Report of the second expert meeting on the statistical measurement of illicit financial flows

20-22 June 2018

Room IV, Palais des Nations, Geneva

Opening

Opening remarks by Mr. R. Kozul-Wright (UNCTAD). The importance of tackling illicit financial flows (IFFs) to capture their effects on development and governance was highlighted. Recent research shows significant illicit financial flows. Policy makers must be informed by official figures and rich research on the types, sources and channels of these flows. Efficient policy response requires accurate and robust figures.

UNCTAD and UNODC, as custodians of the SDG indicator 16.4.1, are organising this consultation among experts of IFFs. The meeting will provide input to the development of the statistical methodologies to measure IFFs globally, regionally and in countries. Such measurement will need to build on research findings and capacity building will be needed in many countries so that they would be able to address the challenges of IFFs.

Session 1. Previous work on building a statistical framework to measure SDG 16.4.1

This session started with brief presentations of current United Nations activities aiming to advance the measurement of IFFs by Mr. E. Bisogno (UNODC), Mr. F. Cantu (UNCTAD) and Mr. G. Ibrahim, and continued with presentations on the outcomes of the Vienna meeting by Mr. E. Bisogno (UNODC) and Ms. S. Blankenburg (UNCTAD).

In addition, to the joint work of UNCTAD and UNODC for the methodology development of the SDG indicator 16.4.1, the organisations are carrying out capacity building in the area. Two UNODC projects are focusing on IFFs from criminal activities, mostly in Latin American countries. UNCTAD is carrying out a capacity building project for African countries in collaboration with UNECA, and UNECA has various activities in IFFs, including its work in the High-Level Political Forum on IFFs, projects with UNCTAD and UNODC, as well as joint activities with OECD and others.

The conclusions on crime-related IFFs were summarized based on discussions in the UNODC-UNCTAD expert group meeting on the measurement of IFFs in Vienna, on 12-14 December 2017. The meeting in Vienna discussed the definition of IFFs for statistical purposes, and made conclusions about the necessity to prioritise feasibility, measurability and data availability in the choice of definitions. By definition, IFFs should be illicit, they need to cross borders and they are flows instead of stocks. They can originate from tax practices, corruption, theft and illegal markets. According to the proposed definition, IFFs are a monetary measure of:

- International transfers of illicitly earned capital
- Legal capital transferred internationally for illicit purposes
- Legal capital transferred illicitly

While the types of IFFs related to taxes, crime and corruption have been identified, their overlaps challenge measurement. The Vienna meeting concluded that a legalistic or otherwise narrow definition of IFFs should be avoided, and that the methodologies should be compatible with existing statistical frameworks. The IFFs related to profit shifting, undeclared offshore wealth and regulatory abuses were considered a relevant part of IFFs. Three methodologies have been discussed previously: (i) methods related to trade mispricing are important but only cover a single area of IFFs and may, therefore, be of limited use; (ii) profit misalignment and global tax avoidance benchmarks; and (iii)

stock estimates of offshore wealth, for which methods need to be scrutinized more closely in the future. These will be discussed further in session 3. While the SDGs are a highly country-driven process, and thus, country level measures will be important for policy purposes, global measurement also conveys information that should not be disregarded.

Session 2. Scope and definition of IFFs for SDG indicator 16.4.1

The second session discussed the scope and definition of IFFs for the SDG indicator 16.4.1 building on the outcomes of the first expert meeting in Vienna. The session was opened by a panel discussion with Mr. S. Picciotto (International Centre for Tax and Development), Ms. I. Musselli (University of Bern) and Mr. P. Chowla (UNDESA). The panel members raised the following issues for discussion.

The distinction between lawful tax avoidance and unlawful tax evasion is not always evident. If tax authorities have enough resources, they will be able to catch more flows that are treated as unlawful. In the case of multinational enterprise groups (MNEs) and accountancy firms, it may be difficult to point to criminal avoidance. This may also be a question of the need to reform existing tax rules. Corporate tax avoidance and the offshore tax system operate in a blurred area between criminal evasion and tax avoidance. The MNEs currently exploit the regulatory situation and the definition of residence for their benefit. We need more coordination nationally among authorities and internationally between international agencies and authorities of different countries. So far, the regulatory coordination has developed mainly in silos focusing on narrow areas. The requirement that transfer prices should reflect real market prices can work between independent parties, but is not logical between affiliates of MNEs. Achieving a clear definition of what is to be measured in IFFs will be central for the usefulness of the measure. The indicator could be defined as "financial outflows from a country resulting from illegal activities, and illicit financial outflows from a country resulting from legal activities" with the following three definitions:

1. **Financial flow** meaning both a cross-border payment and a payment made outside the country for cross-border movements of goods, e.g. smuggling. It could also apply to services: e.g. a bribe for services rendered in or outside the country that cross the border.
2. **Illegal activities** meaning those activities which would, on conviction, involve a penalty in the country from which the outflow takes place.
3. **The illicit outflow** meaning outflows resulting in potential losses of government tax revenue, both tax evasion and avoidance. It could also include outflows connected with criminal activities outside the country, e.g. terrorist financing, or importing illegal drugs. It might also extend to e.g. depositing money in a foreign bank account to conceal it from business associates, or family relatives. However, the category should not extend to outflows which may be judged damaging for development, e.g. purchase of foreign real estate, or luxury items, if the funds to do so come from legal sources, and the transfers are not made illicitly.

The discussion between the border of illicit and illegal flows should be de-emphasized. Domestic and international laws and standards to restrain IFFs have started to develop. Tools such as the OECD Base Erosion and Profit Shifting (BEPS) may be helpful for coming up with useful definitions.

"Crime"-related illicit financial flows is not a correct term when referring to only some illegal activities such as the drug markets or smuggling, since other types of IFFs (tax evasion and corruption) are also criminal activities. We need to unpack the criminal package of IFFs into its many different elements. We need to keep a simple agenda and put emphasis on the strategic alignment of measurement with policy goals, and strengthen collaboration between customs, banks, tax authorities, law enforcement,

statisticians etc. For example, the exchange of tax data may prove useful for statistical purposes in the future.

The underlying principle in the Addis Ababa Action Agenda is that all companies should pay taxes where economic activity takes place and value is created. These may include both licit and illicit activities. For instance, Apple's tax practices with Ireland were first considered legal activities, but they were declared illegal flows retroactively by the competition commission in the EU. Such flows, sometimes captured retroactively, may influence official statistics significantly. The activities in the grey zone are very difficult to measure, especially when it is not clear in which country the MNEs' activities take place. In 2017, an Inter-agency Task Force on Financing for Development identified criminal, tax and corruption-related components of IFFs, discussed the channels of IFFs (including group trade, intra-MNE transactions, capital account channels, other transactions) and distinguished the types of resulting assets to include offshore wealth, real estate, businesses other moveable assets. There is a need to move from the definitions to developing a practical measurement approach. Having separate measures for different components of IFFs may be more helpful than having a total estimate covering all IFFs.

The participants raised the following points in the discussion:

- The lack of data is hampering policy effectiveness, and it is also being used as an excuse. We need to agree on concrete actions to measure the IFFs so that IFFs can be stopped/reduced. If the definition is not there, there is nothing to measure or do.
- Measurement of IFFs has an objective. We want better data to make things better for the less fortunate. Countries are competing on wages, application of environmental standards, taxes etc. Change is slow to achieve. We need to define some global standards on how to measure IFFs in a relevant and meaningful way that supports effective policies.
- There may be a north-south element to IFFs as well. Developed economies are more often MNE host countries.
- Many developing countries are aggressively formalizing their economies and are trying to control IFFs. This can have also unintended impacts. We need to carefully consider the capacity for developing countries.
- A global estimate, while it might be used for political or advocacy purposes, will not be enough to combat IFFs. We need a set of indicators to answer the various policy questions.
- How do we recognize fictive legality? Some legal constructions may hide illicit or illegal activities, and some of these practices are becoming institutionalized. Countries' tax authorities are left behind from the development of corporate strategies to avoid taxes.
- Regulators and tax authorities are trying to hinder offshore tax evasion by exchanging information and increasing coordination. The data exchange may be useful for the measurement of IFFs in the future.
- OECD's work on profit misalignment and the BEPS initiative could also help to measure IFFs.
- Investment flows could be involved in facilitating tax avoidance. There are three main components of foreign direct investment (FDI): greenfield investments; mergers and acquisitions; and intra-company loans. The last component could be linked to IFFs. FDI is aligned with and used as a tool for corporate strategies, also in tax planning.
- We need value chain analysis for describing tax-related IFFs as well. Taxes should be paid where the sales or the activity takes place.
- Measurement of IFFs cannot be based on legality. For instance, every country has different laws on crime, yet statisticians managed to develop an international classification of crime.

Irrespective of what the legal system is, we should focus on the description of related behaviours and events without being bound by legislation.

- Statisticians have worked for many years to better capture illegal activities in the SNA. We should be very practical and start from what everybody agrees with and where official measures already exist, and gradually extend the coverage using a similar approach.

Session 3. Measuring IFFs from commercial and tax-related practices

The session on measuring IFFs from commercial and tax-related practices was based on presentations by Mr. A. Cobham (Tax Justice Network), Mr. P. Jansky (Charles University) and Ms. K. Nicolaou (consultant), an intervention by Mr. N. Ahmad (OECD) and a discussion among participants.

Many IFF estimates are based on anomalies in data rather than direct measurement. The discussions on IFFs tend to focus on the criminal aspect. There are still discussions on what are illicit IFFs, and what is the relevance of tax avoidance for policies targeting to reduce IFFs. Recent studies have shown the extent of IFFs and that corruption is not just a problem of poor countries. The challenge is how to compile figures that are comprehensive at the international level, but also detailed enough to allow policy action in countries.

A recent exercise to estimate IFFs in South Africa shows that data from many government agencies exist even at the transaction level but is almost impossible to get access to due to sensitivity and confidentiality. So, data obtained from SNA and BOP were used as well as Multiple Indicators Multiple Causes (MIMIC) models, trade mispricing calculations, money laundering gravity model, newspaper searches etc. The analysis of IFFs also benefits from applying risk models, focus groups discussions, direct surveys and collaboration with civil society. Experiments are being done by applying machine learning to transaction level data to identify money laundering and other tax avoidance behaviours, e.g. based on price anomalies. An initiative on stronger financial management and audit will be piloted in 6-7 African countries aiming to clarify the roles of the treasury, central bank and tax authorities regarding IFFs, to review effectiveness of legislation and to improve the oversight role of the parliament.

Commercial IFFs can relate to trade; capital and wealth; and profit. In trade, IFFs originate from mispriced or misquantified trade either between related or unrelated business partners. A lot of research has been done on trade mirror statistics and abnormal prices, and studies using trade statistics and customs' data. Capital and wealth approach tries to identify data anomalies as illicit flows or estimate undeclared wealth in tax havens by looking at BOP data. Two main methods are applied: first, the net error and omissions method (known also as the hot money or narrow method); and second, the World Bank residual method (difference between capital inflows and outflows). Better data would be needed to produce reliable estimates instead of assuming that anomalies equal IFFs. Recent research has looked at profit shifting using various data sources and methods, some based on official statistics, but only covering some countries.

The following three possible indicators of IFFs were discussed:

1. **A profit-shifting indicator:** The value of profits reported by multinationals in countries, for which there is no proportionate economic activity measured as the global sum of positively misaligned profits. The data could come from the OECD Common Reporting Standard (CRS). Disadvantage: profit misalignment does not necessarily originate from illicit flows and might not be applicable to IFFs related to agriculture.
2. **An undeclared offshore assets indicator:** The excess of the value of citizens' assets declared by participating jurisdictions under the OECD Common Reporting Standard (CRS), over the value

declared by citizens themselves to their tax authorities. Disadvantage: no breakdown by IFF channel and limited by asset type.

3. **An exposure to the risk of IFFs indicator:** The exposure to the risk of IFFs, combining opacity of partner jurisdictions with scale measures of bilateral economic and financial relationships. Disadvantage: Not a direct measure of IFFs and as such not sufficient for official purposes.

The participants raised the following points in the discussion:

- Based on existing research, we can conclude that IFFs are significant and measurable, but the estimates are of varying quality, availability and coverage. Overlaps and double counting are difficult to avoid. More robust measurements and better data are needed.
- Many current methods to measure IFFs are not applicable to developing countries due to the lack of data. IFFs are also often exaggerated by countries' weak institutional frameworks, such as the lack of regulations that require the disclosure of cross-border assets.
- It would be useful to review how a company prices the same good for internal trade within the MNE and for external trade. However, mispricing of intra-firm trade of goods may be a smaller part of IFFs. Instead, intra-MNE royalty payments and management fees, covered in BOP, may be much more important for capturing IFFs.
- IFFs are likely to be linked to trade in services as well as trade in goods. Service statistics are less developed which makes these IFFs even more difficult to capture than IFFs in general.
- More refined methodologies may be needed to overcome data shortcomings. For instance, UNECA has applied a reverse gravity model to estimate the cost, insurance and freight (CIF) component of imports instead of using a fixed ratio of free on board (FOB) and CIF, as it is done commonly in trade mispricing models. This could improve the estimates based on data from trade anomalies. Furthermore, the transaction level data from customs seem convincing, but work is needed to develop reliable methods to be used in national statistics.
- New forms of trade, for instance on electronic trading platforms, are changing the dynamics of trade-related IFFs. Recent studies by customs note that instead of reducing corruption, electronic invoicing has even increased it in some cases.
- Empirical studies to decompose the asymmetries between trade statistics so as to isolate the part that relates to illegal activities have been carried out. IFF risk indicators are also informative for detecting anomalies, but not for estimating IFFs.
- Research on the profit levels before taxes and the consequent channels of IFFs could be revealing. However, data for the developing countries are often missing, as well as affiliate-level information.
- We need to bear in mind that countries are in competition to boost their economic and social development. They may offer varying disadvantages, such as political insecurity, but would also like to offer benefits, such as cheap land or low taxes. Thus, all profit shifting cannot be considered undesirable.

As part of the session, OECD gave a description of recent data and reporting initiatives. Over 100 countries are collaborating to implement BEPS measures and the related country-by-country reporting. The aim is that MNEs report annually an overview of the allocation of income, taxes and business activities by country. The first data sets will come out in a few months' time. OECD is also building an Analytical Database on Individual Multinationals and their Affiliates (ADIMA) to provide publicly available data on the scale and scope of international activities of MNEs and their affiliates. The database will initially include the largest 100 MNEs, but will expand by 2020 to cover 500 largest MNEs across all countries (not only OECD). The database provides data on parent-affiliate structures, a series of economic indicators from the balance sheets (turnover, value-added, taxes paid etc.) and

breakdowns by countries or regions. The database uses smart data tools to break the geographic flows down to the national level. The database will be published by the end of the year.

The following issues were discussed:

- The main purpose of the ADIMA database is to increase the understanding of MNEs' activities. The aim is to align the structure of MNEs in ADIMA with foreign affiliates statistics (FATS) as far as possible.
- ADIMA is an analytical dataset rather than an official data source. It will be up to users to test its usefulness for analytical purposes, including the estimation of IFFs. The database only includes publicly available data, and any information on illicit or illegal activities is likely to be hidden.
- While the country-by-country reporting is confidential and cannot be distributed, ADIMA only contains publicly available data. So, there is no need for disclosure control in ADIMA. BEPS country-by-country reporting, on the other hand, could be made available for statistical purposes. Cases where some affiliates that are paying significantly lower corporate taxes as compared to local companies are likely to be identifiable.
- OECD is highly engaged with countries to validate the ADIMA data. However, methods that do not introduce confidentiality due to these verifications need to be considered.

Session 4. Estimating IFFs from criminal activities

This session discussed the measurement of IFFs from criminal activities. Presentations by Ms. D. Camerini (UNODC) and Mr. F. Sallusti (ISTAT) introduced possible measurement approaches.

A technical framework for the statistical measurement of illicit drugs market related IFFs was presented. The challenge of estimating demand and supply in drug markets and emphasized the need to understand the substance of the activity to be able to measure it correctly. The proposed measurement is compiled at the country level and is aligned with existing statistical frameworks, such as the system of national accounts (SNA) and the balance of payments (BOP). The proposed framework includes measures of illicit intermediate expenditure (and consumption), illicit net output and non-value added illicit activities. The latter refers to activities not otherwise covered by the SNA production boundary. The activities generate domestically illicit income part of which may flow abroad, and there could also be illicit income flows from abroad. The measurement approach depends on the country's role in the market: a producer/manufacturer country, transit country or destination/consumption country. The framework is based on dual measurement:

- **Income generation**: illicit activities and markets, illicit value chains, supply and demand of illicit goods and services, pricing of illicit goods and services
- **Income management**: distribution of income, consumption and investment patterns of illicit actors, illicit finance and wealth management

A tentative framework to measure IFFs in the drugs market in Italy in the national accounts context was discussed. The framework looks at the type of transactions taking place in the supply-chain. Italy is considered a consumer country, where production is negligible, and consumption is higher than exports. The approach covers the entire supply chain in the country including exports and imports, but cannot estimate the financial inflow from illicit activities carried out abroad; this could be addressed by using mirror statistics from other countries. The compilation uses different data sources, including the population survey (number of consumers), case studies on consumption habits, expert information (incidence and type of intermediate consumption, share of exports), data from seizures (purities), data from contrast authorities (domestic prices) and international studies and databases (international prices).

The participants raised the following points in the discussion:

- Criminal activities and corruption may overlap, so we need to be careful with the definitions.
- It is important to establish links between trade and IFFs. Each country should be able to account for the entry and exit of IFFs to and from the country.
- The national accounts approach requires very detailed data from various sources. As market-specific knowledge is needed on each IFF, measurement will require significant resources. However, interconnectivity with other statistics and national accounts also enables efficiency savings as existing data can be directly used for the measurement, and rich analysis of data combined to other statistics would be possible.
- The money flows come as a side result when using the national accounts approach that focuses on goods. It may be possible that the funds do not follow the goods and may leave or enter a country unnoticed. That would also mean that IFFs are undercounted.
- It does not seem possible to focus on the money directly since financial corporations do not capture all money flows, as cash is also moved from one country to another. Instead, data from financial corporations would be useful as a benchmark.
- It is important to quantify the size of the markets as it helps to identify flows crossing the border that may not otherwise be visible. Therefore, it makes sense to look at the physical products and production chain, and then pinpoint the illicit flows generated.
- In some countries illegal activities are an important source of livelihoods, such farming of drugs. The same farmers may produce a mix of legal and illegal goods. Does this also make cross-border financing of these activities illicit?
- We need to be very practical and clear about the scope of IFFs. Lots of actors are involved in the flows of goods related to IFFs, and it may become very difficult to get data in the required detail.
- In the EU, countries are producing estimates of illegal activities as part of national accounts in three areas: drug trafficking, smuggling of alcohol and tobacco, and prostitution. In 2010, the value added of illegal activities in the EU27 was 55 billion euros, representing 0.45 per cent of GDP covering these three types of illegal activities.
- National accounts are often used as a framework to develop satellite accounts that align different data sets with the national accounts framework. Illicit activities are one of the areas that could be dealt with as a satellite account. Some of the illegal activities are already in the SNA production boundary, and the related illicit flows and IFFs from non-value added activities could form a satellite account.

Session 5. Defining IFFs arising from corruption

This session discussed defining IFFs arising from corruption and including them into a measurement framework for IFFs. The session included presentations by Mr. M. Khan (SOAS, University of London), Mr. A. Andreoni (SOAS, University of London), Mr. A. Kamprad (UNODC) and Mr. A. Aziani (Transcrime).

It was noted that the relationships between corruption, licit and illicit financial flows and crime are complex which makes the measurement of corruption-related IFFs challenging. Anti-Corruption Evidence (ACE) programme found that measures against corruption are typically ineffective. Inappropriate measures can also have unintended consequences. We need to consider how the measures can make anti-corruption policy more effective. Corrupt transactions are defined as transactions that violate a rule, involving a public official, for some self-interest, and they may or may not cross borders. IFFs, on the other hand, are cross-border and they may or may not violate laws but

are socially damaging. The lessons learned from corruption analysis related to measurement included, for instance:

- Aggregate measures of corruption add up many different types of corruption with very different causes and effects and are not useful for policy purposes as such.
- The statistical challenge will be how to aggregate the different IFFs to a total indicator that makes sense. Particularly, since corruption is not a fully separable IFF that can be added to tax evasion, crime and other IFFs, but it can sometimes form distinct illicit flows.
- Corruption may affect the magnitude and effects of other IFFs, for instance through policy influence and by facilitating crime.
- As corruption works differently across sectors and countries, we need a granular measure to avoid overlap and enable targeted policy action.

It is particularly challenging to find any direct data on corruption, even through direct surveys. It would be important to work towards a modular measurement designed around the key types of IFFs and existing data. It would be important that the indicator allows to distinguish the dominant types of IFFs in different countries. The IFF measure could be complemented with benchmarks based on prices, unit values, profit-activity levels etc. The indicators should be politically-actionable allowing the implementation of targeted IFF strategies. Organising case studies to test different types of IFF measures at the beginning will be important for developing a feasible and relevant measurement framework for IFFs. Such a framework could be based on a set of indicators rather than one indicator.

From a criminology perspective the difference between illegality and illicitness is not clear. It is not clear in the case of corruption how it is intended to be measured as part of IFFs. There is no accepted definition of corruption. The United Nations Convention against Corruption (UNCAC) proposes a list of acts that could be considered as corrupt acts, including bribery, theft-related corruption, money laundering etc. A working definition, sometimes used, is the misuse of public or private position for direct or indirect personal gain. There have been discussions about inclusion of bribery in national accounts, but embezzlement, theft and extorsion are excluded from the SNA. Income from corruption would be the result of those activities.

Ways to compile economic estimates of corruption as part of IFFs were presented. Administrative data sources exist, and some countries have carried out victimization surveys among households or businesses. In addition, expert assessments, risk assessment and informal data sources may be useful as a benchmark. There are two main approaches to measuring corruption: catch-it-all measurement of all economic dimensions of corruption; and estimates of corruption costs. The measurement of corruption as part of IFFs needs to consider: direct and indirect financial benefits, non-monetary benefits, illicit and illegal factors, and which flows cross borders. In the short run, the measure for IFFs could focus on bribery, as its statistical measurement has been explored as part of the work on the non-observed economy.

The participants raised the following points in the discussion:

- We must be able to define the concept of corruption to be able to measure it. The mandate is not directly to deal with corruption or drug production, but with the flows generated by those activities. The goal is not to comprehensively understand corruption, but to identify the flows from those activities that can be considered as IFFs.
- We should ask what kinds of IFFs reduce the resources in a developing economy. In fact, SDG 16.4 is about domestic resource mobilisation. Not all IFFs reduce domestic resources, e.g. drug-related IFFs do not necessarily have such an impact.

- Another possible way to define the scope of IFFs is to identify IFFs that have damaging impacts. However, it may be difficult to define to whom.
- It may be better to describe the value chain that leads to IFFs and measure the different IFFs resulting from the chain, instead of trying to identify all corrupt activities as a separate item.
- The SDG indicator 16.5.1 on households and 16.5.2 on business relating to corruption also aim at building on national surveys, such as the victimization survey. It will be important to align work on SDG 16.4 with SDG 16.5.

Session 6. Putting the pieces together and conclusion

The session drew together the conclusions from the previous sessions in terms of data, sources and methods to estimate the various components of the SDG indicator 16.4.1. It also made conclusions on the next steps to be taken in the development of the SDG indicator methodology and the measurement of IFFs. The discussion was preceded by a presentation by Ms. J. Park (UNECE) on the global process related to the SDG indicator development.

The Inter-agency and Expert Group on SDG Indicators (IAEG-SDGs) has a framework for revising, replacing and adjusting SDG indicators, and reporting to United Nations Statistical Commission that approves the proposed methodologies. The IAEG-SDG is a country-led process with 28 countries represented by national statistical offices, with all other countries and other stakeholders as observers. The Statistical Commission endorsed the current set of SDG indicators as an initial set. The Tier classification refers to the statistical capacity to produce the indicator. SDG 16.4.1 is a Tier 3 indicator as there is no internationally agreed methodology. The custodian agencies (UNCTAD and UNODC) are expected to develop global metadata, including conceptualization and piloting of the indicator, and support countries in the production of statistics for the indicator. The methodology should be based on harmonising national statistics towards a global aggregate. The custodians will also submit input to the global SDG report annually. The importance of early and frequent briefings to the IAEG-SDGs was underlined, since Tier 3 indicators showing no progress may be replaced in 2020 or 2025. The reports should reflect the support of the custodian agencies and stakeholders.

The participants raised the following points in the discussion:

- The SDG indicators are there to support progress with sustainable development. Therefore, firstly, they must measure something that policies can change, and secondly, such changes in the indicator should lead to better outcomes for people.
- Statistical questions about what data are available, how can they be used, how to align them across countries will be central in future work. The SDG indicators were not selected only because there is data, but especially for their relevance.
- The 2030 Agenda does not require countries to report on all global indicators. Countries will identify subsets of indicators that are aligned to their national priorities.
- The pilot testing should be more than just looking at the availability of statistical data and capacities, it should also consider how the indicator works for the country. The questions to be considered in the pilot testing include: Is the indicator scientifically valid? Is it going help achieve policy targets? Is it something countries will try to implement?
- It may be possible to propose a split of one indicator to two as part of the refinement process, but the agencies should be careful not to suggest large changes as refinements. Any revisions would also not apply to the goals or targets themselves.
- There may be some areas countries do not want to measure, such as corruption and tax evasion. Therefore, having these as a part of a composite indicator may be a good compromise. The Statistical Commission decides about the indicator methodologies without political

considerations, but finally all indicators will need to go through the Economic and Social Council (ECOSOC) and the United Nations General Assembly.

- The corruption component still needs to be considered, but it seems it should not be considered as a separate type of IFFs, but as an integrated element of the measurement framework for IFFs.
- Participants noted that profit shifting should be considered misalignment of profits, especially questionable when there are no corresponding activities in the tax haven countries where profits are reported and taxed.
- We should take the most feasible approach going forward and start by looking at the taxonomy of IFFs and focus on what is already done for the measurement of IFFs. Considering the challenges, we need to be very open about the measurement constraints.

The organisers, UNCTAD, UNECA and UNODC, made the following points regarding further work:

- The network of experts involved in the two expert meetings representing the academia, central banks, statisticians, tax authorities, experts on corruption, crime and so on will be a valuable network for consultation in the future.
- UNCTAD and UNODC will aim at preparing a coordinated proposal on the methodology to measure the SDG indicator. Both custodian agencies participate in the IAEG-SDGs meetings.
- We have been tasked with providing a solid, feasible way to measure the SDG indicator 16.4.1. The IAEG-SDGs is a technical expert body free from political considerations, which helps to proceed with the methodology considerations.
- The development of the statistical methodology for the SDG indicator will be carried out by national statistical offices in a country-led project. The process will include a number of consultations with other stakeholders.
- Next steps should include: First, trying to estimate the different categories of IFFs. Second, looking for possible data sources for IFFs, e.g. national accounts, balance of payments, trade statistics etc. Third, developing a method to review the destinations of IFFs. The discussions need to continue towards the preliminary scope for IFFs, ideally by the end of the year.
- Pilot testing is planned to be carried out by UNODC in five countries of Latin America, and UNCTAD and UNECA with nine countries in Africa. These should be done in coordination.
- The SDG indicator process will lead to a report with a very brief analysis of each indicator, to be prepared by UNCTAD and UNODC. There will also be a separate Task Force that will produce an independent analysis of the SDGs for countries.

The organizers concluded the discussions of the expert meeting with regard to data, sources and methods for the measurement of IFFs as follows:

- Priority 1: The main ambition is to go to the IAEG-SDGs with a unified proposal on the methodology for the SDG indicator 16.4.1. This requires coordination between UNCTAD, UNODC and with UNECA regarding the pilot testing. We need to agree on the definition, concepts, scope and goals for the measurement.
- Priority 2: An important goal, beyond the SDG indicator, will be to develop a statistical framework to produce statistics for the measurement of IFFs, as part of the custodian agencies' support role to countries. This framework would report to the Statistical Commission the methodological progress shared in these expert meetings and the results of further work.

In view of these goals, the following next steps were discussed:

1. Brief the IAEG-SDGs about progress to date and further work plans by their meeting in November 2018.

2. Engage with national statistical offices. The topic is normally outside their expertise and beyond the topics that official statistics usually cover (as a Tier 3 indicator). National statistical offices will also need to engage with experts and stakeholders nationally when seeking data sources and discussing methodological proposals.
3. Refine the boundaries between each of the IFFs and agree tentatively on the concept for the pilot testing of IFFs. Start meetings with pilot countries early next year based on a tentative measurement framework that they can pilot test.
4. Continue discussions with stakeholders based on the pilot testing and consultations with national statistical offices on data availability and possible methodologies.

The experts agreed with the way forward, and the proposals for further indicator development. They noted that we need to be practical in the further work acknowledging that everything related to IFFs cannot be measured, but we need to agree on the tentative scope of IFFs. Work may start with a stepwise approach and with the measurement of some of IFFs, recognising that there are other elements to be measured and that further work is needed to develop more comprehensive methodologies and data sources.

List of participants

Surname	**First Name**	**Organisation**
Alatiyyah	Mahmoud	Permanent Mission of Iraq
Alemayehu Gutema	Dereje	Tax Justice Network - Africa
Andreoni	Antonio	SOAS University of London
Arispe	Itziar	UNICRI
Aziani	Alberto	Università Cattolica del Sacro Cuore and Transcrime
Bechev	Ilcho	Eurostat
Bisogno	Enrico	UNODC
Blankenburg	Stephanie	UNCTAD
Bokosi	Fanwell	African Forum and Network on Debt and Development
Buergi Bonanomi	Elisabeth	University of Bern
Camerini	Diana	UNODC
Cantu	Fernando	UNCTAD
Chowla	Peter	DESA
Cobham	Alexander	Tax Justice Network
Davis	William	ECA
Faccio	Tommaso	ICRICT
Flores Sierra	Salome	UNODC Center of Excellence
Giammatteo	Michele	Bank of Italy
Hassan	Ibtissam	Permanent Mission of Egypt
Ibrahim	Gamal	ECA
Jaimes	Oscar	INEGI, Mexico
Janský	Petr	Charles University, Prague and independent consultant
Kamprad	Alexander	UNODC
Khan	Ariz	Ashbourne College
Khan	Mushtaq	SOAS University of London
Kohonen	Matti	Christian Aid
Kozul-Wright	Richard	UNCTAD

Lepissier	Alice	University of California, Santa Barbara
MacFeely	Steve	UNCTAD
Marur	Siddhant	The Graduate Institute, Geneva
Mehrotra	Rahul	The Graduate Institute, Geneva
Mensah	Priscilla	Permanent Mission of the United Kingdom
Moore	Anne	OECD
Musselli	Irene	University of Bern
Nicolaou	Katerina	Kathy Nicolaou-Manias Consulting
Park	Jennifer	UNECE
Paudel	Bhuwan	Permanent Mission of Nepal
Peltola	Anu	UNCTAD
Picciotto	Solomon	International Centre for Tax and Development
Robin Cartwright	Robin	Global Initiative Against Transnational Organized Crime
Ryding	Tove	European Network on Debt and Development
Sallusti	Federico	ISTAT, Italy
Tørsløv	Thomas	University of Copenhagen
Vorobyeva	Yulia	UNICRI
Wier	Ludvig	University of Copenhagen