Using the Financial Secrecy Index for Assessing the Vulnerability and Exposure to Illicit Financial Flows risk in Africa

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Summary

- Concepts

- Financial Secrecy Index (Methodology, Data Sources and Findings)

- Vulnerability and Exposure to Illicit Financial Flows risk in Africa (Methodology, Data Sources and Findings)
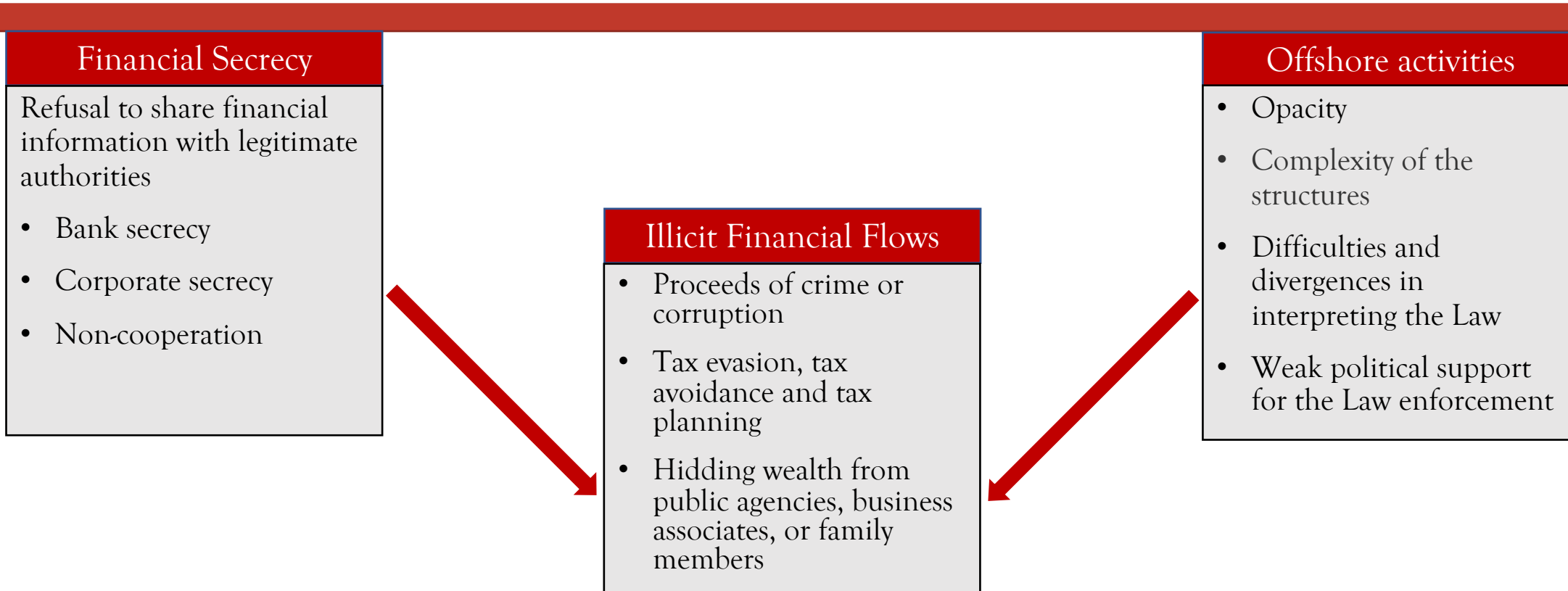
- Stop the Bleeding Campaign

Concepts

Questions

❑ What is the meaning of Financial Secrecy ?

❑ How many billions of dollars African Countries lost annually through illicit financial flows ?

✔ $100 billion

✔ $50 billion

✔ $30 billion

❑ Where is Corruption ?

Concepts

Financial Secrecy

Refusal to share financial information with legitimate authorities

- Bank secrecy
- Corporate secrecy
- Non-cooperation

Illicit Financial Flows

- Proceeds of crime or corruption
- Tax evasion, tax avoidance and tax planning
- Hidding wealth from public agencies, business associates, or family members

Offshore activities

- Opacity
- Complexity of the structures
- Difficulties and divergences in interpreting the Law
- Weak political support for the Law enforcement

"In Africa, estimates suggest that as much as $50 billion is lost annually through illicit financial flows"

Where is corruption?
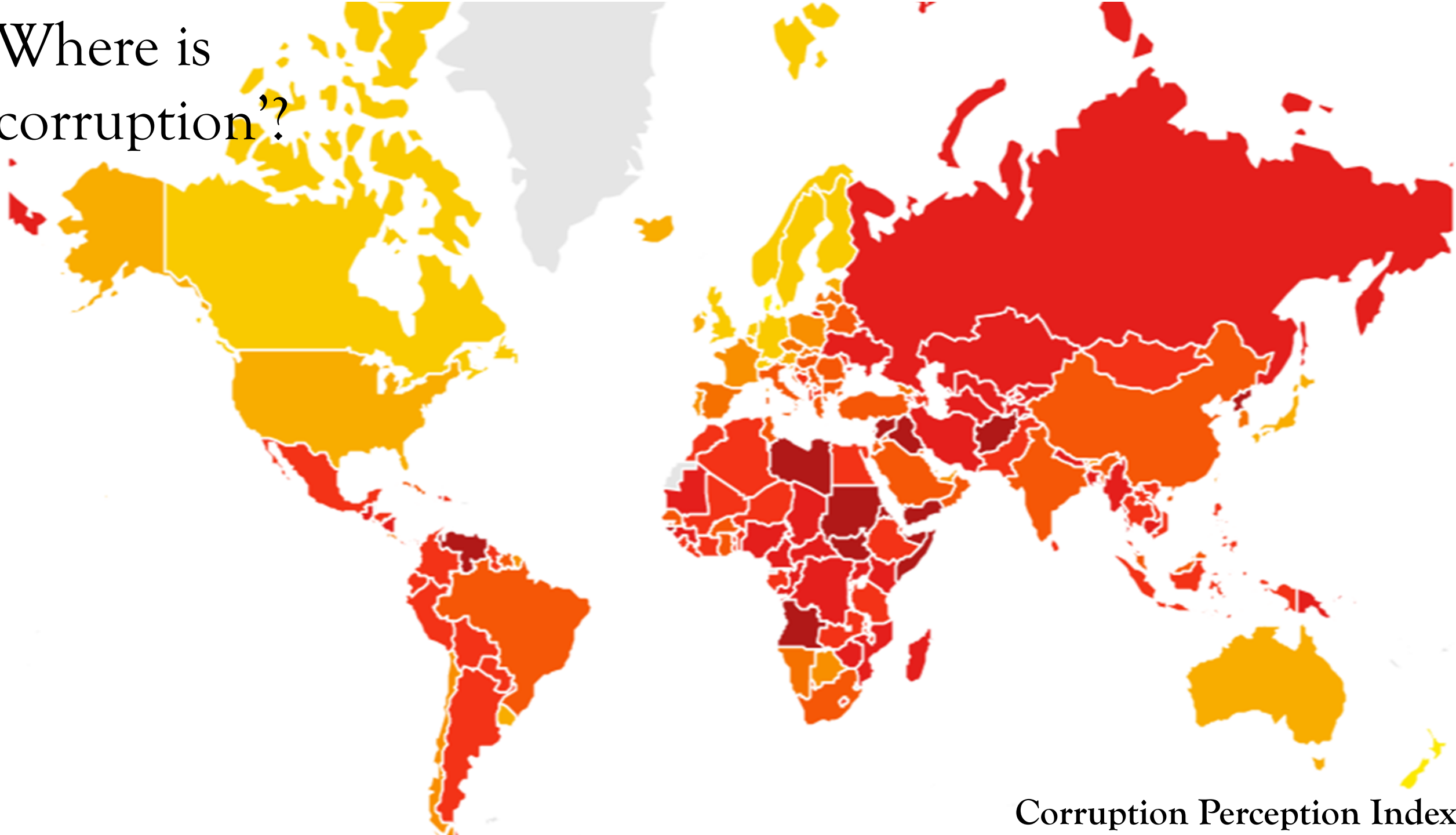
Corruption Perception Index

Where is 'corruption'?

Financial Secrecy Index

Financial Secrecy Index

- 112 Jurisdictions including **9 African Countries**

- **Sources of Data :** official and public reports by the OECD, the associated Global Forum, the FATF, the IMF, the IBFD, PwC, Lowtax and Surveys (sent to the Ministries of Finance and the Financial Intelligence Units).

- 20 **Financial secrecy indicators** (KFSIs).

| 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!!**

- 2 Components :

  Secrecy Score

  Global Secrecy Weight (share of exports of financial services)

- Formula :

$$FSI\ 2018_i = SS_i^3 * \sqrt[3]{GSW_i}$$ = Cube of the SS * Cube root of the GSW

The FSI Performance of African Countries

2018 Financial Secrecy Index
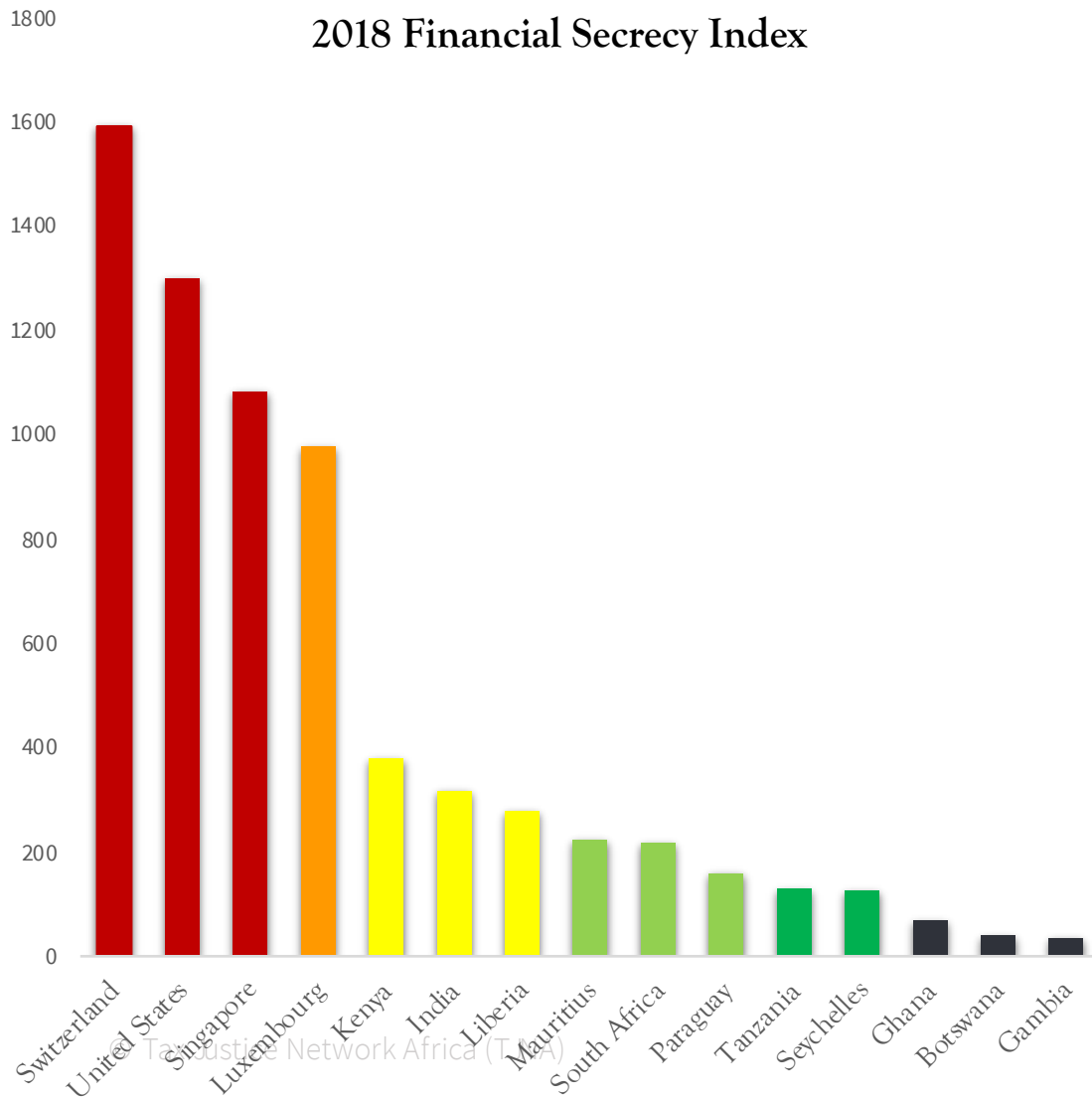
Rank	Jurisdiction	FSI Value	FSI Share	Secrecy Score	Global Scale Weight
27	Kenya	378.34	1.19%	80.05	0.04%
38	Liberia	277.28	0.87%	79.7	0.01%
49	Mauritius	223.47	0.70%	72.35	0.02%
50	South Africa	216.43	0.68%	56.1	0.18%
75	Tanzania	128.91	0.40%	73.4	0.00%
77	Seychelles	125.26	0.39%	75.2	0.00%
95	Ghana	68.85	0.21%	61.75	0.00%
103	Botswana	39.44	0.12%	68.73	0.00%
106	Gambia	34.51	0.10%	76.63	0.00%
Average FSI Value	165.83		Average FSI Share		0.52%
Lowest FSI Value in the Whole Sample	16.53		Highest FSI Value in the Whole Sample		1,589.57

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What does the FSI offer?

Ranking
https://www.financialsecrecyindex.com/introduction/fsi-2018-results

Narrative Reports
https://www.financialsecrecyindex.com/explore

Technical Reports
https://www.financialsecrecyindex.com/database/menu.xml

Open Data
https://www.financialsecrecyindex.com/explore/excel

Interactive Map
https://www.financialsecrecyindex.com/detailedmap/

Archive to track progress/worsening
https://www.financialsecrecyindex.com/archive

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Vulnerability and Exposure to Illicit Financial Flows risk in Africa

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Context

"By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized" UN Sustainable Development Goals, target 16.4

- Increasing interest in estimating the magnitude of IFFs (data problems, large error margins).

- Failure of attempts to create 'tax haven' blacklists by international organisations.

- Unhelpful simplification of a complex issue when attempting to separate 'tax havens' (bad actors) from all others (good actors, by implication).

- Motivation: **identifying channels responsible for most IFFs in individual countries, and which economic partner jurisdictions are relevant for curtailing them.**

Contributions

➢ Creating proxies for IFF risk combining bilateral data on **trade**, **investment** and **banking** stocks and flows, with **measures of financial secrecy** in the partner jurisdiction.

➢ Allowing granular comparison of IFF risks across countries and major IFF channels.

➢ Offering clear signposts guiding individual country's audit activity and international tax policy and negotiation priorities.

Methodology

Let's assume:

- $i \in \{1,...,I\}$ = reporting country

- $j \in \{1,...,J\}$ = partner country

- $t \in \{2008,...,2018\}$ = 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 =
$$E_{it} = V_{it} \cdot I_{it}$$
$$= \frac{\sum_{j=1}^{J} X_{ijt} \cdot SS_j}{\sum_{j=1}^{J} X_{ijt}} \cdot \frac{\sum_{j=1}^{J} X_{ijt}}{Y_{it}}$$
$$= \frac{\sum_{j=1}^{J} X_{ijt} \cdot SS_j}{Y_{it}}$$

Data Sources

- **Period:** 2008-2018

- **Data on banking positions:** Bank for International Settlements

- **Data on direct investment positions:** IMF's Coordinated Direct Investment Survey

- **Data on portfolio investment holdings:** the IMF's Coordinated Portfolio Investment Survey (CPIS)

- **Data on trade:** UN Comtrade database

- **Data on countries' GDP:** World Development Indicators of the World Bank

- **Data on Financial Secrecy Index:** TJN

Data limitations in Africa !!!

| IFF Channel / Dataset	Number of African reporter jurisdictions with data at least one observation 2008-2018*	Coverage (%, out of 60)
Export	42	70.0%
Import	42	70.0%
FDI Inward	21	35.0%
FDI Outward (derived)	60	100.0%
Banking Claims	1	1.7%
Banking Liabilities	1	1.7%
Portfolio Assets	3	5.0%
Portfolio Liabilities (derived)	59	98.3%
*if secrecy scores of partner jurisdiction is also available.		

Findings: Africa's vulnerability and exposure to IFFs
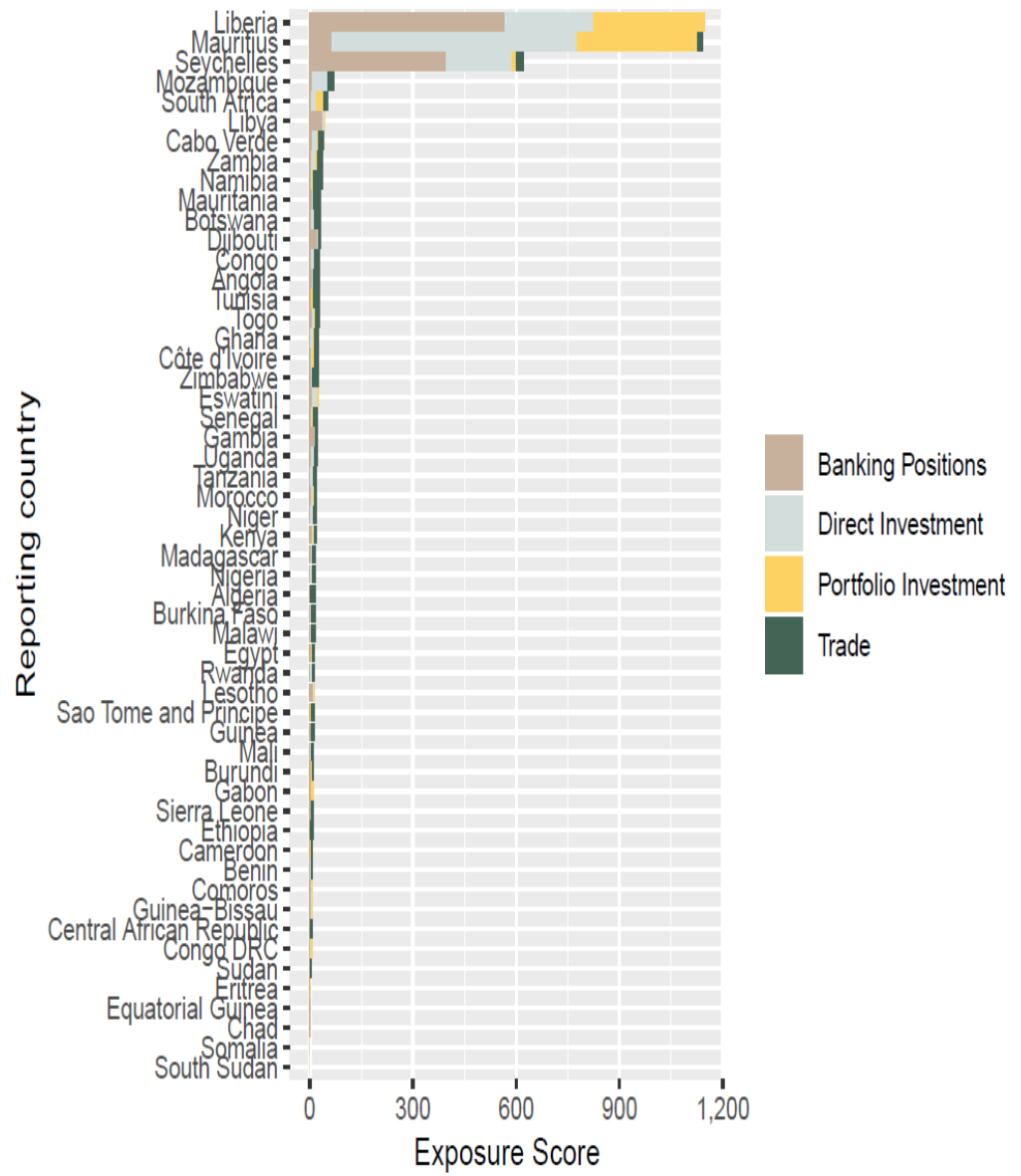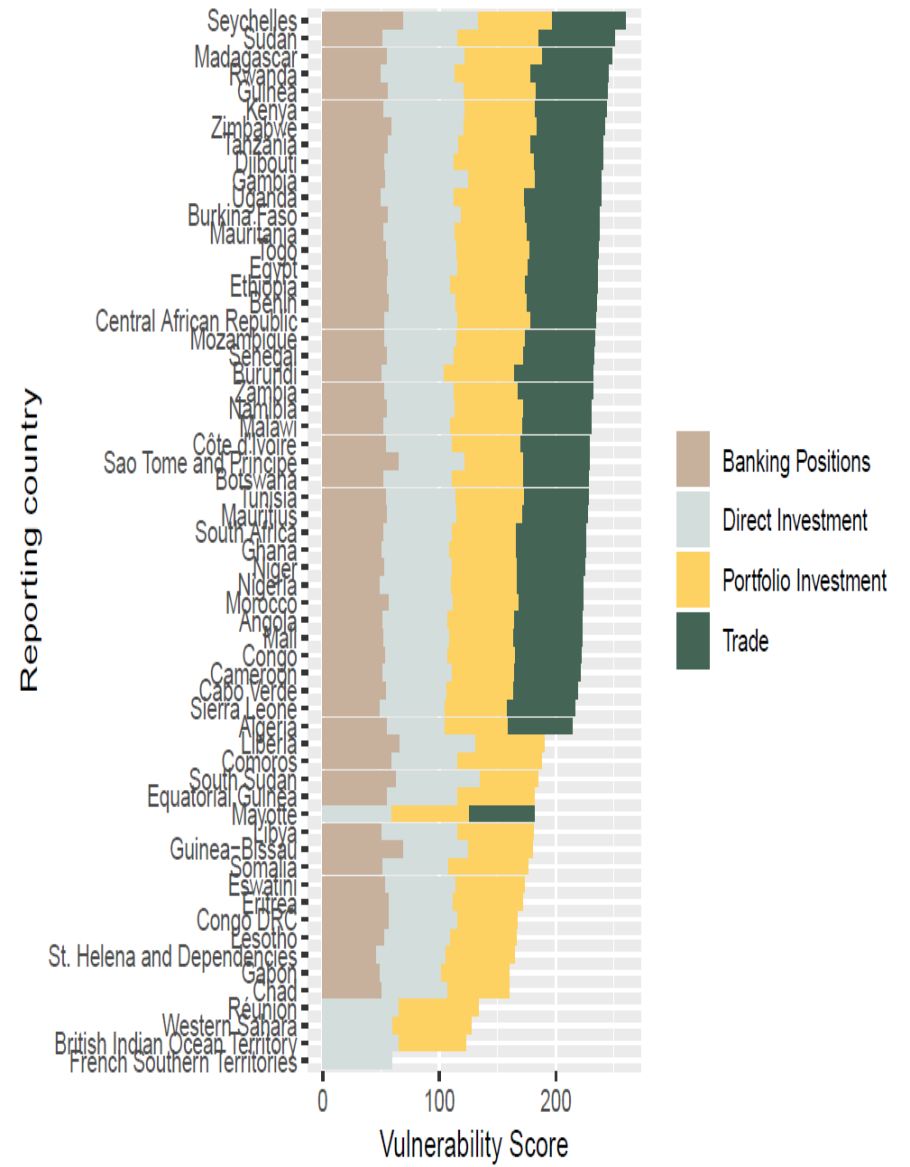
Findings: Africa's vulnerability and exposure to IFFs (2008-2018)
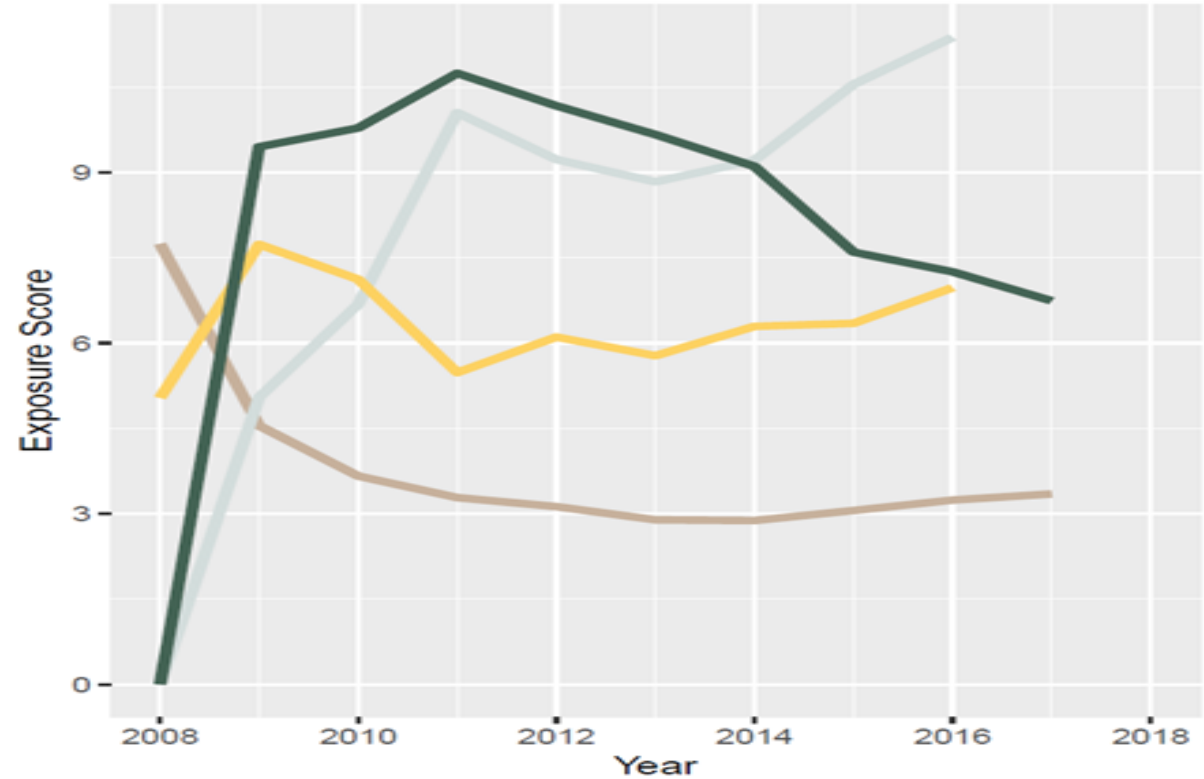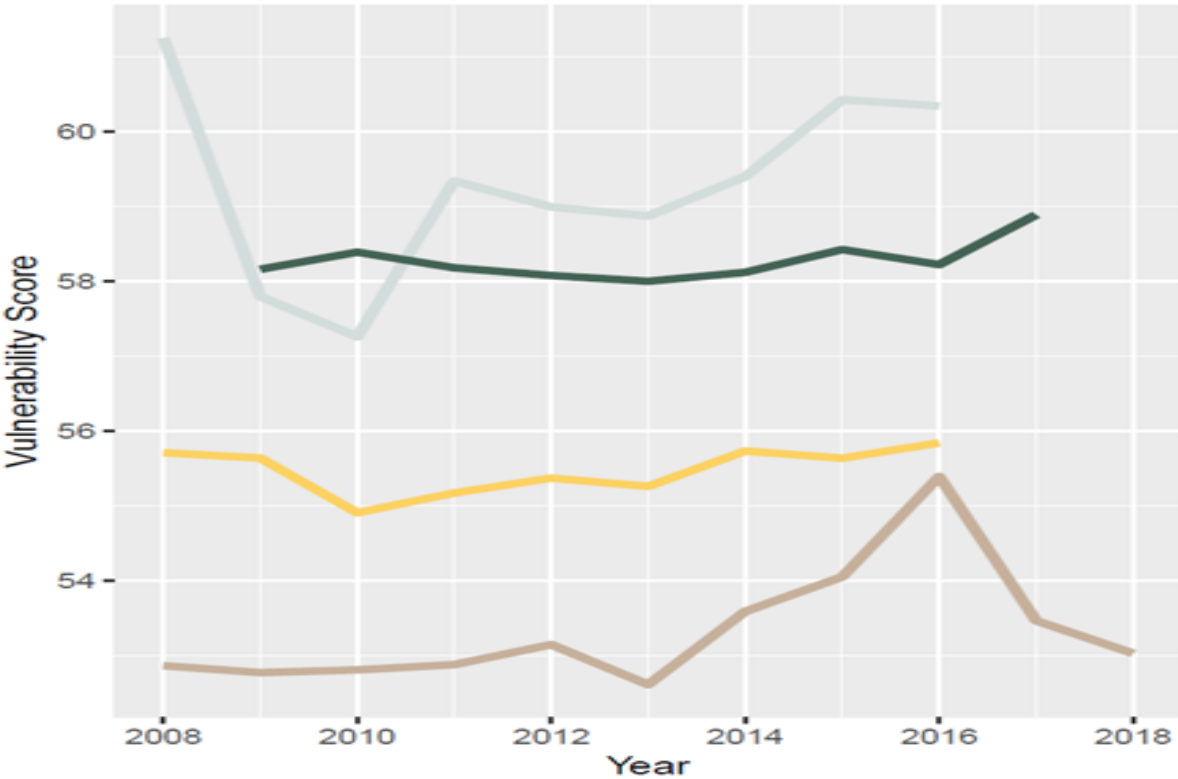
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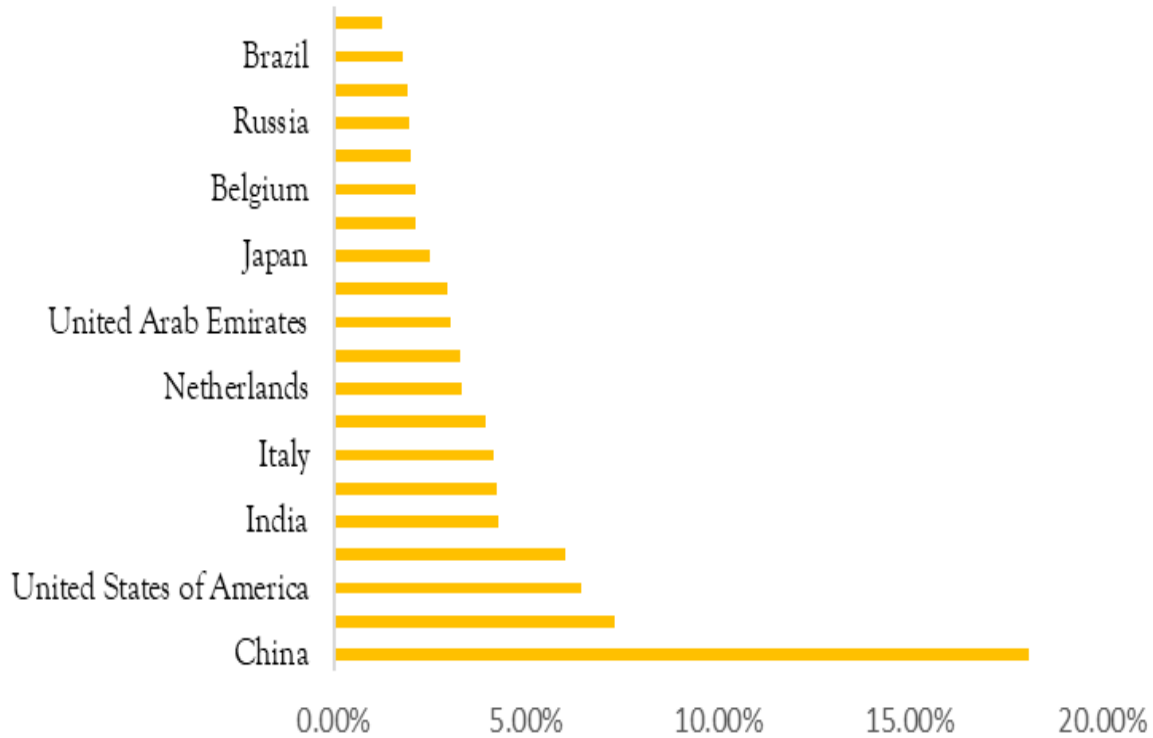# Africa's vulnerability and exposure to IFFs through Trade in Goods (2016)

Illicit motivations: Tax, Money Laundering, Corruption (Pricing, Quantity, Quality of traded goods in customs declaration forms; Bribing or putting pressure on custom officials).
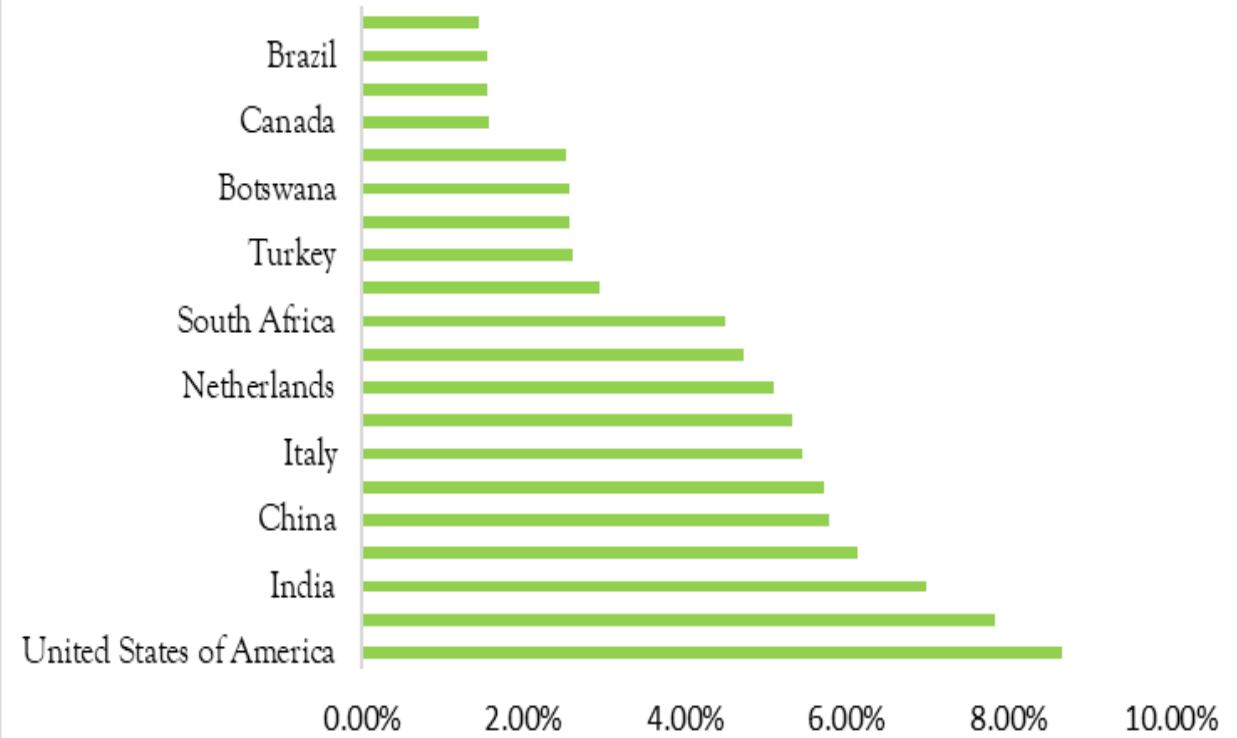
Africa's vulnerability and exposure to IFFs through Foreign Direct Investment (2016)

Illicit motivations: Tax, Money Laundering, Corruption (profit shifting and base erosion techniques, questionable positions in tax returns, Hiding origin of proceeds of crime, Omission of identities behind foreign investor).
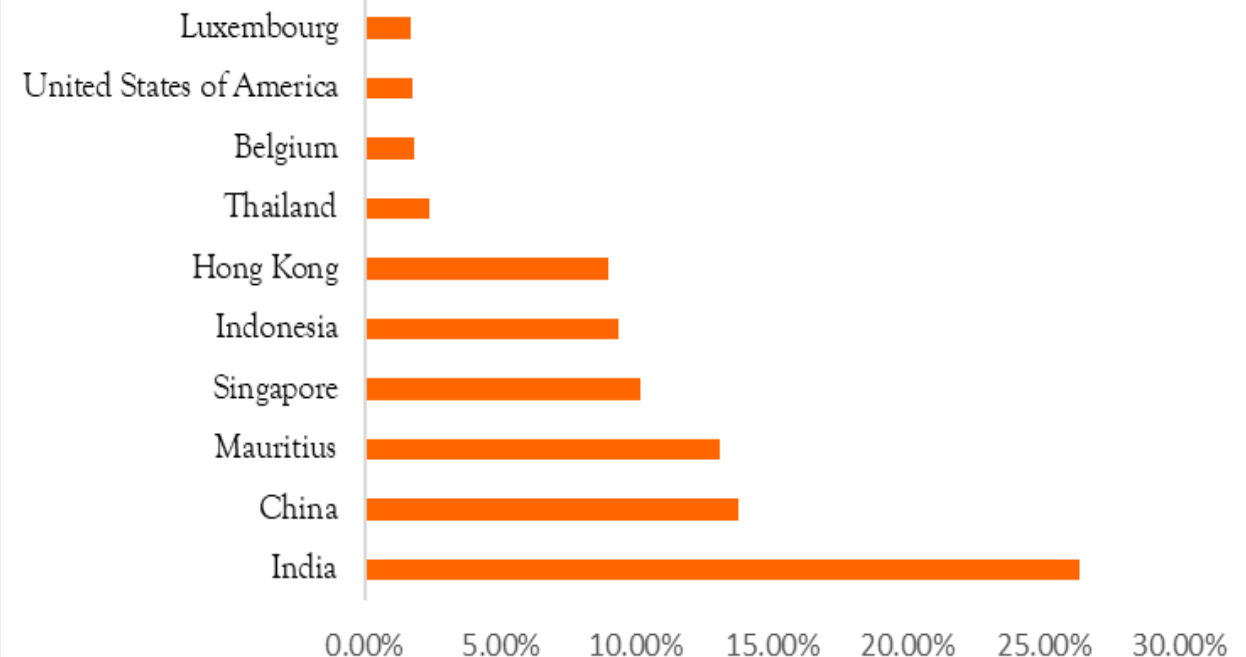
Africa's vulnerability and exposure to IFFs through Financial Assets (2016)
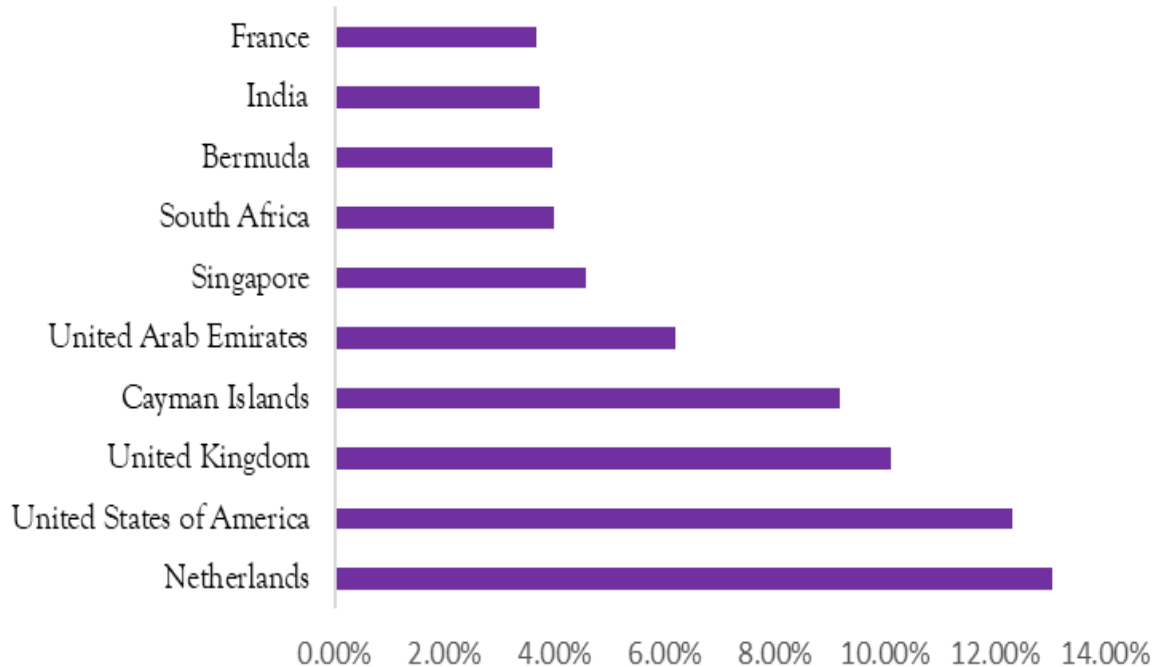
Illicit motivation: Money Laundering
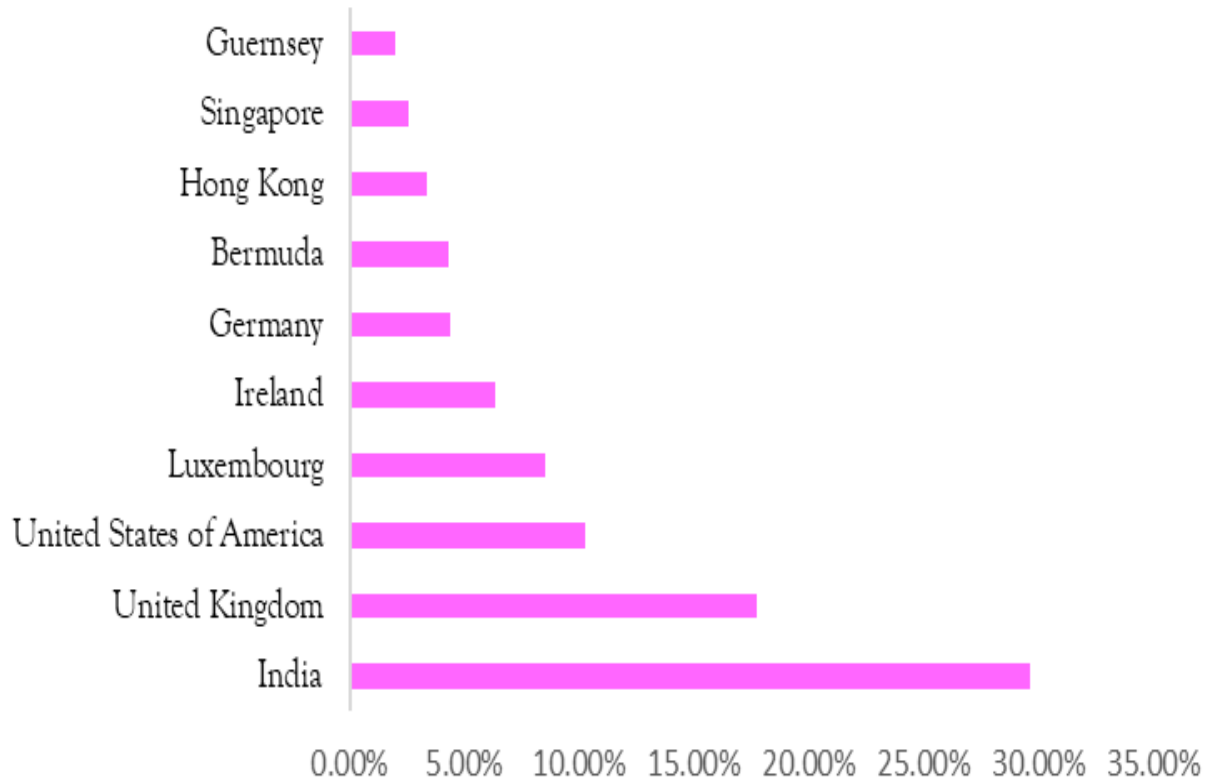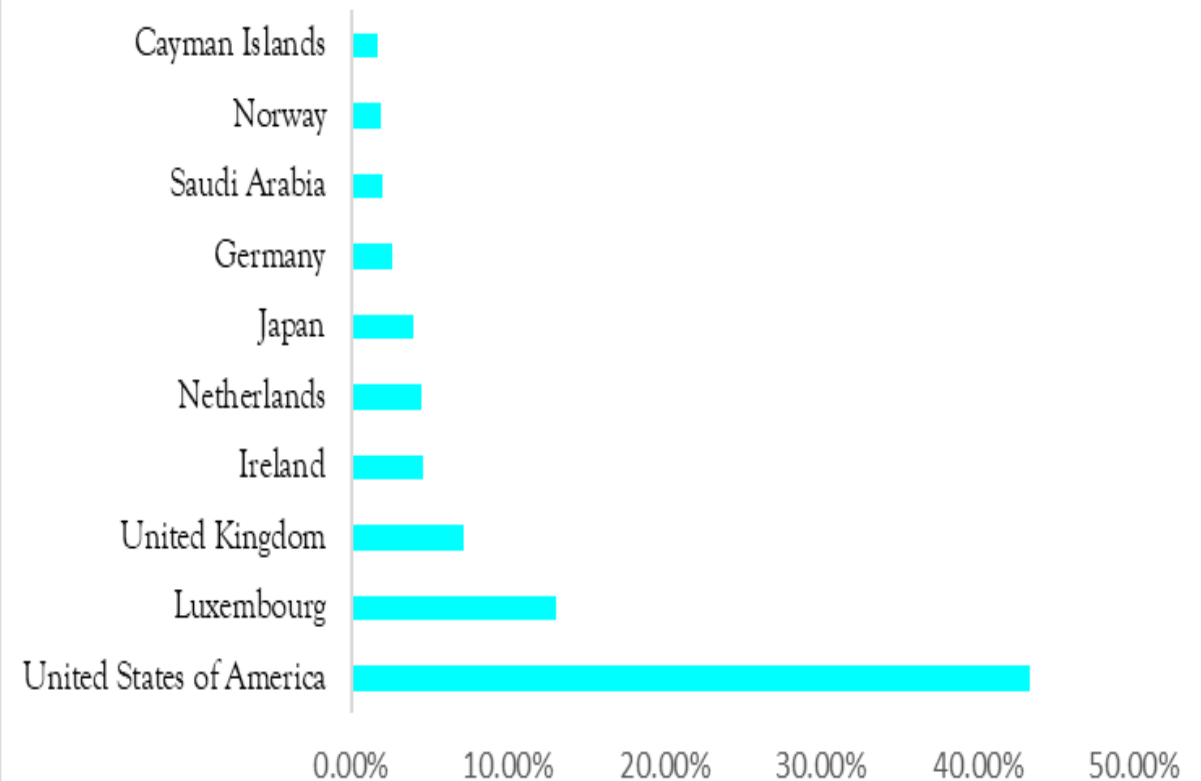
Africa's vulnerability and exposure to IFFs through Banking deposits (2016)

Illicit motivation: Tax, Money Laundering, Corruption (Omission of transfers and/or foreign assets and/or income in tax returns, Thin capitalization, Hiding the origin of proceeds of crime and Corruption).

Banking Claims (derived)
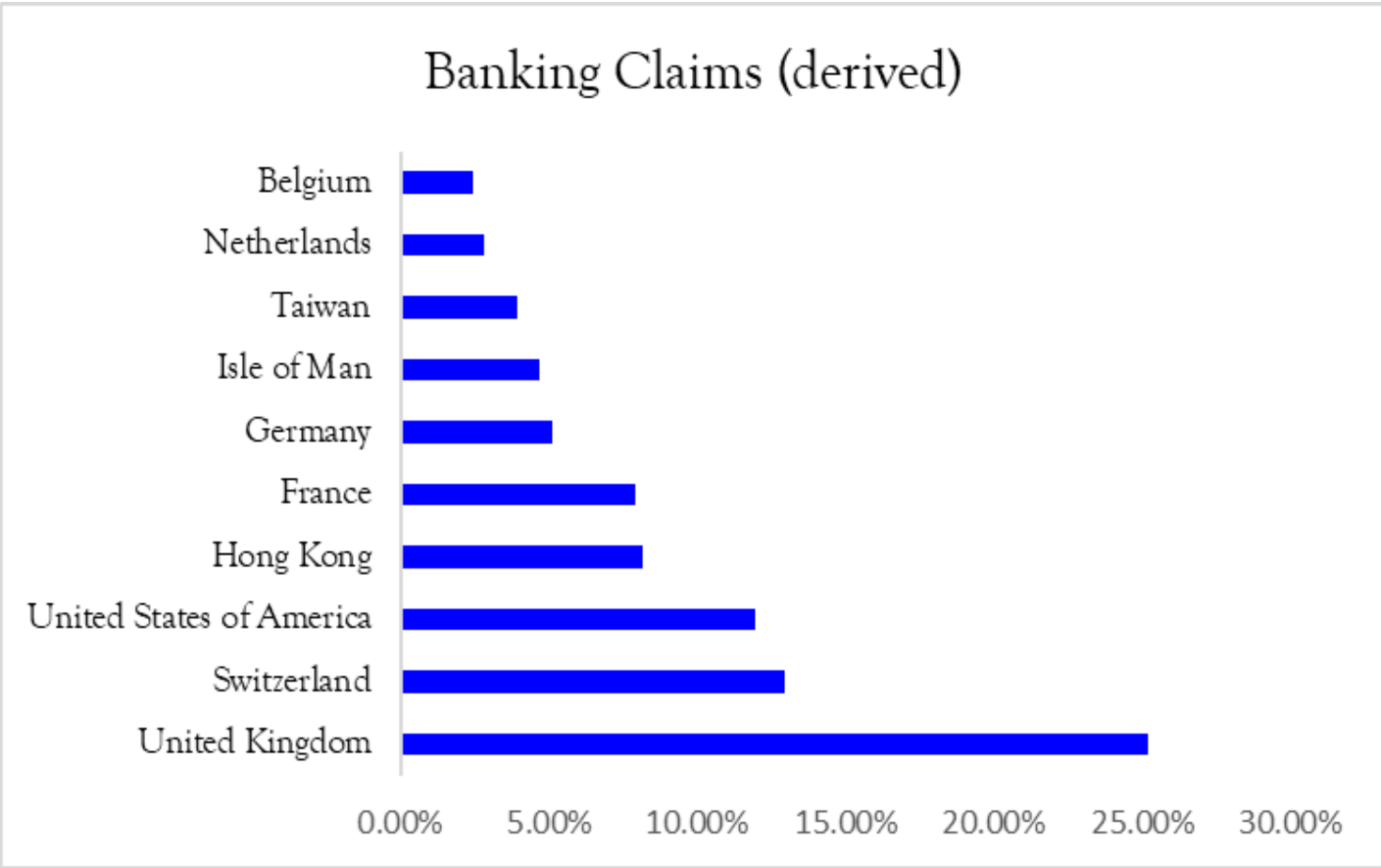
Country-risk profile : Burkina Faso

Table: Vulnerability of Burkina Faso's Exports in 2016

			Burkina Faso		
Rank	Country	Secrecy Score	Vulnerability Share	Exports (m) (USD)	Share of Exports
1	Switzerland	76	70.8%	1495.7	65.0%
2	Singapore	67	9.6%	230.1	10.0%
3	India	52	4.2%	130.0	5.6%
4	South Africa	56	3.2%	90.9	4.0%
5	Ghana	62	2.3%	59.0	2.6%
6	France	52	2.1%	65.9	2.9%
7	China	60	1.6%	41.9	1.8%
8	Greece	58	1.5%	43.1	1.9%
9	United Kingdom	42	1.0%	37.5	1.6%
10	Denmark	53	0.8%	25.8	1.1%
	Overall vulnerability of exports 70				

Table: Vulnerability of Burkina Faso's Inward FDI foreign direct investment stock in 2016

Burkina Faso			
Jurisdiction	SS	Inward FDI Stock (USD)	VulShare
Barbados	74	573543196	37%
Canada	55	600468700	29%
Bermuda	73	233996775	15%
France	52	177313974	8%
Isle of Man	64	68723469	4%
United Kingdom	42	-70997485	3%
India	52	40579082	2%
Mauritius	72	11330068	1%
Ghana	62	10522086	1%
Luxembourg	58	8876875	0%
Overall Vulnerability Inward FDI	63		

Table: Vulnerability of Burkina Faso's Outward FDI foreign direct investment in 2016

Burkina Faso			
Jurisdiction	SS	Outward FDI Stock (USD)	VulShare
Singapore	67	6983337	60%
China	60	1221943	9%
Mauritius	72	1000000	9%
USA	60	-1000000	8%
Luxembourg	58	-682021	5%
Italy	49	660056	4%
Belgium	44	-632460	4%
Poland	57	-119637	1%
Cyprus	61	-12017	0%
Overall Vulnerability Outward FDI	64		

Table: Vulnerability of Burkina Faso's Portfolio Investment Liabilities (derived) in 2016

Burkina Faso			
Jurisdiction	SS	Portfolio Liabilities (USD)	VulShare
France	52	24776621	67%
United Kingdom	42	8242340	18%
Guernsey	72	1672000	6%
Jersey	65	1230200	4%
Switzerland	76	784449	3%
Luxembourg	58	336331	1%
Overall Vulnerability Portfolio Investment Liabilities	52		
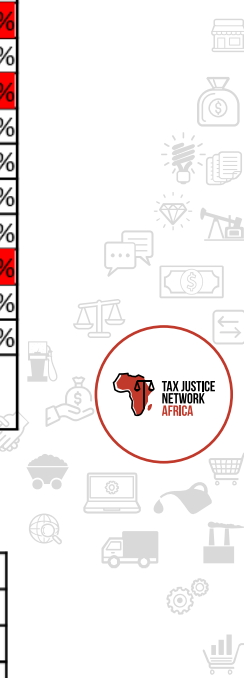
Preliminary Conclusion

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)
- audit priorities
- E.g. through checkup of current priorities/focus through country risk profiles (e.g. Burkina Faso, South Africa)

In Future

- Complement secrecy driven analyses with specific corporate tax haven indicators
- Partnering with tax administrations in Africa for advancing micro-/transaction level risk analyses – e.g. with customs transaction level data, corporate registry data, tax returns, suspicious transaction reports, etc.

Stop the Bleeding Campaign

Tax Justice Network Africa

Stop the Bleeding !

Sign the petition

Campaign to End Illicit Financial Flows From Africa

http://stopthebleedingafrica.org/sign/

THANKS FOR YOUR ATTENTION !!!

Further information :

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https://www.financialsecrecyindex.com/

https://www.corporatetaxhavenindex.org/

https://www.taxjustice.net/
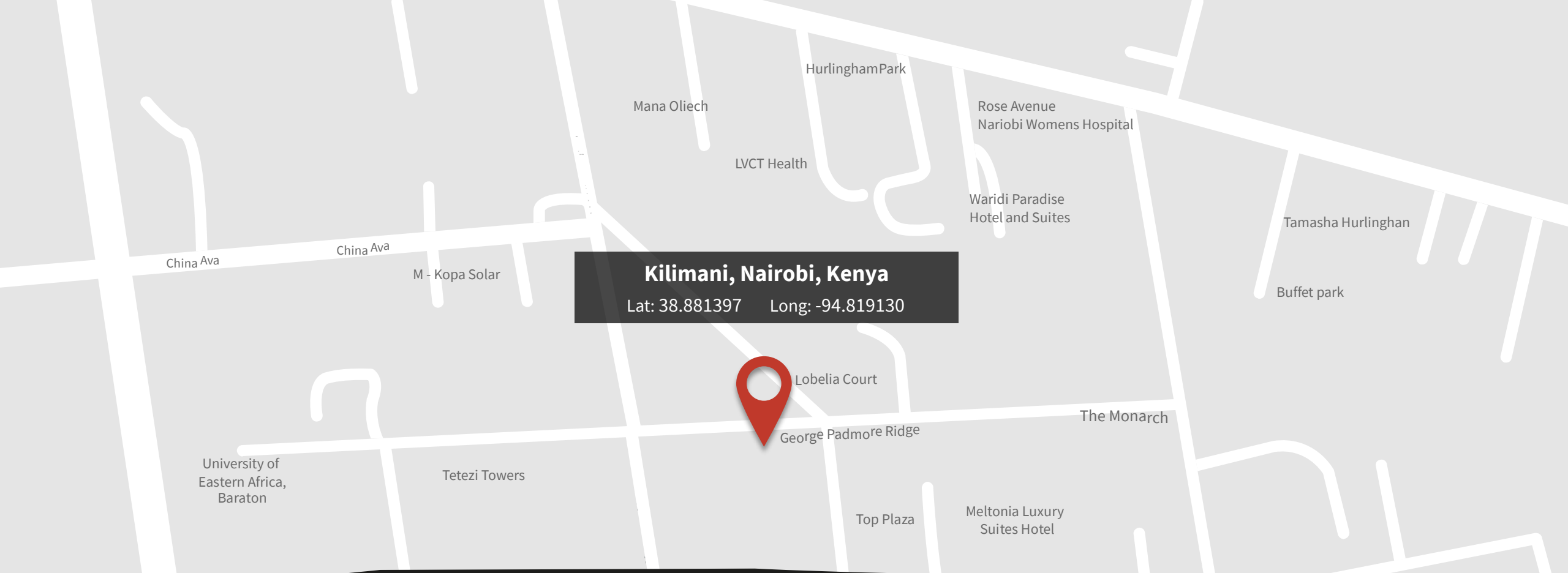
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Lat: 38.881397   Long: -94.819130

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