first step is to collect financial data for the company or companies you are monitoring. This might include financial statements, tax returns, and other relevant documents.
2. **Clean and preprocess the data**: Once you have collected the data, you will need to clean and preprocess it to prepare it for analysis. This might involve removing duplicates, filling in missing values, and converting data types.
3. **Calculate key financial ratios**: Next, you will want to calculate key financial ratios that can help you identify aggressive tax avoidance and profit-shifting practices. Some useful ratios include the **effective tax rate**, the **tax-to-book ratio**, and the **return on assets**.
4. **Visualize the data**: To gain insights from the data, it is helpful to visualize it using charts and graphs. Python has several libraries for data visualization, such as matplotlib and seaborn, that can be used for this purpose.
5. **Monitor changes over time**: Finally, it is important to monitor changes in the financial ratios over time. This can help you identify trends and patterns that suggest aggressive tax avoidance and profit-shifting practices.

GSS-ISODEC TRAINING WORKSHOP FOR GHANA, LIBERIA, NIGERI AND SIERRA LEONE-24TH TO 28TH APRIL, 2023

INTERNATIONAL TRADE AND IFFS

(BISHOP AKOLGO-CONSULTANT)

KEY ASSUMPTIONS ON BILATERAL TRADE

- GHANA'S VULNERABILITY, INTENSITY AND EXPOSURE TO IFFs IS AS A RESULT OF HER RELATIONS WITH HER TRADE PARTNERS
- MOST IFFS ARE COMING FROM OUTSIDE AFRICA
- IFFS PRESENT ALONG THE WHOLE VALUE-CHAIN AND TRANSCATION CHAIN OF NATURAL RESOURCE EXRACTION ACTIVITIES
- IFFS PRESENT IN ALL SECTORS-TRADE, BANKING/FINANCE, INVESTMENT, REAL-ESTATES, ETC.

The relationship between financial secrecy and illicit financial flows

Financial secrecy enables illicit financial flows

‘A major enabler or pull factor for IFFs from Africa is the existence of financial secrecy jurisdictions […]. Financial secrecy jurisdictions put in place an elaborate framework to attract financial resources irrespective of their provenance’.

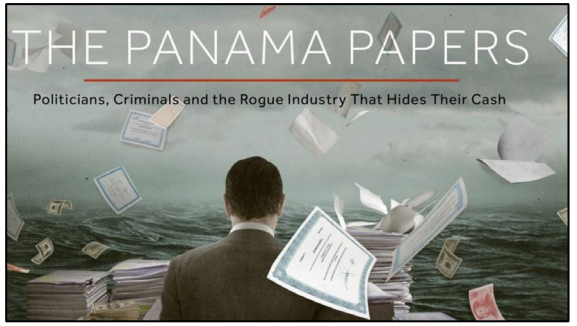
– Report of the High Level Panel on IFFs from Africa ‘Mbeki Report’, 2015, UNECA/AUC, 42

tax justice network

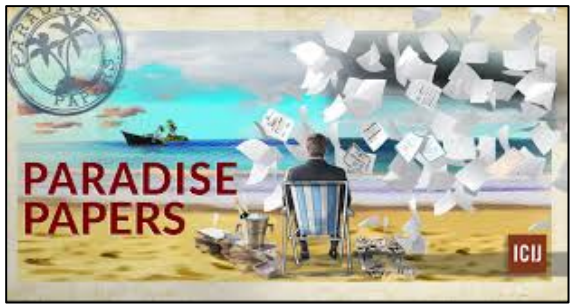
financial secrecy index

Rank	Jurisdiction	FSI Value[6]	FSI Share[7]	Secrecy Score[4]	Global Scale Weight[5]
1	Switzerland[2]	1589.57	5.01%	76.45	4.50%
2	USA[2]	1298.47	4.09%	59.83	22.30%
3	Cayman Islands[2]	1267.68	4.00%	72.28	3.79%
4	Hong Kong[2]	1243.68	3.92%	71.05	4.17%
5	Singapore[2]	1081.98	3.41%	67.13	4.58%
6	Luxembourg[2]	975.92	3.08%	58.20	12.13%
7	Germany[2]	768.95	2.42%	59.10	5.17%
8	Taiwan[2]	743.38	2.34%	75.75	0.50%
9	United Arab Emirates (Dubai)[2,3]	661.15	2.08%	83.85	0.14%
10	Guernsey[2]	658.92	2.08%	72.45	0.52%

Source: https://www.icij.org/investigations/panama-papers/, https://www.icij.org/investigations/paradise-papers/ & https://www.icij.org/investigations/west-africa-leaks/explore-the-stories/; www.financialsecrecyindex.com; 30.5.2019



Companies and individuals from 52 of 54 African countries were in the data
April 2016



Elites of 7 African countries were named in the papers
November 2017

Companies and elite in 11 West African countries
May 2018

Corporate Tax Haven Index (CTHI): Racing to the bottom

Finance

Mauritius, UAE Working Against African Countries, Study Reveals

May 30, 2019 newbusinessethiopia Comments Off

The Corporate Tax Haven Index (CTHI) by Tax Justice Network launched yesterday shows how the United Arab Emirates (UAE) and Mauritius are among the most corrosive corporate tax havens against African countries.

BUSINESS NEWS MAY 28, 2019 / 7:38 PM / 6 MONTHS AGO

British overseas territories top corporate tax loophole index

REUTERS

John O'Donnell

FRANKFURT (Reuters) - Britain's offshore territories the British Virgin Islands (BVI), Bermuda and the Cayman Islands were named in a study released on Wednesday as the most significant jurisdictions used by global companies to minimise their tax bills.

Rank	Jurisdiction	CTHI Value[4]	CTHI Share[5]	Haven Score[2]	Global Scale Weight[3]
1	British Virgin Islands	2769	7,29%	100	2,12%
2	Bermuda	2653	6,98%	100	1,87%
3	Cayman Islands	2534	6,67%	100	1,63%
4	Netherlands	2391	6,29%	78	12,77%
5	Switzerland	1875	4,94%	83	3,41%
6	Luxembourg	1795	4,73%	72	10,53%
7	Jersey	1541	4,06%	98	0,43%
8	Singapore	1489	3,92%	81	2,12%
9	Bahamas	1378	3,63%	100	0,26%
10	Hong Kong	1372	3,61%	73	4,38%

40% of today's cross-border direct investments reported by the IMF - $18 trillion in value - are booked in the Top 10 of the CTHI, where the lowest available CIT rate is 3 per cent or less.

Sources: https://www.corporatetaxhavenindex.org/introduction/cthi-2019-results; https://newbusinessethiopia.com/finance/mauritius-uae-working-against-african-countries-study-reveals/; https://www.reuters.com/article/companies-taxation/british-overseas-territories-top-corporate-tax-loophole-index-idUSL8N2332FN; 2.9.2019.

What can countries do to tackle illicit financial flows?

- **Assess the risk:**
  - Considering all of a country's external economic relationships, where is the highest risk for illicit financial flows? Which partner countries are relevant for addressing this problem?
  - What are the implications for policy, audit and investigative purposes?
  - What data sources exist to answer the questions above?

- **Intuition:**

Illicit financial flow risk and vulnerability =

Financial secrecy level of partner country * size/volume of cross-border stock/flow/transaction

What data can we use to assess financial secrecy levels?

Financial Secrecy Index 2018 – Secrecy Score

Ownership Registration	Legal Entity Transparency	Integrity of tax and financial regulation	International Standards and Cooperation
1 Banking secrecy	6 Public Company Ownership	11 Tax Administration Capacity	17 Anti-money Laundering
2 Trusts and Foundations Register	7 Public Company Accounts	12 Consistent Personal Income Tax	18 Automatic Information Exchange
3 Recorded Company Ownership	8 Country by Country Reporting	13 Avoids Promoting Tax Evasion	19 Bilateral Treaties
4 Other Wealth ownership	9 Corporate Tax Disclosure	14 Tax Court Secrecy	20 International Legal Cooperation
5 Limited Partnership Transparency	10 Legal Entity Identifier	15 Harmful Structures	
		16 Public Statistics	

Lowest available transparency denominator!!

- Arithmetic average of 20 key financial secrecy indicators
- Scores: 0 = transparent, 100 = secretive
- Fully referenced to source, verifiable
- Open data and codebook
- Used by financial intelligence units, public prosecutors, risk rating agencies, tax administrations, central banks
- https://www.financialsecrecyindex.com/

What data can we use for economic channels between countries?

- Macro: 8 channels in 4 bilateral external economic datasets:
  - Trade: Imports and Exports – UN COMTRADE
  - Foreign Direct Investment: Inward and Outward – IMF Coordinated Direct Investment Survey
  - Banking: Liabilities and Claims – Bank for International Settlements
  - Portfolio Investment: Liabilities and Assets – IMF Coordinated Portfolio Investment Survey
- Micro: Transaction Level data

Economic channels & illicit financial flows

Flow	Manipulation	Illicit motivation
Exports	Over-pricing	Exploit subsidy regime
		(Re)patriate undeclared capital
	Under-pricing	Shift undeclared (licit) income/profit
		Shift criminal proceeds out
		Evade capital controls (including on profit repatriation)
Imports	Under-pricing	Evade tariffs
		(Re)patriate undeclared capital
	Over-pricing	Shift undeclared (licit) income/profit
		Shift criminal proceeds out
		Evade capital controls (including on profit repatriation)
		Shift undeclared (licit) income/profit
Inward investment	Under-pricing	Shift undeclared (licit) income/profit
		Shift criminal proceeds out
		Evade capital controls (including on profit repatriation)
	Over-pricing	(Re)patriate undeclared capital
	Anonymity	Hide market dominance
	Anonymity	Hide political involvement
Outward investment	Under-pricing	Evade capital controls (including on profit repatriation)
	Over-pricing	Shift undeclared (licit) income/profit
		Shift criminal proceeds out
	Anonymity	Hide political involvement

Source: UNECA/AUC, Report of the High Level Panel on IFFs from Africa, 2015, Annex II, 88-89

Vulnerability, Intensity, Exposure

- $i \in \{1,\ldots,I\}$ reporting country
- $j \in \{1,\ldots,J\}$ partner country
- $t \in \{2008,\ldots,2018\}$ year
- X_{ijt} flow or stock value of cross-border transaction between reporter *i* and partner *j* at time *t*
- Y_{it} GDP of reporting country i at time t
- SS_j Secrecy Score (or individual KFSI) of partner country *j*

Vulnerability

$$V_{it} = \frac{\sum_{j=1}^{J} X_{ijt} \cdot SS_j}{\sum_{j=1}^{J} X_{ijt}}$$

Intensity

$$I_{it} = \frac{\sum_{j=1}^{J} X_{ijt}}{Y_{it}}$$

Exposure

$$\begin{aligned} E_{it} &= V_{it} \cdot I_{it} \\ &= \frac{\sum_{j=1}^{J} X_{ijt} \cdot SS_j}{\cancel{\sum_{j=1}^{J} X_{ijt}}} \cdot \frac{\cancel{\sum_{j=1}^{J} X_{ijt}}}{Y_{it}} \\ &= \frac{\sum_{j=1}^{J} X_{ijt} \cdot SS_j}{Y_{it}} \end{aligned}$$

IFF Matrix: trade channel for IFFs

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
Independent Party Trade, Related Party Trade, Intra Group Trade.	Pricing, Quantity, Quality of traded goods in customs declaration forms.	Tax	Manipulations of price, quantity, quality can take the form of re-invoicing (routing trade on paper through third jurisdictions, resulting in two different invoices for one trade transaction), same invoice mispricing, fake transactions (extreme case of no trade taking place), and transfer mispricing (or abusive transfer pricing; intra-group trade).	A Korean semiconductor importer created a Chinese shell company from which he imported at higher prices, shifting US$16m abroad.[32]
		Money Laundering	Trade-based money laundering schemes.	A Brazilian company used offshore companies it controlled for purchasing syrup for soft drinks at highly inflated prices with cash that was smuggled out of Brazil previously.[33]
		Corruption	Corruption by or of (multinational) companies: by mispricing trade, staff of companies create and control slush funds for bribery and/or conspicuous consumption (embezzlement).	A Korean steel importer created a slush fund through a subsidiary shell company in Hong Kong and embezzled approx. US$6.6m.[34]
	Bribing or putting pressure on custom officials.	Corruption, Money Laundering	Bribery of custom officials or extortion, e.g. through drone surveillance in port areas by criminals to identify custom officials opening containers with illegal goods.	Four German custom officials received bribes for 10 years in exchange for lenient or no controls of exported goods, incl. fake transactions.[35]

Source: Abugre, Charles, Alex Cobham, Rachel Etter-Phoya, Alice Lépissier, Markus Meinzer, Nara Monkam, and others, Vulnerability and Exposure to Illicit Financial Flows Risk in Africa, 2019, 96 <https://www.taxjustice.net/wp-content/uploads/2019/08/Vulnerability-and-Exposure-to-Illicit-Financial-Flows-risk-in-Africa_August-2019_Tax-Justice-Network.pdf> [accessed 20 August 2019]

IFF Matrix: inward FDI channel for IFFs

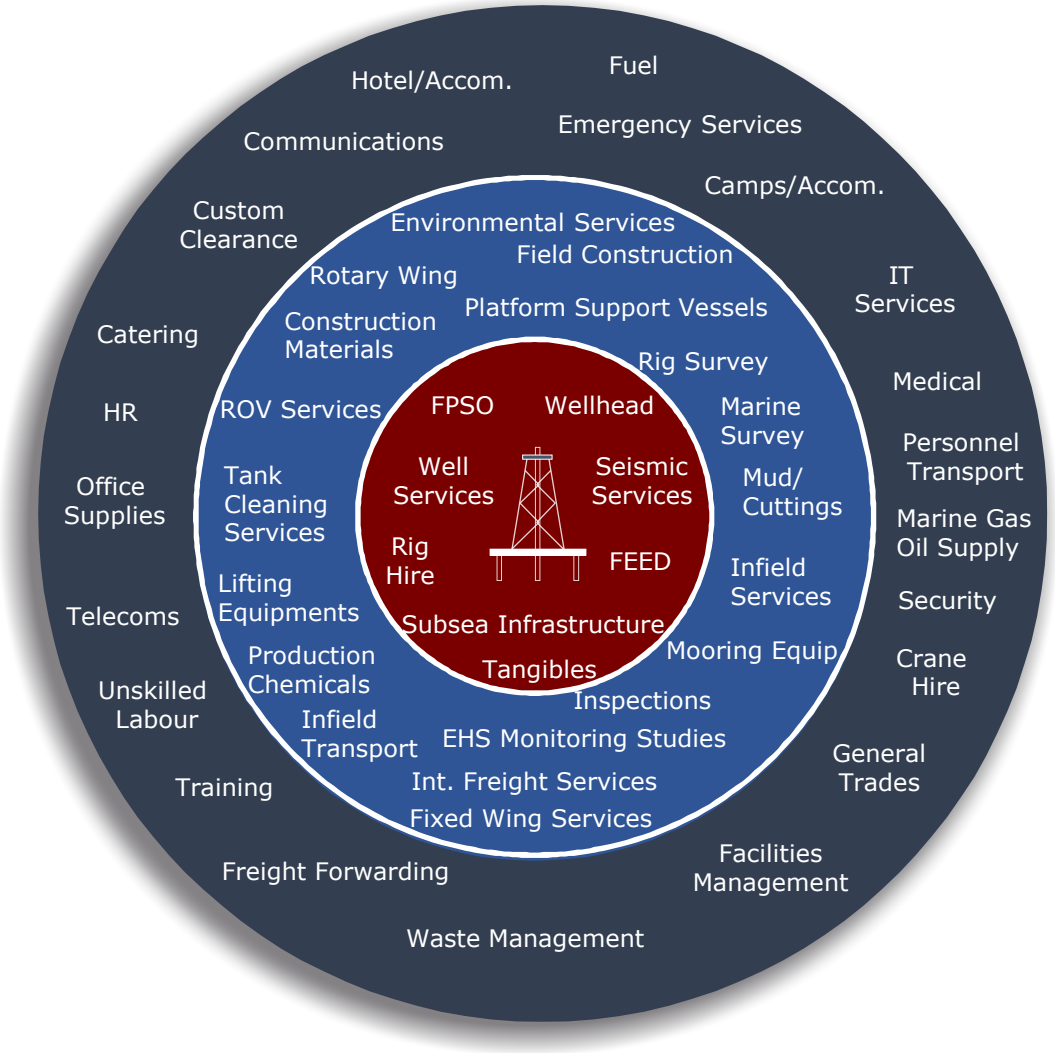
Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
INWARD DIRECT INVESTMENT				
Foreign investor owns or controls at least 10% of domestic business, including through debt instruments.	Diverse and complex intra-group profit shifting and base erosion techniques, filing of questionable positions in tax returns.	Tax	OECD's Base Erosion and Profit Shifting project provides an overview of various BEPS techniques, including thin capitalisation, transfer mispricing, inflated royalty, insurance and service payments, avoidance of permanent establishments, treaty shopping, etc. Many of these are routinely combined in complex tax avoidance schemes.	Australian extractive multinational company Paladin Energy thinly capitalised a subsidiary in Malawi for uranium extraction by using intermediate legal entities in the Netherlands. Between 2009-2014, the resulting interest payments avoided incurring US$7.3m of Malawian withholding tax compared to a direct investment from Australia because of the treaty shopping via the Netherlands.[74]

Source: Abugre, Charles, Alex Cobham, Rachel Etter-Phoya, Alice Lépissier, Markus Meinzer, Nara Monkam, and others, Vulnerability and Exposure to Illicit Financial Flows Risk in Africa, 2019, 96 <https://www.taxjustice.net/wp-content/uploads/2019/08/Vulnerability-and-Exposure-to-Illicit-Financial-Flows-risk-in-Africa_August-2019_Tax-Justice-Network.pdf> [accessed 20 August 2019]

Change In The Direction Of Trade And Implications For Risks And Vulnerability

- In 2000 to 2012 China was the leading partner in trade with Ghana at 20.11 % followed by the United States at 9.63 %(table on next page).
- For exports, it was South Africa that led the pack at 27 % followed by United Emirates at 9.95%, Switzerland at 7.88% and France at 7.31 %(table10).
- In terms of exports and its vulnerability to IFF, as shown in table, Switzerland leads at $1.868.7bn, followed by UAE at $1.427.3bn, then India at 1.557.7bn and China at $941.8 million.

Supply Chain activities and ease of entry by local companies



Oil and Gas Supply Chain Services

Indirect Services

- Readily available on the local market
- Offered to other industries .
- Less difficult for existing providers to meet standards and specification.
- Can be very highly capital intensive.

Direct Services

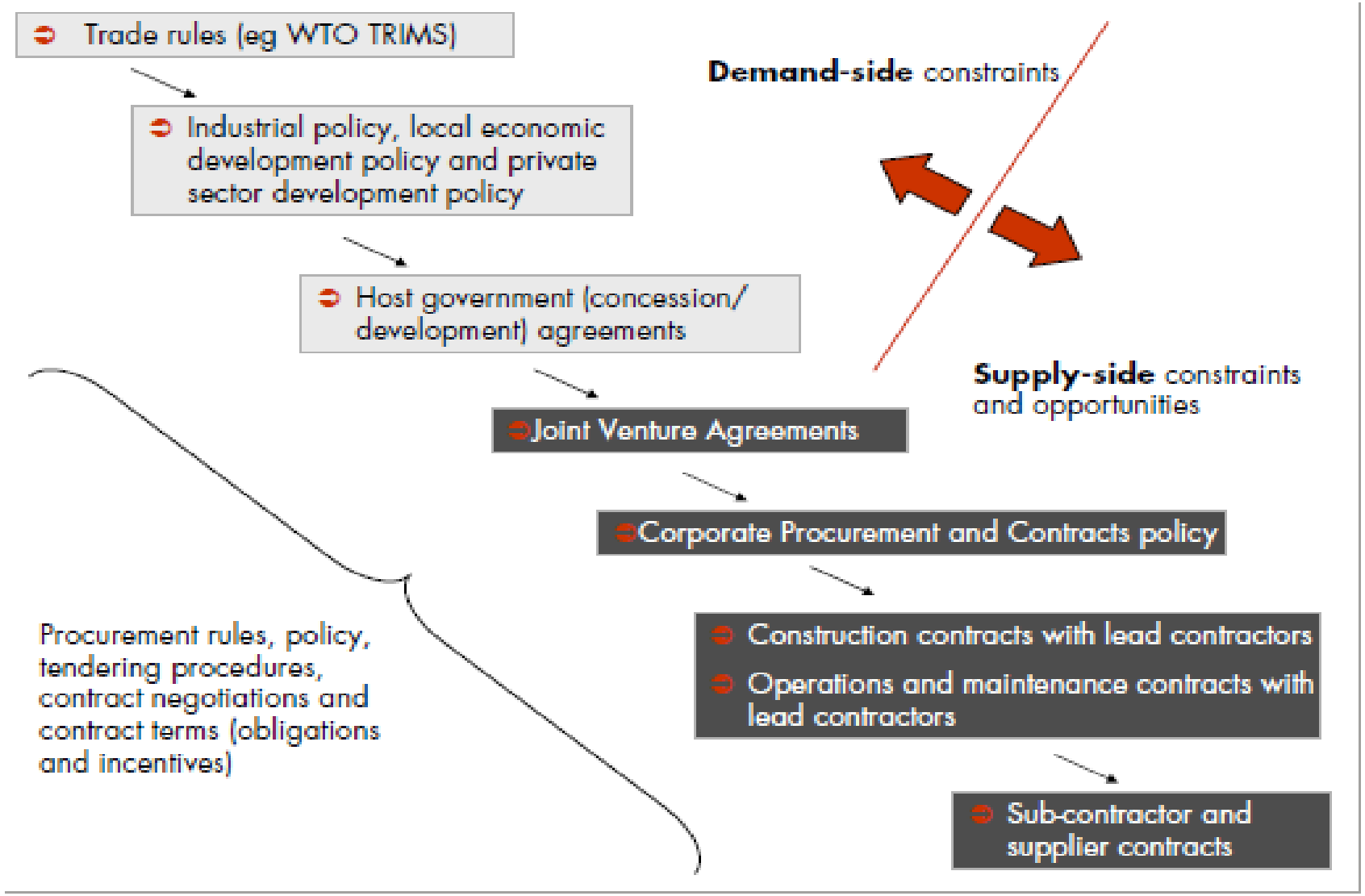
- Services not easily found on the local market.
- Requires medium to long term for one to develop skills and expertise to provide them.
- Develop skills and expertise for these services through partnership
- Highly capital intensive.

Specialists Services

- Complex services required in offshore operations.
- Require huge investment with very difficult ease of entry .
- Sources of competitive advantage for existing service providers last longer.
- Skills and expertise development for services can be attained in the long term.

Jubilee Partners (2009

TRANSACTION-CHAIN ANALYSIS IN LOCAL CONTENT

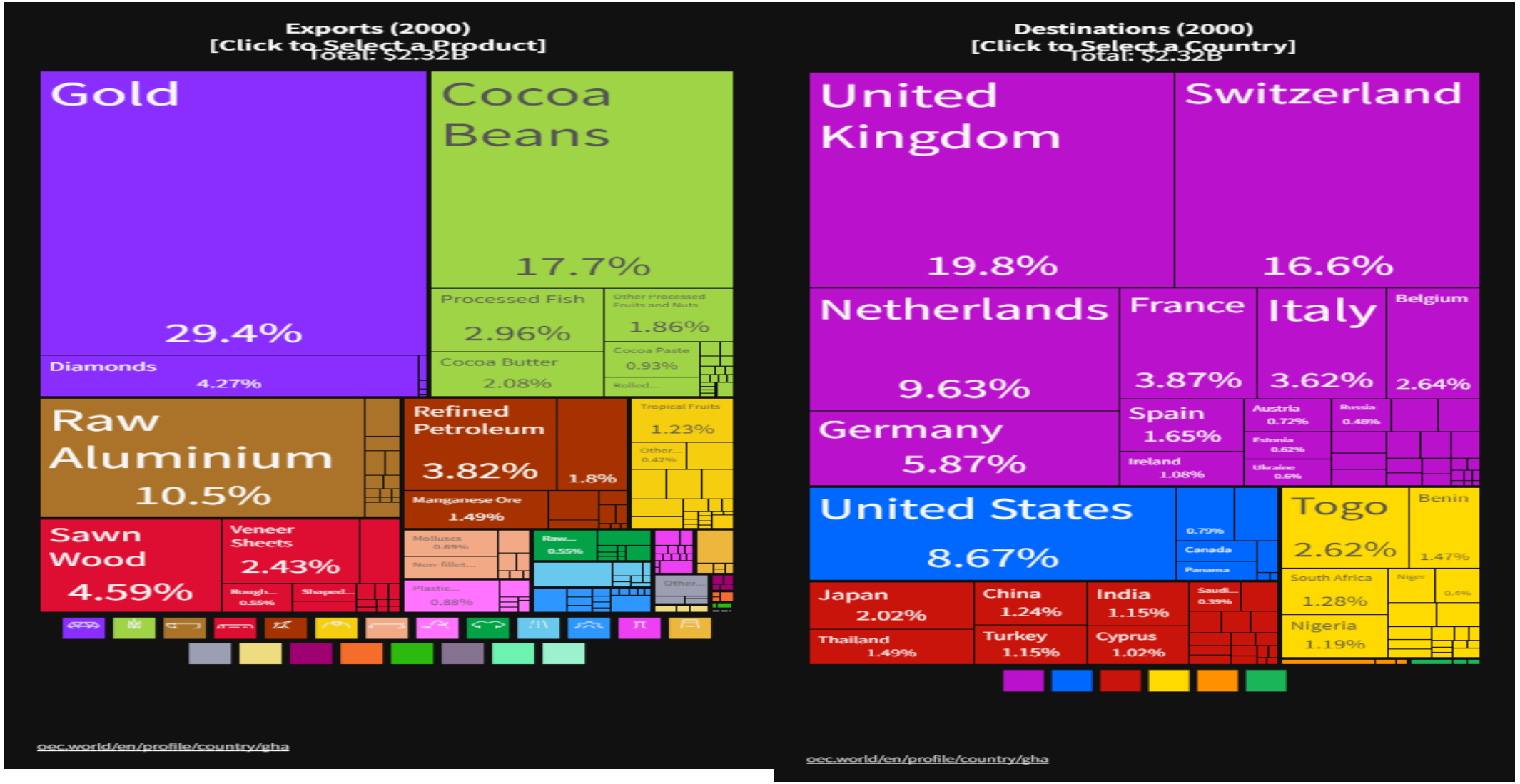


hana goods trade-2012
(2014) based on UNComtrade, via Observatory of Economic Complexity.

Change In The Direction Of Trade And Implications For Risks And Vulnerability

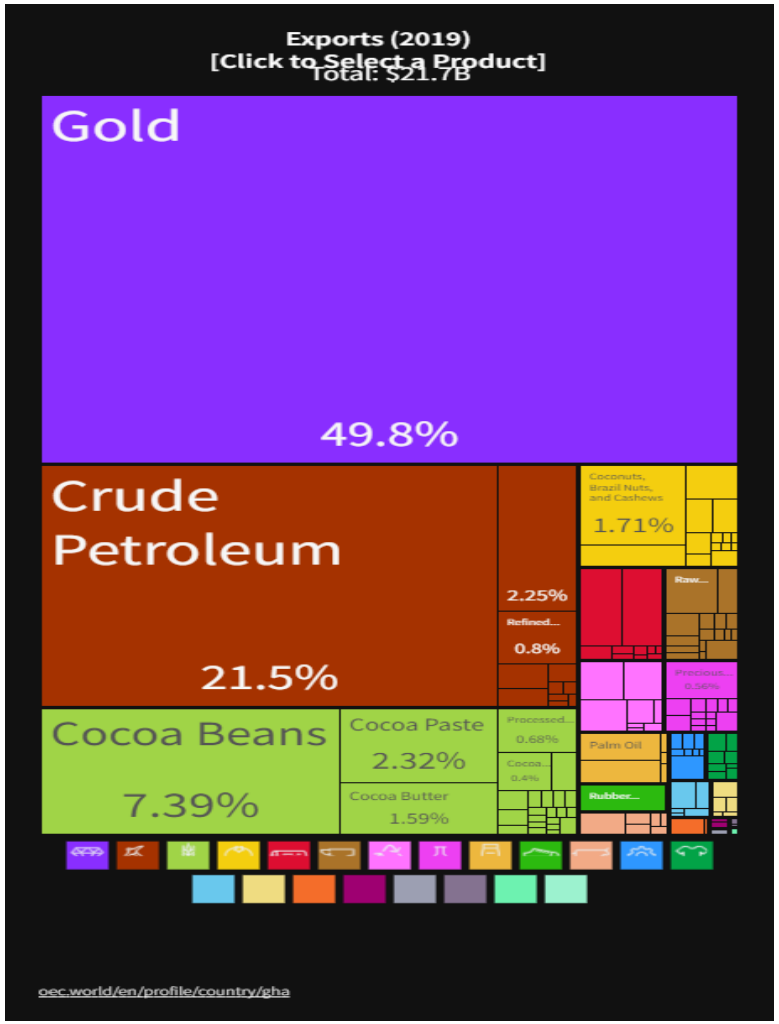
Goods imports (2012) by leading partner				Goods exports (2012) by leading partner			
			Percent				Percent
1	CHN	China	20.11%	1	ZAF	South Africa	27.00%
2	USA	United States	9.63%	2	ARE	United Arab Emirates	9.95%
3	BLX	Belgium-Luxembourg	5.18%	3	CHE	Switzerland	7.88%
4	GBR	United Kingdom	5.04%	4	FRA	France	7.31%
5	NLD	Netherlands	5.01%	5	ITA	Italy	6.67%
6	IND	India	4.13%	6	NLD	Netherlands	4.95%
7	ZAF	South Africa	3.53%	7	CHN	China	3.82%
8	DEU	Germany	2.98%	8	DEU	Germany	2.85%
9	NGA	Nigeria	2.50%	9	GBR	United Kingdom	2.52%
10	FRA	France	2.36%	10	TGO	Togo	2.49%
11	CIV	Cote d'Ivoire	2.32%	11	BFA	Burkina Faso	2.23%
12	ARE	United Arab Emirates	2.24%	12	USA	United States	2.17%
13	ESP	Spain	2.14%	13	MYS	Malaysia	1.84%
14	BRA	Brazil	2.04%	14	TUR	Turkey	1.79%
15	KOR	South Korea	2.03%	15	IND	India	1.73%

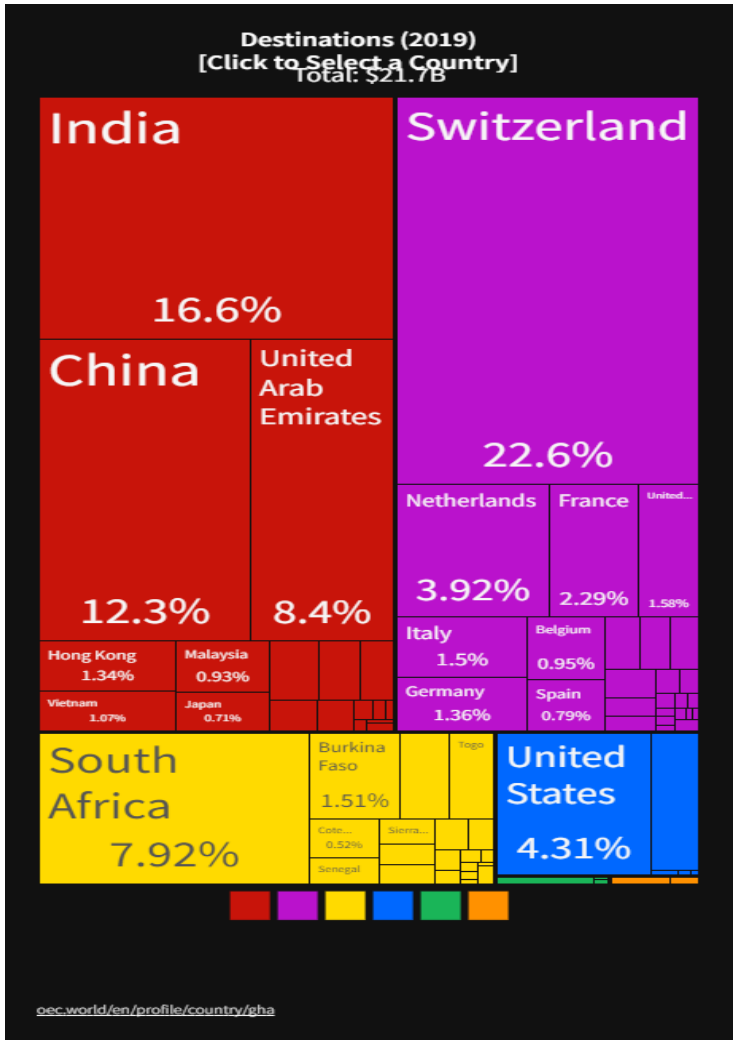
GHANA EXPORTS-2000



SOURCE: OEC(2021)

GHANA IMPORTS-2000





SOURCE: OEC(2021)

Direction of Trade-2016 onwards?

Rank	Country	Secrecy Score	Vulnerability Share	Exports (m) (USD)
1	Switzerland	76	25%	1868.7
2	United Arab Emirates	84	21%	1427.3
3	India	52	14%	1557.7
4	China	60	10%	941.8
5	Netherlands	66	5%	443.0
6	South Africa	56	4%	350.8
7	Malaysia	72	3%	215.0
8	United States of America	60	2%	197.0
9	Brazil	49	2%	201.0
10	Italy	49	2%	188.7

DIRECTION OF TRADE-2018-2019

- FASTEST GROWING EXPORT MARKETS (2018 - 2019)
- Switzerland, $1.59B (+ 47.8%)
- United Arab Emirates, $646M (+ 54.8%)
- China, $425M (+ 18.9%)

- FASTEST GROWING IMPORT MARKETS (2018 - 2019)
- Nigeria, $3.69B (+ 1.04k%)
- United Kingdom, $196M (+ 34.8%)
- Turkey, $169M (+ 56.5%)

Conclusion on trade mis-pricing

- Trade mispricing in EU-Ghana and US-Ghana trade
- Undervaluation of Import from Ghana (Ghana's
- Export): €2.7bn (EU), $0.63bn (US)
- Overvaluation of Export to Ghana (Ghana's Import):
- €2.8bn (EU), $0.57bn (US)

Trade underpricing trend

- EU: Annually between €100m to €300m
- US: $328m in 2000 is an exception: mostly due to non-industrial diamonds. After 2000: ranges between $10m and $62m
- Spain - the largest underpricing partner for the 13-year period
- Netherlands, UK, Germany, Belgium, Greece: Each at least €100m for the 13-year period
- Identified export sectors/commodities with significant underpricing, including wood and wood product, ores, cocoa

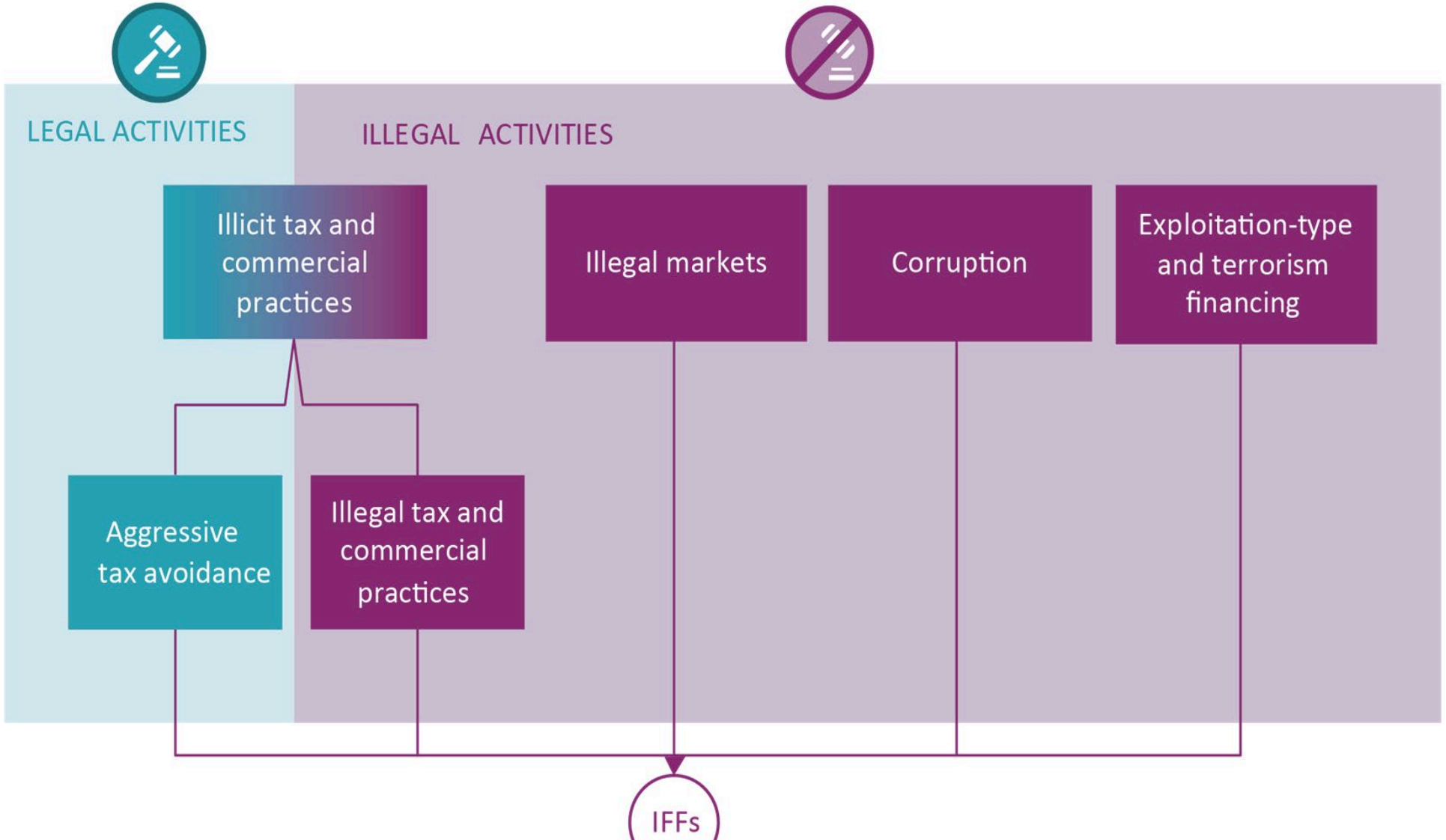
Trade overpricing trend

- Annual Import overpricing trends upward (Both US and EU)
- EU: Over €300m in 2012
- US: Over $100m in 2012
- US, France, and UK among the largest overpricing in 2012, and trending upward
- Identified import sectors/commodities with significant overpricing, including machinery, vehicles, electrical machinery and equipment,
- articles of iron and steel, textile articles, and aluminum articles

BREAKOUT GROUPS

- **Pls break up into 4 groups and consider the ff for engagement:**
  - Considering all of a country's external economic relationships,
- **Group 1: where is highest Risks for IFFs for Ghana?**
- **Group 2:Which Destination countries releant for addressing the problem?**
- **Group 3:What are the implications for Policy, Audit and investigation purposes?**
- **Group 4:What data sources exist to answer the questions above?**

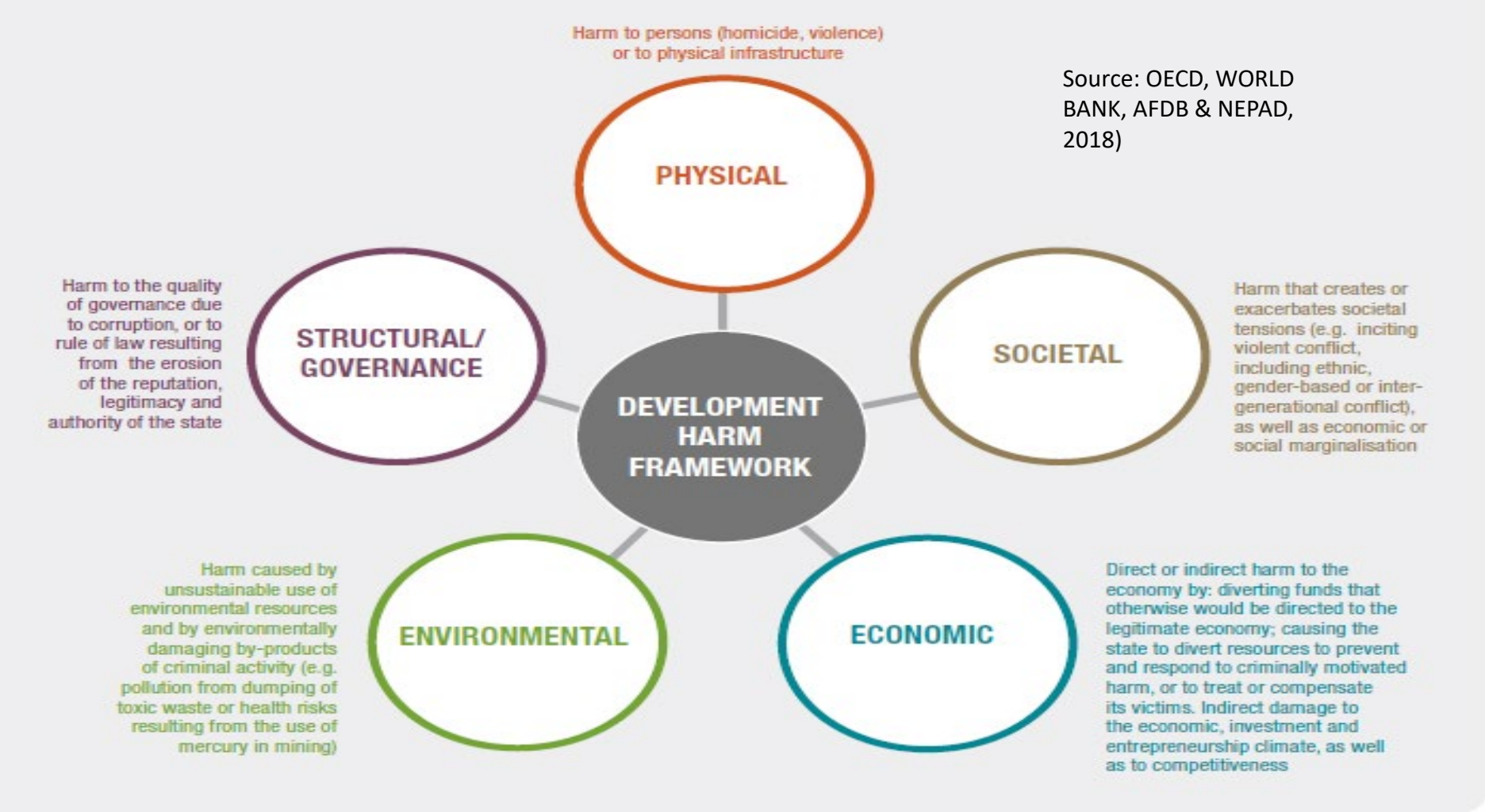
DIFFERENT ACTIVITIES THAT GENERATE IFFS



WHY WHOLE-OF-GOVERNMENT APPROACH IS CRUCIAL

WB, UNODC, OECD, 2020

THE DEVELOPMENT HARM FRAMEWORK



Source: OECD, WORLD BANK, AFDB & NEPAD, 2018)

APPLYING THE HARM FRAMEWORK

	Cocaine traffic	Counterfeit goods	Artisanal gold mining
Where is the good sourced; and is there a local market?	**Externally**: cocaine is produced outside of the region, with only a small existing market for cocaine within the region. Trade is concentrated in a limited number of hands regionally; the main facilitators of the trade and beneficiaries of the IFFs generated are high-level public officials.	**Externally**: counterfeit goods are predominantly produced outside of the region, and yet enjoy a large local market. Depending on the goods, they sometimes compete with local products. Many actors engage in the movement and marketing of counterfeit goods. Depending on the product, the barriers to entry into the country are generally low.	**Locally**: gold is indigenous to the region. There is a sizeable local market for the good, which is used as a currency equivalent for local and cross-border trading.
Who are the actors involved?	**Latin American Cartels and high-level military and political officials**. Colombian or Latin American drug cartels work through high ranking and well-connected individuals, including key political and military personnel – individuals that control transport hubs or deploy military assets to protect trade.	**Entrepreneurs and corrupt officials/border guards**. The higher-level perpetrators of illicit trade in counterfeit or fake goods are "business executives" operating legitimately registered enterprises, corrupt officials and border guards. The producers and distributors of these goods are also important actors in the supply chain.	**Networks of local actors**. There is a diverse array of actors, from buyers to dealers, exporters and pre-financiers. Criminal groups co-opt state officials to protect the illicit flows, and former combatants are known to be involved in some ground-level operations. China and India lead the global demand for gold. Dubai and Switzerland are seen as leading the transit hubs.
Where are the IFFs earned and invested?	**Externally**. The bulk of the profits from the cocaine trade are realised externally to the region. The local IFFs are predominantly used to finance local operations, corruption and protection for those involved in the illegal trade. A small proportion of the locally realised flows are then laundered abroad.	**Externally**. The bulk of the IFFs are accrued outside of West Africa. Some profits are accrued by local importers and traders, but the majority are realised by producers. Locally accrued IFFs are often re-invested in local counterfeit operations, or make their way into the local economy.	**Locally**. The bulk of the IFFs accrued locally by the miners are invested locally in subsistence livelihoods or used in cross-border trade. A minority share of the IFFs produced along the value chain leaves the country through a limited number of mining companies or gold-dealing corporations.

Source: OECD, WORLD BANK, AFDB & NEPAD, 2018)

APPLYING THE HARM FRAMWORK(CONT)

	Cocaine traffic	Counterfeit goods	Artisanal gold mining
Assessment of harm	The primary results from the cocaine trade include: – damage to health from drug use, which is still limited in West Africa – increased corruption through enrichment of local powerful elites, which may be colluding with criminals – violence resulting from increased armed protection and competition among groups that control the trade.	The primary harms from the counterfeits include: – negative impact on local industries – health and safety risks for consumers, e.g. from consuming counterfeit medication – loss of domestic revenue – increased corruption through enrichment of local powerful elites, which may be colluding with criminals.	The primary harms from artisanal scale mining include: – health and safety risks for artisanal miners, e.g. resulting from dangerous work practices or the use of toxic products – damage to the environment, resulting from the use of toxic products (e.g. mercury) – loss of government revenue – resourcing of local power brokers.
Implications of the response	Because of the limited local cocaine market (cocaine's penetration into social groups is commensurate with its high cost), responses should concentrate on their impact on the balance of power: – improved measures to seize the commodity prior to its transiting through West Africa (with the caveat that this will displace flows elsewhere) – targeted interventions (e.g. strengthening transparency and oversight to keep senior government officials from controlling the flow of drugs) – interventions focusing on breaking down the trafficking networks.	Counterfeit goods, though the object of limited attention from authorities in the region, are in heavy demand, mostly because of the lack of affordable legitimate alternatives. Responses should include: – for the goods most likely to cause physical harm (e.g. counterfeit medications), controlling the flows that cause the most harm to consumers and raising consumer awareness of the risks involved – providing viable market alternatives to consumers, possibly through government investment or subsidies – intervening with those producing and supplying the goods – addressing corruption, e.g. targeting relevant authorities with measures to improve transparency and oversight	Artisanal gold mining is more an informal than a criminal activity. Most of the value-chain benefits remain in the country, particularly in the community of the individuals involved. Responses should include: – mitigating harm to the environment – protecting those exposed, such as small-scale miners – shifting informal activity into the formal sector, both through legal and regulatory action, and providing incentives to the actors involved – creating/enforcing corporate regulation to address IFFs flowing outside of the region

Source: OECD, WORLD BANK, AFDB & NEPAD, 2018)

KEY RECOMMENDATIONS-1

- Operationalise the inter-ministerial natural resources coordination and collaboration committee chaired by HE the President or his vice, with the sub-committee on IFFs to look at forest, fisheries, solid minerals and petroleum in a holistic, coordinated and harmonious manner.
- This will allow the country to use these as catalyst for the structural transformation and industrailisation of Ghana by building linkages between these resources and the rest of the national economy;
- Develop and or strengthen capacity for transaction level, real time risk assessment for GRA, customs and FIC, and:
  - Test geographic risk applications in operations (Audits, prioritization of custom controls, national risk assessments, suspicious transaction reporting, foreign exchange transfers). If successful, embed geographic secrecy and corporate tax avoidance risk in operations (audits, prioritisation, national risk assessments). Consider collaboration with TJN through executing a Memorandum of understanding with GRA, customs, FIC for micro-data applications;
  - If successful, embedding geographic secrecy and corporate tax avoidance risk in operations (audits, prioritisation, national risk assessments).
  - Embed IFF risk analyses across all relevant government agencies.

KEY RECOMMENDATIONS-2

- Design, implement, monitor and evaluate a real-time model for tracking and eliminating trade mis-pricing in commodities and train and resource the tax authority to implement same;
- Consider Pan-African (AU level) coordination on countering IFF risks, especially given the nature of some specialized goods and services, especially intangibles, it can be difficult to determine what exactly a fair market price is.
- There is often also a case of asymmetric information between the tax administration and the taxpayer in this regard. To help overcome this, it is important to establish and exchange information on “benchmark costing” for solid minerals mining and petroleum activities and sharing same with other African Countries to help counter information asymmetry between resource-rich countries like Ghana and international extractive companies;
- Consider bilateral tax on the digital economy pending an AU position

KEY RECOMMENDATIONS-3

- Work with bilateral and multilateral organisations to forbid tax havens as all base erosion techniques typically involve tax haven subsidiaries like "Finance subsidiaries" to facilitate intercompany loans, "Intangibles holding companies" to facilitate intercompany royalty payments, "Service companies" through which intragroup service charges are routed and "Supply chain hubs" which purchase, resell inventory in intragroup transactions, with "entrepreneurial profit" captured in the tax haven.
- Look critically at other ways and alternatives to traditional tax administration as Transfer Pricing Enforcement is Not Sufficient for Control. The Problem involves more than determination whether pricing is "arm's-length" as many of the transactions involved are inherently artificial and should not be recognized regardless of pricing used.
- Even where mispricing is part of the problem, factual inquiries is required to enforce arm's-length pricing and this is unrealistic for even well-resourced tax administrations and recent OECD BEPS analysis acknowledges that remedies should extend beyond transfer pricing rules.
- Roll back appetite for International Financial centre as could be conduit for IFFs, thus increasing our exposure and vulnerability

KEY RECCOMMENDATIONS-4

- Strengthen domestic policies and capacity to counter IFFs, including by analyzing Ghana Financial Secrecy Index-FSI and corporate Tax Heaven Index-CTHI profiles;
- Provide legal basis and policy for the maintenance of a central register of bank accounts and real estate ownership;
- Empower GRA to estimate tax due in the case taxpayer does not comply fully with information requests;
- Build capacity for modeling oil and gold production revenues;
- Analyse country risk profiles and consider adequate capacity and/or policy and/or audit response
- When engaging in automatic exchange of information, legislate for public statistics on AEOI (e.g. Australia, template in Knobel/Meinzer 2017); consider joint AU position towards USA?
- Consider a WHOLE-GOVERNMENT approach to stemming IFFs as urgent

GSS/ISODEC TRAINING ON MEASURING IFFS FOR GHANA, LIBERIA, NIGERIA AND SIERRA LEONE

PILOT TO MEASURE IFFS

UNCTAD/UNECA/UNOC RECOMMENDED SIX METHODS

DEFINITION OF ILLICIT FINANCIAL FLOWS

- IFFs are defined as *Financial flows that are illicit in origin, transfer or use, that reflect an exchange of value and that cross country borders (working definition?)*.
- The measurement of tax and commercial IFFs aims to contribute to the overall indicator 16.4.1,
- *total value of inward and outward illicit financial flows (in current United States dollars)*.
- Therefore, their measurement should be as internationally comparable as possible. Thus, the starting point has to be the definition of IFFs for SDG 16.4.1 or its elements.
- CSOs and the triple “As”
- Automatic exchange of information (AEI)
- Beneficiary ownership of assets (BOA)
- Country-by-country reporting (cbcr)

OBJECTIVES OF THE PILOT

- The main goal of the pilot is to strengthen national capacity to monitor SDG Target 16.4 which is (*By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime*).
- The indicator for *16.4.1 has been agreed as: Total value of inward and outward illicit financial flows (in current USD).*
- Three main outcomes are targeted: 1) to Develop guidelines and capacity building materials for the estimation of IFFs (SDG 16.4.1);2) to help build data infrastructure for the national monitoring of the 2030 Agenda; and finally,3) to enhance the capacity of participating institutions to use data to monitor IFFs in support of the national policy to curb IFFs.
- The project will support pilot countries with technical assistance and training activities to assess and improve availability of data, implement the methodology and estimate IFFs in relation to selected illegal markets/activities and jointly disseminate the final results of the pilot studies.
- The project will improve the understanding of IFFs concepts and sources, to enhance the use of data among national government officials to increase knowledge of main IFFs types, and to provide relevant inputs to increase the effectiveness of legal frameworks and administrative measures

MEMBERSHIP OF THE TWG

1. The Ghana statistical service (GSS)-national focal point and secretary to the committee;
2. Ghana Revenue Authority and its agencies;
3. Ministry of Finance (MOF);
4. Bank of Ghana (BOG);
5. Financial Intelligence Centre (FIC);
6. Minerals Commission (MinCOM);
7. Petroleum commissions (PC);
8. ISODEC/Tax Justice Network;
9. Chamber of Commerce (CC)
10. Association of Ghana Industries (SGI);
11. Register-General's Department;
12. Ghana Policy Service.
13. Audit Service
14. Academia-University/research institutions, like the Economics Department/Business school of the University of Ghana or Cape Coast

ROLE OF NATIONAL STATISTICAL OFFICE

- Participate in regional meetings/workshops to discuss methodological issues and ensure coordination of activities at the regional level1;
- Host a national workshop to introduce the methodology to measure IFFs, raise awareness on IFFs, identify most relevant activities associated with IFF and identify institutions to be engaged in pilot activities in each pilot country;
- Participate in national training on the methodology to assess data availability, collect data, estimate the size of proceeds of crime/proceeds from tax-related illicit activities, and produce statistics on illicit financial flows and related activities;
- Participate in the implementation of the methodology to estimate IFF in relation to selected types of IFF;
- Host a follow-up national workshop to illustrate the consolidated results of testing activities and provide inputs on how to improve national data collection system to incorporate information on areas with limited data availability;
- Participate in a final regional seminar to present the overall results on IFFs data and methodologies, promote further understanding of IFFs in the region and to discuss future actions to improve capacities of governments to produce and use statistics on illicit financial flows.

ROLE OF THE NATIONAL CONSULTANT

- The NSO will be assisted by a dedicated consultant that will assist the national statistical office (NSOs) in conducting the activities. In particular, the consultant will assist the NSOs in a series of task, such as:

- identifying and establishing contacts with relevant national counterparts,
- assessing the availability and quality of data to measure illicit financial flows,
- collecting, assembling and processing available data with the view of producing IFF estimates,
- organising training activities and advising on methodological issues,
- ensuring coordination with project activities and communication with project staff.

ROLE OF UNECA, UNCTAD AND UNDOC

- UNODC, ESCAP and UNCTAD will provide full support in the implementation of the project, which includes:
- Defining methods and data requirements to measure the magnitude and destination of illicit financial flows from different illegal activities and markets which are needed to conduct the pilot activities;
- Assisting in the development of templates and data collection protocols to gather, assess and process data for the implementation of the statistical model in the pilot countries;
- Ensuring the methodology applied to estimating IFF is in line with the international standards;
- Contributing to organise expert group meetings and national workshops in each participating country for discussing, clarifying and test the methodological guidelines to measure IFFs;
- Conducting other technical assistance activities as mentioned in Paragraph III of the present document.

THE TERMS OF REFERENCE (TOR)

- SCOPE OF WORK

1. Provide data and information for this pilot, including broadening the availability of statistical data on bilateral economic relationships as a first step for enabling both indepth and comprehensive analyses and meaningful regulation of economic actors engaged in cross-border transactions. In the process of collecting statistical data according to IMF standards, building registration and monitoring capacity is key to help improve overall economic governance. The IFF risk analysis can help in the prioritisation of filling in data gaps with the highest (derived) exposure to IFF risks;
2. Assist government to adopt a holistic approach to countering illicit financial flows by building capacity to identify and target the areas of the highest risks for illicit financial flows. IFF risk profiles can assist governments to prioritise the allocation of resources across administration departments and arms of government, including tax authorities and customs, the central bank, supreme audit institutions, financial supervisors, anti-corruption offices, financial intelligence units and the judiciary. Within these departments, the IFF risk profiles would support the targeting of audits and investigations at an operational level as well as the negotiation of bilateral and multilateral treaties on information exchange at a policymaking level.
3. Select the most relevant IFFs to your country and shortlist a number of methods for the measurement of IFFs for this pilot and attend the trainings and meetings for testing these;
4. Put your expertise at the disposal of GSS to contribute to the measurement of IFFs and nominate suitable staff for training on the measurement of IFFs and help retain them for long-term capacity building to sustain the exercise to stem IFFs;
5. Help provide public education among government agencies, business and the general public on the mechanisms, dynamics and channels and dangers of IFFs, with the view towards an all-government -approach and the need to reduce and eventually eliminate it;
6. Promote a whole-of-government approach to dealing with IFFs and help strengthen government negotiation positions at the level of the African Union Commission, the African Tax Administration Forum and others, especially when engaging in multilateral negotiations around trade, investment or tax matters. Pan-African alternative minimum standards for trade, investment and financial services could be crafted in order to safeguard against illicit financial flows emanating from secrecy jurisdictions and corporate tax havens controlled by European and OECD countries;
7. Work with the Financial Intelligence Centre (FIC) and Ghana Revenue Authority to conduct geographic monitoring of IFFs based on Ghana's vulnerability, intensity and exposure profile with the view to reduce and eventually eliminate it to free up resources for national development
8. Work with UNCTAD, UNODC and UNECA to strengthen the statistical capacity of the Ghana Statistical Service, Financial Intelligence centre and Ghana Revenue Authority to monitor IFFs through an agreed-upon methodology that produces robust, consistent and comparable estimators/measures.

PROJECT MILESTONES

Activity	Timeline
1. Deadline for submitting expression of interest by countries.	31 October 2020
2. Selection of countries participating in the pilot activities.	December 2020
3. UN engage national consultants to support countries to conduct pilot activities.	2021 Q1
4. Expert Group Meeting (Virtual) to present, discuss and refine the methodology to estimate illicit financial flows, with the participation of representatives from the selected countries' national statistical offices, international agencies and selected experts.	2021 Q1
5. NSOs, with support of national consultants, conduct activities for pilot studies. This will include identification of data providers, collection of relevant data and assessment of their quality and the implementation of the methodology to estimate IFFs in the country.	2021 Q2 - 2022 Q1
6. NSOs, with support of national consultants, conduct national workshop on the collection, compilation and dissemination of data and statistics on illicit financial flows in the selected countries, also with the aim to increase the use of data for policy purposes.	2021 Q2-Q4
7. Final report on results of pilot tests and on methodological guidelines on how to improve national capacity to measure illicit financial flows.	2022 Q3
8. Final regional seminar with representatives of government bodies, research community and other stakeholders to raise awareness about IFFs data and disseminate results of pilot studies.	2022

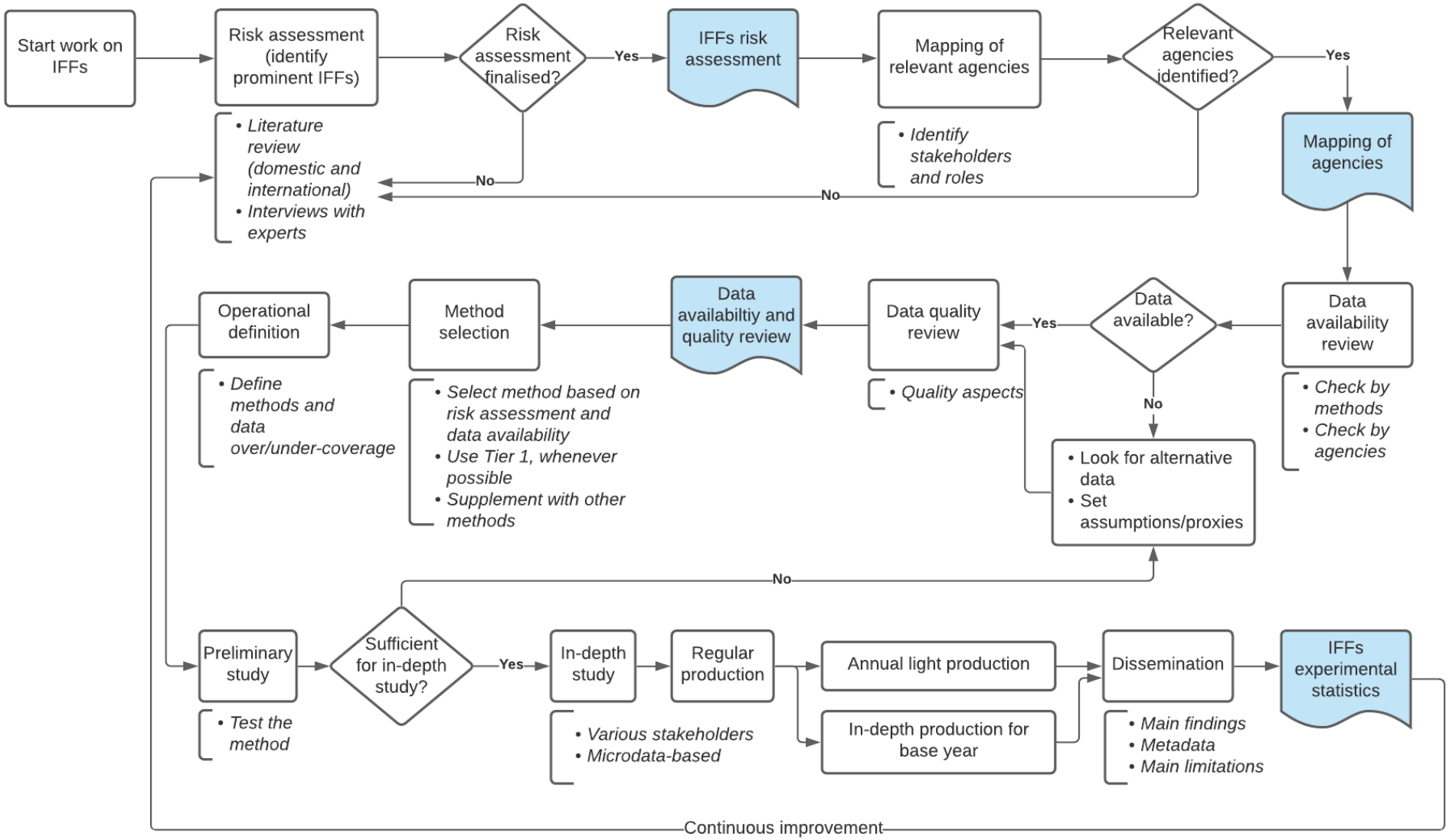
MEETINGS AND RELATED MATTERS

- Meetings shall be held quarterly to be convened by the national focal point, GSS who shall keep minutes of the proceedings and make these available to the UNCTAD and UNECA.

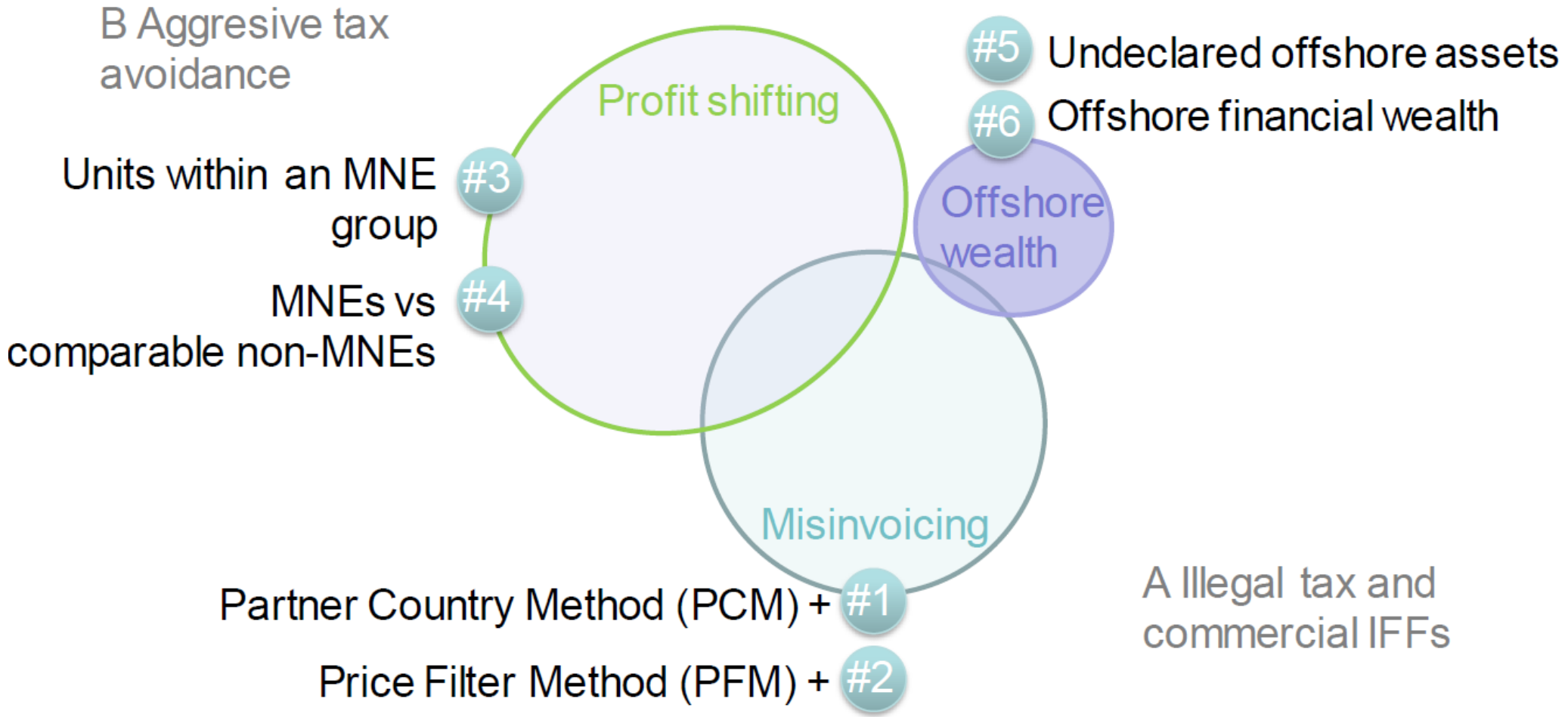
Meetings shall be at the expense of each institution while the GSS will provide venue and other logistics within its means.

Minutes shall be kept by the focal institution, GSS and same circulated to members including the UNCTAD and UNECA teams as well as the national consultant on IFFs and Ghana focal point in Geneva).

IFFS WORKFLOW



SELECTION OF METHODS



TIERS OF METHODS TO BE SELECTED

- These methods have been classified into three categories/tiers as follows
- Tier 1: Preferred Method
- Tier 2: Fallback Option
- Tier 3: Last resort
- National authorities could make a choice among the methods above and decide which will be the one they will use as first choice or preferred one, then choose two more with one being the fallback method while the third will be the last resort method.
- National authorities could also choose between econometric and statistical approach but the method must be comprehensive, comparable, applicable and meet the following criteria: soundness, clear and easily available source data and give credible results.

Assessing the soundness of methods under the IFF quality assessment framework

Category	No.	CRITERIA	CRITERIA explained
Soundness	1	Relevance of scope	Content validity – What is measured? Which IFFs does it cover?
	2	Clarity of concepts	Construct validity – Does it measure what it is supposed to? Is it clearly defined? Is a classification used? Is it discrete, exhaustive, and mutually exclusive (are there gaps or overlaps)?
	3	Robustness	How stable are the results produced by the method? Will a repetition lead to similar results? What if conditions change?
	4	Transferability	How easy it is for someone else to use the method? Availability of empirical research or application of the method
	5	Equivalence	Does the method yield similar results when compared to other (sound) methods?
	6	Statistical alignment	Is the method similar to those applied in official statistics? Are the concepts and classifications aligned with official?
	7	Capacity requirements	How much resources and capacity are required for using the method?

Tier classification of suggested methods

Group	Method	Soundness	Source data	Results	Overall	Tier class
Trade misinvoicing	#1 Partner Country Method (PCM+)	11	11	12	34	2
	#2 Price Filter Method (PFM+)	14	15	15	44	1
Profit shifting	#3 Global distribution of MNEs' profits and corporate taxes	12	9	10	31	2
	#4 MNEs vs comparable non-MNEs	13	14	14	41	1
Undeclared offshore wealth	#5 Undeclared offshore assets	9	10	10	29	3
	#6 Offshore financial wealth	8	9	10	27	3

Source: Authors' deliberations

GUILDLINES ON METHODS SELECTION

- **Selection of methods to measure trade misinvoicing**:
- If a country has transactions level Customs data with low non-reporting and a good capacity to analyse those data, method #2, the Price Filter Method (PFM+) is a natural choice as a tier 1 method. Ideally, the data would be used at the most detailed level, even at transactions level, for PFM+. This is important to account for the heterogeneity of products and quality aspects. The Customs data should also include a description of the commodity, and information on exporters and importers etc.
- If such rich data and high capacity are not there, the Partner Country Method (PCM+), method #1, may be a better first option. There, on the other hand, more work is needed to account for discrepancies not driven by IFFs. Here bilateral and international collaboration of statistical authorities to address statistical trade asymmetries would be essential. Such partnerships could be formed in the pilot testing to share lessons learned.
-
- **Selection of methods to measure profit shifting**:
- If statistical authorities have comprehensive firm-level data with economic variables, such as value added, R&D spending, share of salaries to total costs and the ability to link to firms' international trade by products and trading partners (country of origin/destination), and business register information on MNEs, the method analysing MNE vs. comparable non-MNEs, method #4, would be the ideal choice. It could be useful to experiment further with the variables that are used to make the comparison. This method will require more from source data and analytical capacity.
- Otherwise, global distribution of MNEs' profits and corporate taxes, method #3, could be a feasible choice. This method can be performed on microdata from CbCR, if available; alternatively, OECD published aggregate CbCR should provide some starting ground in application of this method. Assumptions and country-specific alterations including national experts may be required to operationalise this method in practice.
-
- **Selection of methods to measure flows of undeclared offshore wealth**:
- In the case of availability of granular data from individual tax administration records on foreign income and wealth, the method of flows of undeclared offshore assets indicator (method #5) is a preferred method to measure international tax avoidance of individuals. The exchange of data between financial institutions and Tax authorities, including across borders, can further improve the method's reliability. Pilot testing will reveal further potential of the method application, as well as its limitations in data use.
- Offshore financial wealth by country, method #6, is a suitable fall-back option due to its comprehensiveness in coverage, achieved through combining various datasets covering portfolio assets and liabilities, and bank deposits. Nevertheless, the underlying assumptions for conducting the analysis require careful consideration. Testing its robustness to assumptions will be required to ensure proper international comparability of the results.

RECOMMENDATIONS ON METHOD SELECTION

- Recommendations with respect to the use of methods are as follows:
- Use **tier 1 method**, whenever possible
- If possible, crosscheck results with **another method** to allow for triangulation – of methods, data sources, as well as IFFs activities and/or types of flows.
- If resources do not allow for multiple methods to be applied, apply the following:
  - Select **a base year** and use tier 1 method for it, perhaps in combination with additional data collection to address gaps and seek more information.
  - Use simpler methods to estimate **dynamics in between base years**.

- It may prove useful to triangulate methods by applying more than one method for compiling certain IFFs to check robustness of results.
- In case of uncertainties, it may be useful to produce a range of estimates or a confidence interval to guide users.
- It is also a good practice to be transparent about expected revisions. Results are to be presented on an annual level, while base year studies can provide more structural detail at regular intervals.

Recommendations on the pilot compilation of tax and commercial illicit financial flows

1. **Dedicate resources to the pilot measurement of IFFs.** When significant, IFFs can distort key economic statistics in a way that may lead to wrong policy conclusions. Sufficient resources are needed not only to measure IFFs, but also to improve the quality of key indicators, such as GDP and the exhaustiveness and accuracy of the SNA and BoP. The results of the pilot testing can help inform these efforts and mobilise resources for the purpose to increase the efficiency of interventions to curb IFFs.
2. **Pool national and international expertise on IFFs**. Successful measurement of IFFs requires collaboration across disciplines as illicit phenomena cut across the society. Data exist but are scattered among many government and private organisations. IFFs cannot be monitored or captured fully using a single data source. It is important to map the roles of organisations and identify key partners to measure tax and commercial IFFs. Identification of key stakeholders can go hand in hand with IFF risk assessment (recommendation 4). Clear organisation of national work into a working group or a task force is likely to increase efficiency. Bilateral and international collaboration of statistical authorities of other countries to advance methodological development and address asymmetries (in, e.g., trade or declared wealth) is more efficient than working in isolation.
3. **Involve official statisticians in a leading role.** Official statistics and the NSO play a crucial role in the measurement of IFFs, as part of the SDG indicator framework. The General Assembly resolution (A/RES/71/313) "*stresses that official statistics and data from national statistical systems constitute the basis needed for the global indicator framework, …, and stresses the role of National Statistical Offices as the coordinator of the national statistical system*." Measurement of the many types of IFFs in a coherent way can only be done in close collaboration within the NSS and with data providers. The statistical expertise and professional independence of the NSO is a key enabler of the compilation of tax and commercial IFFs as an impartial statistical activity in line with the Fundamental Principles of Official Statistics.
4. **Assess IFF risks and data availability.** Countries' exposure to IFF risks differs. The IFF categories, activities and flows typical to a country vary, including whether there are inflows or outflows, and what are the destination or origin countries of IFFs. Different IFFs require different data and methods for their measurement. There is no one size fits all model. A useful first step is to carry out an IFF risk assessment to collate information already available about IFFs in the country to identify prominent types of IFFs and who has relevant data to enable measurement. The guidelines offer tools and approaches for IFF risk assessment and a data availability review with partner agencies (see Part III, Chapters 1, 2 and 3).
5. **Conduct an in-depth study of IFFs for the base-year.** Statisticians need to strike a balance between accuracy and cost-effectiveness. Therefore, we recommend a more thorough study of IFFs to be carried out for the base-year at the start, and at regular intervals, focusing on all aspects of IFFs, as feasible, activities, flows, actors, destinations and origins etc. This involves mobilising relevant agencies, identifying possible data sources and resources, including administrative data, and relying on available expertise and experience across disciplines. The in-depth study produces a so-called base-year structure for tax and commercial IFFs in the country.
6. **Narrow down the scope of focus.** National circumstances dictate not only the resources availability and statistical capacity, but also which IFFs activities and/or flows are prevalent in the economy. With the aim of maintaining comparability in space and time, the IFFs compilation should aim at exhaustiveness. Given the nature of IFFs and national circumstances, however, identifying the significant flows (e.g., certain commodities or types of IFFs) to represent national IFFs, may prove to be a good trade-off in producing reliable and robust IFFs statistics over time. If the national statistical capacity and data availability are limited, less resource-intensive methods to produce estimates of IFFs in between base years can be applied.
7. **Publish IFF estimates clearly and transparently.** IFFs are a particularly difficult phenomenon to interpret and a sensitive issue to many stakeholders. It is up to each country to decide whether to release pilot test results to the public. Even experimental releases can be very informative for policy action in an area that lacks statistics. IFF releases, like official statistics, should be published in a sufficiently comprehensive form, accessible to all citizens and presented in such a way that the main results are understood with no need for specialised statistical knowledge. It is important to highlight the main findings, but also limitations. Metadata should inform users transparently about the data sources, methods and quality of estimates. A dashboard approach, i.e., presenting a set of results can be helpful to shed light on the complex phenomenon.
8. **Share, learn and improve.** More insight into country circumstances, IFF activities, flows and other features will be obtained as experience with statistical measurement accumulates. Sharing of findings and lessons learned from pilots in the national and international context is important for learning. National training of experts, e.g., custom officers, financial investigators, official statisticians can be useful; sharing of outcomes in international seminars and webinars can help learn from other countries' experience to copy-paste best practices. Data exchange within a safe statistical environment, where possible, or an exchange of resulting estimates can be crucial for learning and improvement.
9. **Spill-over effects on other statistics and statistical frameworks.** Better information on IFFs can help improve the accuracy of other statistics, including key economic statistics. In addition, as IFFs are hidden and they are often measured indirectly through traces they leave in other statistics, there may also be opportunities to enhance the quality of IFF estimates by making small changes to data available from other statistics, e.g., merchandise trade statistics, trade in services, the SNA and BoP statistics, price statistics, etc.

DATA AND DATA AVAILABILITY

- Read the six methods for selection, depending on data availability
- Read the required data each organisation can provide
- Data must be available at the most disaggregated level possible
- Read the Step-by-step check list for starting to estimate IFFs
- Read the Method fact sheets

Possible contents of an illicit financial flows risk assessment and data needs

Tentative contents of a risk assessment

I. Identification – environment for IFFs
- Formal and informal economy
- Financial system and its vulnerabilities
- Major trade and investment flows and partners
- Tax collection and tax gap

II. Analysis – assessment of IFFs
- Categories of IFFs present in the country
- Types of tax and commercial IFFs and activities generating them
- Commodities and service categories prone to IFFs
- Enablers, likelihood, magnitude and effects of IFFs

III. Evaluation
- Priorities for statistical work

The stakeholders that may have a role to play in the collection, provision or compilation of data related to IFFs include, for instance The list of stakeholders has been selected and extended by UNCTAD based on FATF (2013).

- **National statistical authorities**: The NSO is a key player as it has the coordinating role of the national statistical system and holds a lot of relevant data, e.g., on businesses and individuals and often compiles the national accounts for the country. Important unit within the NSO is the LCU, with expertise and integrated data on MNEs from various statistical domains within NSS. The statistical units of Customs hold trade transactions data which are essential for analysing the commercial IFFs, including trade misinvoicing. The statistical units of Central Banks are typically in charge of compiling the balance of payments statistics and other financial and government statistics. Statistical units dealing with relevant data may also be hosted by the ministries of finance, justice, foreign trade, economy etc.
- **Policy-making bodies**: Policy-making bodies should, where relevant, be included in the mapping – not as providers of information, but as the principal users – in order to ensure that statistical development considers high-level questions that require data. They have a role to play in expressing data needs but cannot participate in methodological decisions.
- **Tax and other regulatory and supervisory authorities** gain a unique knowledge and data basis of transactions related to income, tax, types of institutions, products, sectors and associated customers, and have expertise on related policies, procedures and controls. They can provide views on particular risks and how to adequately identify those. Tax authorities typically possess large data sets for assessing the tax gap, part of which consists of IFFs crossing country borders, and they can engage in international data exchange, as necessary.
- **Financial intelligence centres (FICs) and intelligence and/or security services**: FICs are ideally placed to identify threats and vulnerabilities based on the suspicious transaction reports and other information and analysis they have. They can also advise on analysis techniques, methods and trends, and may have access to databases on specific products or transaction types. Intelligence agencies have specialised expertise on intelligence analysis and can review or validate risk and vulnerability assessments.
- **Law enforcement and prosecutorial authorities** include police, Customs/border control, and criminal intelligence agencies and anti-corruption bodies where appropriate. These authorities may be able to provide information on specific cases, share substantive knowledge and assist in data provision. They may have relevant statistics on investigations, prosecutions and convictions, assets seized, confiscated, repatriated etc. or hold information about criminals' modus operandi obtained in their investigations. They may also be able to provide information on new trends and risks, and assist in identifying vulnerabilities.
- **Ministries of foreign affairs and trade, chambers of commerce** etc. may hold relevant information on trade-related IFF risks, exporters and importers, trade flows and the related international collaboration and initiatives.
- **International and foreign partners** may or may not be relevant in the national mapping of agencies. However, they provide useful guidance, e.g., the materials related to SDG indicator 16.4.1 by UNCTAD and UNODC. FATF-style regional bodies of which a country is a member may be a useful source of information on risk and on work carried out elsewhere in the region to identify and understand IFFs. Similarly, foreign partners, such as statistical and other authorities from other countries, may also be a potential source of information.
- **CSOs-research and or advocacy CSOs , Think-tanks** may have data and analysis report that contain or make use or even collect primary data useful for IFFs

THE SIX UNCTAD/UNODC

- Suggested methods to measure tax and commercial illicit financial flows
- 1. Trade misinvoicing by entities
- 1.1. Partner Country Method (PCM) +
- 1.2. Price Filter Method (PFM) +
- 2. International tax avoidance by MNEs
- 2.1. Global distribution of MNEs' profits and corporate taxes
- 2.2. MNE vs comparable non-MNE profit shifting
- 3. Flows of offshore wealth and international tax evasion by individuals
- 3.1. Flows of undeclared offshore assets indicator
- 3.2. Flows of offshore financial wealth by country

SOFTWARE DOWNLOAD/installation

- Download and install the following in that order:
- PYTHON
- ANACONDA(MINI)
- BAMBOOLIB

GIZ TRAINING FOR INVESTIGATIVE JOURNALISTS

GHANA IFFS RISKS ASSESMENT
(Bishop Akolgo-IFFs Consultant)

Akosombo-13-17th Marcch, 2023

tax justice network

1. The relationship between financial secrecy and illicit financial flows

A country's vulnerability to IFFS depends on who (trade partner) the country is doing business with

tax justice network

Financial secrecy enables illicit financial flows

tax justice network

‘A major enabler or pull factor for IFFs from Africa is the existence of financial secrecy jurisdictions [...]. Financial secrecy jurisdictions put in place an elaborate framework to attract financial resources irrespective of their provenance’.

– Report of the High Level Panel on IFFs from Africa ‘Mbeki Report’, 2015, UNECA/AUC, 42

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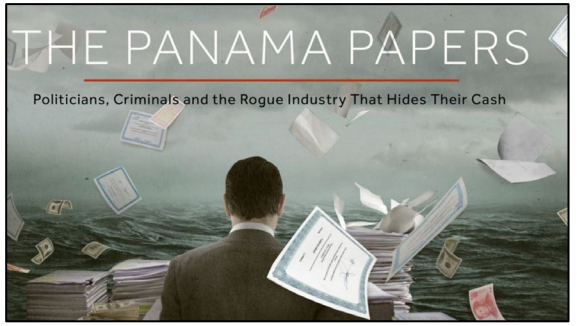
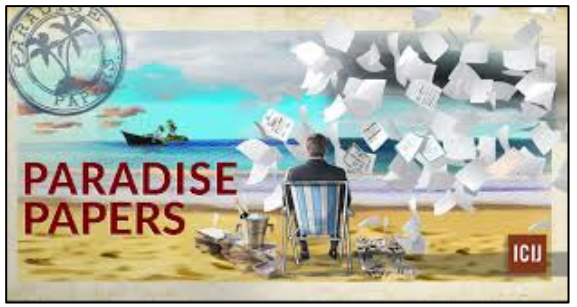
financial secrecy index

Rank	Jurisdiction	FSI Value[6]	FSI Share[7]	Secrecy Score[4]	Global Scale Weight[5]
1	Switzerland[2]	1589.57	5.01%	76.45	4.50%
2	USA[2]	1298.47	4.09%	59.83	22.30%
3	Cayman Islands[2]	1267.68	4.00%	72.28	3.79%
4	Hong Kong[2]	1243.68	3.92%	71.05	4.17%
5	Singapore[2]	1081.98	3.41%	67.13	4.58%
6	Luxembourg[2]	975.92	3.08%	58.20	12.13%
7	Germany[2]	768.95	2.42%	59.10	5.17%
8	Taiwan[2]	743.38	2.34%	75.75	0.50%
9	United Arab Emirates (Dubai)[2,3]	661.15	2.08%	83.85	0.14%
10	Guernsey[2]	658.92	2.08%	72.45	0.52%

Source: https://www.icij.org/investigations/panama-papers/, https://www.icij.org/investigations/paradise-papers/ & https://www.icij.org/investigations/west-africa-leaks/explore-the-stories/; www.financialsecrecyindex.com; 30.5.2019



Companies and individuals from 52 of 54 African countries were in the data
April 2016



Elites of 7 African countries were named in the papers
November 2017

Companies and elite in 11 West African countries
May 2018

Corporate Tax Haven Index (CTHI): Racing to the bottom

Finance

Mauritius, UAE Working Against African Countries, Study Reveals

May 30, 2019 newbusinessethiopia Comments Off

The Corporate Tax Haven Index (CTHI) by Tax Justice Network launched yesterday shows how the United Arab Emirates (UAE) and Mauritius are among the most corrosive corporate tax havens against African countries.

BUSINESS NEWS MAY 28, 2019 / 7:38 PM / 6 MONTHS AGO

British overseas territories top corporate tax loophole index

REUTERS

John O'Donnell

FRANKFURT (Reuters) - Britain's offshore territories the British Virgin Islands (BVI), Bermuda and the Cayman Islands were named in a study released on Wednesday as the most significant jurisdictions used by global companies to minimise their tax bills.

Rank	Jurisdiction	CTHI Value[4]	CTHI Share[5]	Haven Score[2]	Global Scale Weight[3]
1	British Virgin Islands	2769	7,29%	100	2,12%
2	Bermuda	2653	6,98%	100	1,87%
3	Cayman Islands	2534	6,67%	100	1,63%
4	Netherlands	2391	6,29%	78	12,77%
5	Switzerland	1875	4,94%	83	3,41%
6	Luxembourg	1795	4,73%	72	10,53%
7	Jersey	1541	4,06%	98	0,43%
8	Singapore	1489	3,92%	81	2,12%
9	Bahamas	1378	3,63%	100	0,26%
10	Hong Kong	1372	3,61%	73	4,38%

40% of today's cross-border direct investments reported by the IMF - $18 trillion in value - are booked in the Top 10 of the CTHI, where the lowest available CIT rate is 3 per cent or less.

Sources: https://www.corporatetaxhavenindex.org/introduction/cthi-2019-results; https://newbusinessethiopia.com/finance/mauritius-uae-working-against-african-countries-study-reveals/; https://www.reuters.com/article/companies-taxation/british-overseas-territories-top-corporate-tax-loophole-index-idUSL8N2332FN; 2.9.2019.

What can countries do to tackle illicit financial flows?

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- **Assess the risk:**
  - Considering all of a country's external economic relationships, where is the highest risk for illicit financial flows? Which partner countries are relevant for addressing this problem?
  - What are the implications for policy, audit and investigative purposes?
  - What data sources exist to answer the questions above?

- **Intuition:**

Illicit financial flow risk and vulnerability = Financial secrecy level of partner country * size/volume of cross-border stock/flow/transaction

What data can we use to assess financial secrecy levels?

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Financial Secrecy Index 2018 – Secrecy Score

Ownership Registration	Legal Entity Transparency	Integrity of tax and financial regulation	International Standards and Cooperation
1 Banking secrecy	6 Public Company Ownership	11 Tax Administration Capacity	17 Anti-money Laundering
2 Trusts and Foundations Register	7 Public Company Accounts	12 Consistent Personal Income Tax	18 Automatic Information Exchange
3 Recorded Company Ownership	8 Country by Country Reporting	13 Avoids Promoting Tax Evasion	19 Bilateral Treaties
4 Other Wealth ownership	9 Corporate Tax Disclosure	14 Tax Court Secrecy	20 International Legal Cooperation
5 Limited Partnership Transparency	10 Legal Entity Identifier	15 Harmful Structures	
		16 Public Statistics	

Lowest available transparency denominator!!

- Arithmetic average of 20 key financial secrecy indicators
- Scores: 0 = transparent, 100 = secretive
- Fully referenced to source, verifiable
- Open data and codebook
- Used by financial intelligence units, public prosecutors, risk rating agencies, tax administrations, central banks
- https://www.financialsecrecyindex.com/

What data can we use for economic channels between countries?

- Macro: 8 channels in 4 bilateral external economic datasets:
  - Trade: Imports and Exports – UN COMTRADE
  - Foreign Direct Investment: Inward and Outward – IMF Coordinated Direct Investment Survey
  - Banking: Liabilities and Claims – Bank for International Settlements
  - Portfolio Investment: Liabilities and Assets – IMF Coordinated Portfolio Investment Survey
- Micro: transaction level data

Economic channels & illicit financial flows

Flow	Manipulation	Illicit motivation
Exports	Over-pricing	Exploit subsidy regime
		(Re)patriate undeclared capital
	Under-pricing	Shift undeclared (licit) income/profit
		Shift criminal proceeds out
		Evade capital controls (including on profit repatriation)
Imports	Under-pricing	Evade tariffs
		(Re)patriate undeclared capital
	Over-pricing	Shift undeclared (licit) income/profit
		Shift criminal proceeds out
		Evade capital controls (including on profit repatriation)
		Shift undeclared (licit) income/profit
Inward investment	Under-pricing	Shift undeclared (licit) income/profit
		Shift criminal proceeds out
		Evade capital controls (including on profit repatriation)
	Over-pricing	(Re)patriate undeclared capital
	Anonymity	Hide market dominance
	Anonymity	Hide political involvement
Outward investment	Under-pricing	Evade capital controls (including on profit repatriation)
	Over-pricing	Shift undeclared (licit) income/profit
		Shift criminal proceeds out
	Anonymity	Hide political involvement

Source: UNECA/AUC, Report of the High Level Panel on IFFs from Africa, 2015, Annex II, 88-89

Vulnerability, Intensity, Exposure

- i ∈{1,...,I} reporting country
- j ∈{1,...,J} partner country
- t ∈{2008,...,2018} year
- X_{ijt} flow or stock value of cross-border transaction between reporter i and partner j at time t
- Y_{it} GDP of reporting country i at time t
- SS_j Secrecy Score (or individual KFSI) of partner country j

Vulnerability

$$V_{it} = \frac{\sum_{j=1}^{J} X_{ijt} \cdot SS_j}{\sum_{j=1}^{J} X_{ijt}}$$

Intensity

$$I_{it} = \frac{\sum_{j=1}^{J} X_{ijt}}{Y_{it}}$$

Exposure

$$E_{it} = V_{it} \cdot I_{it}$$
$$= \frac{\sum_{j=1}^{J} X_{ijt} \cdot SS_j}{\cancel{\sum_{j=1}^{J} X_{ijt}}} \cdot \frac{\cancel{\sum_{j=1}^{J} X_{ijt}}}{Y_{it}}$$
$$= \frac{\sum_{j=1}^{J} X_{ijt} \cdot SS_j}{Y_{it}}$$

IFF Matrix: trade channel for IFFs

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
Independent Party Trade, Related Party Trade, Intra Group Trade.	Pricing, Quantity, Quality of traded goods in customs declaration forms.	Tax	Manipulations of price, quantity, quality can take the form of re-invoicing (routing trade on paper through third jurisdictions, resulting in two different invoices for one trade transaction), same invoice mispricing, fake transactions (extreme case of no trade taking place), and transfer mispricing (or abusive transfer pricing; intra-group trade).	A Korean semiconductor importer created a Chinese shell company from which he imported at higher prices, shifting US$16m abroad.[32]
		Money Laundering	Trade-based money laundering schemes.	A Brazilian company used offshore companies it controlled for purchasing syrup for soft drinks at highly inflated prices with cash that was smuggled out of Brazil previously.[33]
		Corruption	Corruption by or of (multinational) companies: by mispricing trade, staff of companies create and control slush funds for bribery and/or conspicuous consumption (embezzlement).	A Korean steel importer created a slush fund through a subsidiary shell company in Hong Kong and embezzled approx. US$6.6m.[34]
	Bribing or putting pressure on custom officials.	Corruption, Money Laundering	Bribery of custom officials or extortion, e.g. through drone surveillance in port areas by criminals to identify custom officials opening containers with illegal goods.	Four German custom officials received bribes for 10 years in exchange for lenient or no controls of exported goods, incl. fake transactions.[35]

Source: Abugre, Charles, Alex Cobham, Rachel Etter-Phoya, Alice Lépissier, Markus Meinzer, Nara Monkam, and others, Vulnerability and Exposure to Illicit Financial Flows Risk in Africa, 2019, 96 <https://www.taxjustice.net/wp-content/uploads/2019/08/Vulnerability-and-Exposure-to-Illicit-Financial-Flows-risk-in-Africa_August-2019_Tax-Justice-Network.pdf> [accessed 20 August 2019]

IFF Matrix: inward FDI channel for IFFs

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
INWARD DIRECT INVESTMENT				
Foreign investor owns or controls at least 10% of domestic business, including through debt instruments.	Diverse and complex intra-group profit shifting and base erosion techniques, filing of questionable positions in tax returns.	Tax	OECD's Base Erosion and Profit Shifting project provides an overview of various BEPS techniques, including thin capitalisation, transfer mispricing, inflated royalty, insurance and service payments, avoidance of permanent establishments, treaty shopping, etc. Many of these are routinely combined in complex tax avoidance schemes.	Australian extractive multinational company Paladin Energy thinly capitalised a subsidiary in Malawi for uranium extraction by using intermediate legal entities in the Netherlands. Between 2009-2014, the resulting interest payments avoided incurring US$7.3m of Malawian withholding tax compared to a direct investment from Australia because of the treaty shopping via the Netherlands.[74]

Source: Abugre, Charles, Alex Cobham, Rachel Etter-Phoya, Alice Lépissier, Markus Meinzer, Nara Monkam, and others, Vulnerability and Exposure to Illicit Financial Flows Risk in Africa, 2019, 96 <https://www.taxjustice.net/wp-content/uploads/2019/08/Vulnerability-and-Exposure-to-Illicit-Financial-Flows-risk-in-Africa_August-2019_Tax-Justice-Network.pdf> [accessed 20 August 2019]

Ghana Risk Profile

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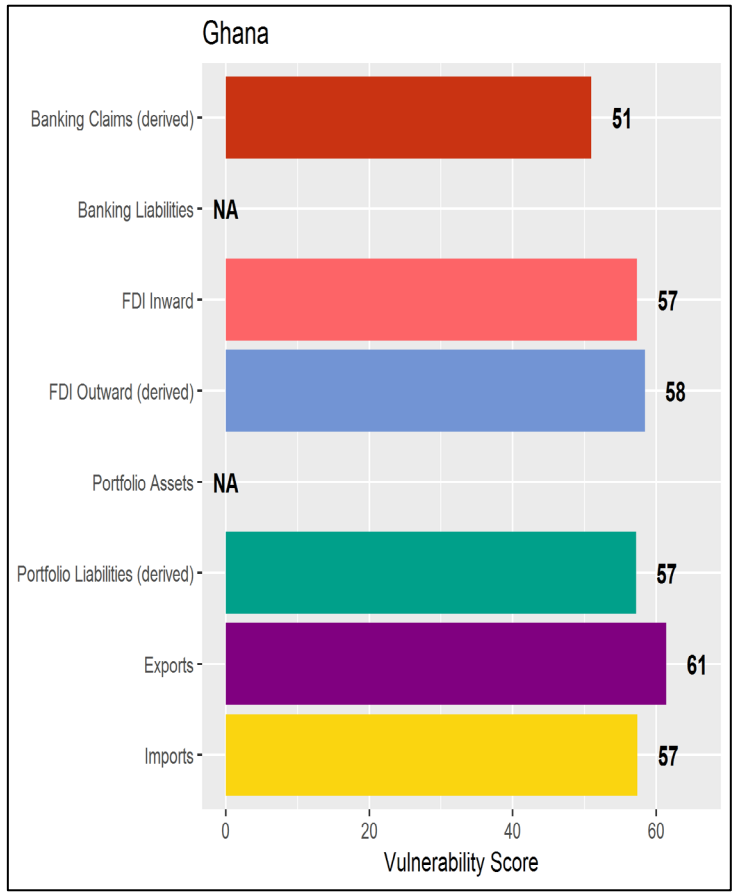
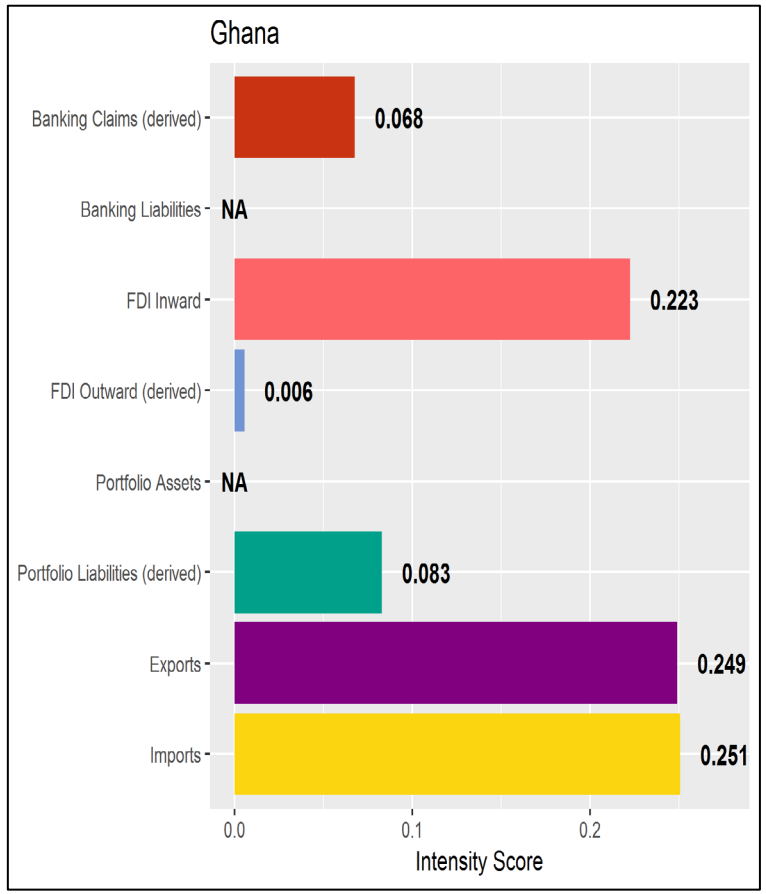
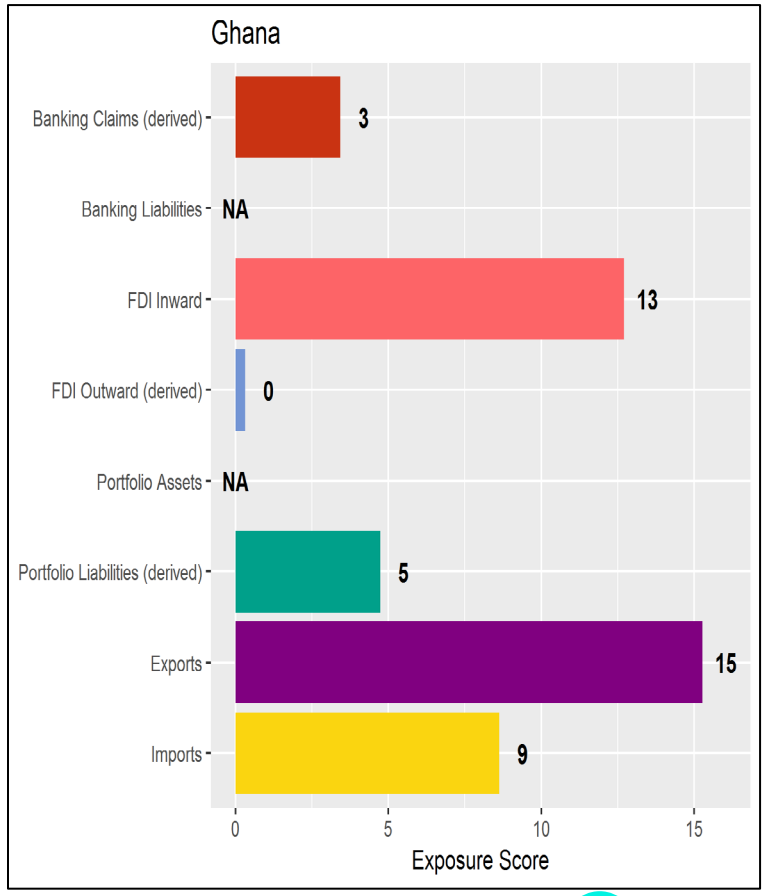
Vulnerability, Intensity and Exposure over 8 channels, averages 2008-2018







Ghana's Vulnerability in trade
→ what geographic risk checks does Ghana customs undertake?

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Country	SS	Exports (m) (USD)	Vulnerability Share
Switzerland	76	1,869	25%
United Arab Emirates	84	1,427	21%
India	52	1,558	14%
China	60	942	10%
Netherlands	66	443	5%
South Africa	56	351	4%
Malaysia	72	215	3%
USA	60	197	2%
Brazil	49	201	2%
Italy	49	189	2%
Overall Vulnerability Exports	65		

Country	SS	Imports (m) (USD)	Vulnerability Share
China	60	1,965	20%
USA	60	882	9%
United Kingdom	42	1,107	8%
India	52	528	5%
Germany	59	441	4%
Belgium	44	577	4%
United Arab Emirates	84	289	4%
France	52	382	3%
Turkey	68	288	3%
South Africa	56	333	3%
Overall Vulnerability Imports	57		

Ghana's Vulnerability in FDI

→ what geographic risk checks does GRA undertake in its audits of multinational companies?

Country	SS	FDI Inward (m) (USD)	Vulnerability Share	Aggressive DTA?
Ireland	51	3,749	33%	No Treaty
France	52	1,840	16%	Moderate Treaty
USA	60	- 1,386	14%	No Treaty
United Arab Emirates	84	543	8%	? New: likely aggressive
Canada	55	660	6%	No Treaty
South Africa	56	506	5%	Yes 4% Aggress
United Kingdom	42	- 560	4%	Moderate Treaty
Switzerland	76	259	3%	Yes 8% Aggress
Netherlands	66	164	2%	Yes 39% Aggress
Italy	49	195	2%	Moderate Treaty
Mauritius	72	102	1%	New: highly aggressive
Overall Vulnerability FDI Inward	55			

Country	SS	FDI Outward (derived) (m) (USD)	Vulnerability Share
Luxembourg	58	- 249	59.8%
Mauritius	72	95	28.3%
South Africa	56	18	4.2%
Ireland	51	- 15	3.1%
Philippines	65	8	2.0%
India	52	5	1.1%
Korea	59	2	0.4%
China	60	- 1	0.3%
Norway	52	- 1	0.2%
Thailand	80	- 1	0.2%
Overall Vulnerability FDI Outward (derived)	61		

Ghana's IFF risk in double tax treaties

→ Recently signed treaties exacerbate risks for revenue leakages

→ Does MoF create cost-benefit analyses of DTAs?

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MOST DISADVANTAGEOUS TREATY PARTNERS BEFORE 2019 (WITHHOLDING TAX RATES D,I,R)

Principal aggressive treaty partners of Ghana (out of total of 9 DTAs)		Intensity of aggressiveness of this particular partner	Share of total aggressiveness received by Ghana
NLD	Netherlands	-9.63	39%
DNK	Denmark	-6.81	27%
DEU	Germany	-5.69	23%
CHE	Switzerland	-1.88	8%
ZAF	South Africa	-1.00	4%

Source: TJN 2019

Ghana's New Double Tax Treaties	Average of 9 Treaties	NL Treaty (incl.)	New Mauritius Treaty	New Malta, UAE, LX treaties?
Dividend WHT (mean rate):	10.3	7.5	7	?
Interest WHT:	8.9	4	7	?
Royalty WHT:	9.9	8	8	?

Treaty between Ghana and United Arab Emirates signed

19 November 2019

Report from IBFD Tax Treaties Unit

On 18 November 2019, Ghana and the United Arab Emirates signed a tax treaty in Abu Dhabi. Further developments will be reported as they occur.

Luxembourg; Ghana

Treaty between Ghana and Luxembourg signed

9 April 2019

Report from IBFD Tax Treaties Unit

According to an update of 8 April 2019, published by the tax authorities of Luxembourg, Ghana and Luxembourg signed a tax treaty on 28 March 2019. Further developments will be reported as they occur.

Treaty between Ghana and Malta signed

27 March 2019

Report from IBFD Tax Treaties Unit

On 26 March 2019, Ghana and Malta signed an income tax treaty in Valletta. Further developments will be reported as they occur.

Ghana's vulnerability in banking claims → what geographic risk checks does Ghana Financial Intelligence Centre undertake?

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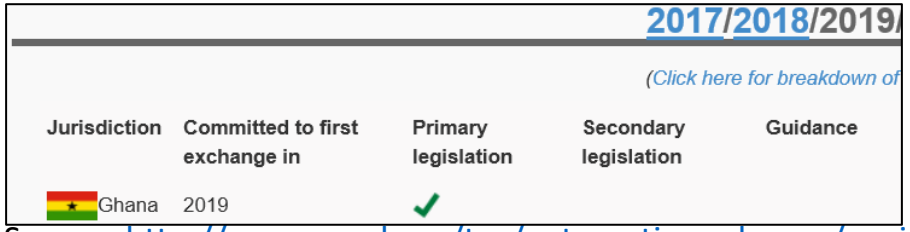
Jurisdiction	SS	Derived Banking Claims (m) (USD)	Vulnerability Share	CRS AEoI?
United Kingdom	42	1,956	43%	N?
United States of America	60	531	16%	N?
South Africa	56	540	16%	N?
Hong Kong	71	156	6%	N?
Germany	59	163	5%	N?
Switzerland	76	115	4%	N?
France	52	87	2%	N?
Isle of Man	64	69	2%	N?
Belgium	44	86	2%	N?
Jersey	65	39	1%	N?
Overall Vulnerability Derived Banking Claims	**51**			


2017/2018/2019/

(Click here for breakdown of

Jurisdiction	Committed to first exchange in	Primary legislation	Secondary legislation	Guidance
Ghana	2019	✓		

- Ghana Financial Intelligence Centre / Money Laundering Risks
  - Monitoring geographic risk
    - in Suspicious Transactions Reporting
    - in National Risk Assessment?
- Automatic Exchange of Financial Account data:
  - Where to prioritise CRS agreements
  - Estimating cost of no progress

Source: http://www.oecd.org/tax/automatic-exchange/crs-implementation-and-assistance/crs-by-jurisdiction/crs-by-jurisdiction-2019.htm; accessed 9.12.2019.

Next steps

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Next Steps

- Develop/strengthen transaction level, real time Risk assessment for GRA, customs and FIC
  - Testing geographic risk applications in operations (audits, prioritisation custom controls, national risk assessments, suspicious transaction reporting, foreign exchange transfers)
  - If successful, embedding geographic secrecy and corporate tax avoidance risk in operations (audits, prioritisation, national risk assessments)
- Consider collaboration with TJN
  - Memorandum of understanding with GRA, customs, FIC for micro-data applications

Other checkup issues for Ghana

- Consider filling macro data gaps:
  - banking statistics (BIS, central bank)
  - accelerate FDI inward reporting
  - portfolio statistics (CPIS, central bank/FIC)
- Consider strenghtening domestic policies and capacity to counter IFFs, incl. by analysing Ghana FSI and CTHI profiles (e.g. 2020 budget plan for tax avoidance schemes reporting)
- Central registry of bank accounts?
- Power by tax administration to estimate tax due in case taxpayer does not comply fully with information requests?
- 6th method for TP?
- Modelling of oil production and revenues („openoil“)?
- BO-LO checklist?
- CRS implementation: wider-wider approach; public statistics, targeting key jurisdictions?
- Dual citizenship/residency/golden visa reporting requirement?
- Open/public real estate registry?

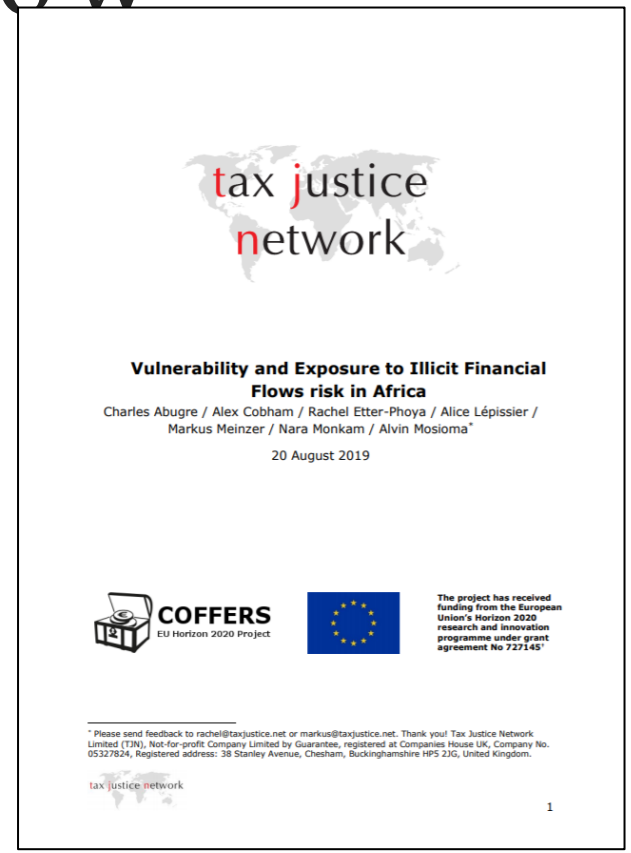
Preliminary conclusions

- At Present
  - Macro data driven analyses enable strategic and tactic orientation across a number of government administration departments (tax admin, central banks, financial intelligence units, customs/police, etc.)
    - capacity building priorities (human and other resources)
    - policy priorities (incl. treaty negotiation, anti-avoidance measures, economic statistics)
    - audit priorities
  - E.g. through checkup of current priorities/focus through country risk profiles (e.g. Exports to Switzerland, United Arab Emirates; FDI in ward from Ireland)
- In Future
  - Complement secrecy driven analyses with specific corporate tax haven indicators (from Q1 2020) – new online portal to be published 2020
  - Partnering with tax administrations for advancing micro-/transaction level risk analyses – e.g. with customs transaction level data, corporate registry data, tax returns, suspicious transaction reports, etc.

Preliminary policy recommendations

- Enhance (macro) statistical capacity & data availability by considering participating in CPIS, BIS (or national equivalent reporting)
- Analyse country risk profiles and consider adequate capacity and/or policy and/or audit response
- When engaging in automatic exchange of information, legislate for public statistics on AEOI (e.g. Australia, template in Knobel/Meinzer 2017); consider joint AU position towards USA?
- Research takeaways:
  - dataset will be made available Q1 2020 – goldmine of data (regressions, etc.)
  - please reach out as we are interested to build long term research collaborations with universities (e.g. on FSI, CTHI, IFF risk) and memoranda of understanding with administrations for micro-data applications. MOU just signed with Ghana Statistical Service-GSS

The IFF risk tool report is available now



Vulnerability and Exposure to Illicit Financial Flows risk in Africa

Charles Abugre / Alex Cobham / Rachel Etter-Phoya / Alice Lépissier / Markus Meinzer / Nara Monkam / Alvin Mosioma*

20 August 2019

COFFERS
EU Horizon 2020 Project

The project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 727145*

* Please send feedback to rachel@taxjustice.net or markus@taxjustice.net. Thank you! Tax Justice Network Limited (TJN), Not-for-profit Company Limited by Guarantee, registered at Companies House UK, Company No. 05327824, Registered address: 38 Stanley Avenue, Chesham, Buckinghamshire HP5 2JG, United Kingdom.

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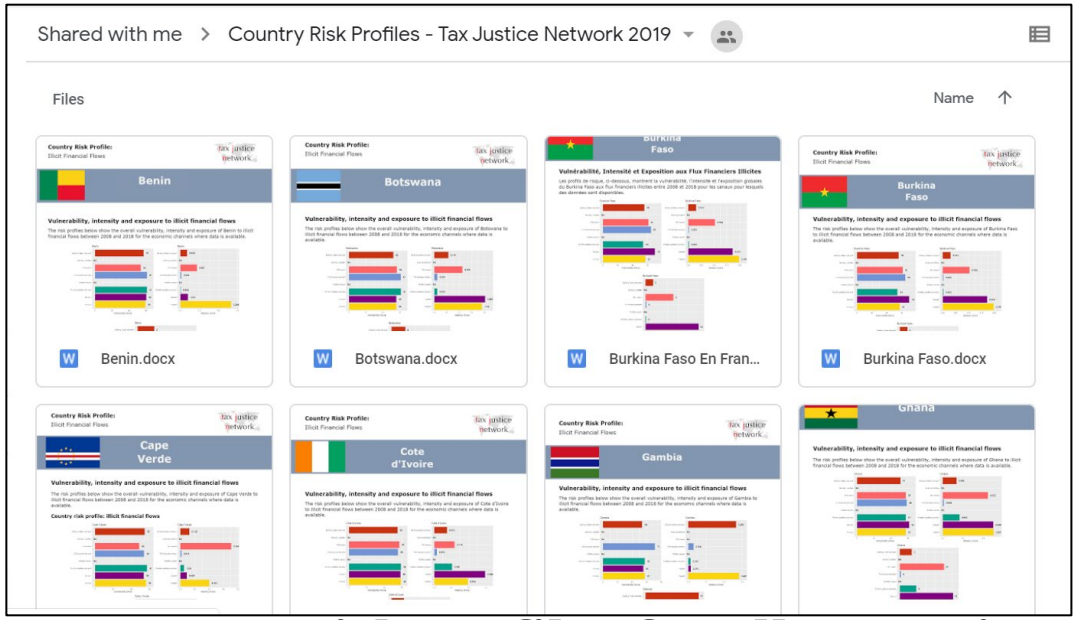
- **Download the report**

https://www.taxjustice.net/wp-content/uploads/2019/08/Vulnerability-and-Exposure-to-Illicit-Financial-Flows-risk-in-Africa_August-2019_Tax-Justice-Network.pdf



- **Country Risk Profiles for all countries**

https://www.taxjustice.net/wp-content/uploads/2019/08/Annex-E-Country-Risk-Profiles-Illicit-Financial-Flows-2016-A-Z.pdf

- **& Individual Country Risk Profiles for select countries**

https://drive.google.com/drive/folders/1-JC2-nCTD7PTTqu-mL3KeseJqe0JWnFH?usp=sharing

New: Financial Secrecy Index website now in French and Portuguese!

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PRACTICAL VIE AN ALYSIS

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