United Nations Development Account project (Project DA15)

"Measuring and Curbing Illicit Financial Flows“

in Senegal

1. Strategic Context and Project Objectives

Senegal is participating in the United Nations Development Account project (Project DA15), "Measuring and Curbing Illicit Financial Flows".

Development Emergency: This project addresses a development emergency, as IFFs drain resources crucial for financing the African Union's Agenda 2063 and achieving the SDGs.

Specific Objectives for Senegal as a Pilot Country

1

Capacity Building

Mastering UN definitions and statistical tools to measure SDG indicator 16.4.1.

2

Data Production

Consolidating methodological guidelines to produce reliable estimates on tax and commercial IFFs.

3

Policy Response

Enabling decision-makers to develop evidence-based strategies to stem these capital leaks.

2. Institutional Setup and Work Progress

2.1. Interministerial Coordination

The complexity of IFFs requires a transverse approach. The technical working group mobilizes a diversity of actors under the coordination of the ANSD.

Steering and Control Actors

- Presidency (OFNAC, ARCOP, EITI)
- Ministry of Finance (CENTIF, DGID, DGD, Directorate of Currency)

Sectoral Ministries

- Justice
- Interior (OCTRIS)
- Energy and Mines, Fisheries, Environment

Partners

Civil Society and Central Bank: Forum Civil, Legs Africa, BCEAO

2.2. Timeline of Activities (2024-2025)

The process followed a progressive ramp-up:

1. **Risk Assessment Update** - September 2024
2. **Methodological Training** - February 10-12, 2025: Capacity building
3. **Collection and First Estimation Workshop** - August 04-08, 2025: Collection of raw data from Customs (DGD) and Tax Authorities (DGID).
4. **Finalization and Refinement Workshop** - October 13-17, 2025: Technical validation of results on false invoicing and tax avoidance, and identification of statistical biases.

3. Technical Methodology Implemented

3.1. Commercial False Invoicing (Trade IFFs)

Two complementary methods recommended by UNCTAD were applied:

Partner Country Method (PCM)

Analyzes "mirror statistics" by comparing Senegal's import/export data with that of the UN Comtrade database. It relies on identifying abnormal trade deficits.

Price Filter Method (PFM)

A bottom-up method that estimates a price filter for each commodity to detect transactions deviating from arm's length prices. Unlike the first edition which was limited to pilot products, this edition covered all products without exclusion.

3.2. Aggressive Tax Avoidance (Tax IFFs)

Senegal explored two distinct approaches to measure tax avoidance, but only one was ultimately retained:

✓ Selected Method: Global Allocation (Method 3)

Inspired by the work of Reynolds and Wier in South Africa, this method uses econometric modeling (semi-elasticity) linking the taxable profits of companies in Senegal with the corporate tax rates (IS) of their parent companies' countries. It cross-references transfer pricing declarations, tax returns, and OECD data.

✗ Abandoned Method: Comparable Uncontrolled Price Method

A second method based on comparables was initially implemented. However, it was abandoned due to the major difficulty in identifying reliable local comparables for multinational corporations. The calculated distances proved relatively high compared to recommended thresholds, rendering the results unusable.

4. In-Depth Analysis of Statistical Results

4.1. Flows Linked to False Invoicing (2020-2024)

The results consolidated by the PCM method reveal considerable amounts.

2,793

Billion FCFA

Inward IFFs

7,802

Billion FCFA

Outward IFFs

Inward and Outward IFFs: Key Findings

Inward IFFs (Customs Fraud / Undervalued Imports)

- **Volume:** Estimated at 2,793 billion FCFA over the period
- **Dynamics:** rising from 825 billion (2020) to over 1,577 billion FCFA (2024)
- **Geographic Origin:** Mainly linked to trade with Europe (53.6%) and Asia (33.5%)

Outward IFFs (Capital Flight / Overvalued Imports)

- **Volume:** Estimated at 7,802 billion FCFA over the period, a much higher amount than inward flows
- **Dynamics:** Peak reached in 2024 with 1,880 billion FCFA in outward flows
- **Product Analysis:** Products most affected include mineral fuels (HS Chapter 27), machinery and reactors (Chapter 84), and vehicles (Chapter 87)

Method Comparison: PCM vs PFM

The results confirmed that the Price Filter Method (PFM) tends to produce lower estimates than the PCM method (1,349 billion inward vs 2,793 billion), but offers useful transactional granularity for auditing.

PCM: 2,793 Billion

Advantages:

- Comprehensive coverage
- Uses international data

Limitations:

- CIF/FOB asymmetries
- Trade system differences

PFM: 1,349 Billion

Advantages:

- Transaction-level detail
- Useful for auditing

Limitations:

- Quality variations as false positives

4.2. Flows Linked to Aggressive Tax Avoidance (2020-2023)

733

Billion FCFA

Global amount of profits transferred out of Senegal over 4 years

23.4% Tax Base Erosion

Percentage of total net taxable profit of companies studied

Analysis of multinational corporations shows significant erosion of the tax base.

75% Sectoral Concentration - Of tax IFFs come from three sectors

Extreme Sectoral Concentration

Over 75% of tax IFFs come from three sectors:

46.4%

Information and Communication

High-risk sector for profit shifting via intangibles

20.9%

Transportation and Storage

9.3%

Financial and Insurance Activities

5. Lessons Learned and Challenges

The implementation of this pilot project provided crucial lessons on methodological limitations and data challenges.

5.1. Methodological Challenges

PCM Limits:

Reliability of results is affected by natural asymmetries in trade statistics (CIF/FOB differences, general vs. special trade systems) which can be wrongly interpreted as fraud.

PFM Limits:

Statistical filters generate false positives by detecting "abnormal prices" that actually reflect quality differences (product heterogeneity) rather than fraud.

Constraints on Tax Avoidance:

Besides abandoning the comparables method (due to lack of local data), the team faced a total unavailability of tax data for the year 2024 during the workshop, limiting temporal analysis.

5.2. Operational Challenges and Data Limitations

Access to Sensitive Data

Analyzing IFFs requires access to highly sensitive data. Access remains limited or subject to cumbersome procedures.

Quality and Completeness of Available Data

- GAINDE System: Lack of counter-entry historization
- FOB/CIF Value: Frequently poorly reported
- Declared Quantities: Absence of systematic control

Absence of Comparables

The Senegalese market does not have local comparable companies of sufficient size to serve as reference, rendering the comparables method statistically inoperative.

Key Takeaways

The project successfully established Senegal's capacity to measure IFFs, revealing significant capital leakage through both commercial false invoicing and aggressive tax avoidance. While methodological and data challenges remain, the pilot project provides a foundation for evidence-based policy responses to stem these critical resource drains.

Total IFFs Identified

Over 11,328 billion FCFA

in combined trade and tax-related illicit financial flows between 2020-2024, representing a substantial drain on resources needed for sustainable development.

Trade IFFs

10,595 billion FCFA

Tax IFFs

733 billion FCFA

Thank You

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