



UNCTAD- UNODC Task Force meeting on statistical methodologies for measuring illicit financial flows, 16-17 July 2019, Geneva

Concept note

Countries lose substantial resources through illicit financial flows (IFFs) according to current estimates. IFFs undermine the ability of countries to mobilize domestic resources for economic and social development. These flows differ across countries and regions, and may originate from several sources, such as illegal activities, tax avoidance, profit shifting, trade misinvoicing, corruption and other similar activities. IFFs undermine governance, hamper structural transformation and have the propensity to shape economic activity and political institutions.

These risks have been recognized in the 2030 Agenda for Sustainable Development, especially in target 16.4 of the Sustainable Development Goals (SDGs) to “*By 2030, significantly reduce illicit financial flows and arms flow, strengthen the recovery and return of stolen assets and combat all forms of organised crime*”. The Addis Ababa Action Agenda on financing for development also calls for redoubling of efforts to substantially reduce IFFs by 2030. The Action Agenda invites the “appropriate international institutions and regional organizations to publish estimates of the volume and composition of illicit financial flows”.

However, no globally-accepted methodology to monitor IFFs yet exists. UNCTAD and UNODC are custodians of the SDG indicator 16.4.1, *total value of inward and outward illicit financial flows*. Currently classified as a Tier III indicator, the methodology needs to be developed and agreed upon. The lack of an agreed conceptual or methodological framework to measure IFFs hinders progress on understanding how large these flows are, where they originate from and what consequences they have. The absence of reliable, objective information undermines the ability to tackle the problems caused by IFFs.

As custodian agencies of the SDG Indicator 16.4.1, UNODC and UNCTAD have developed a programme of coordinated actions to develop, review and test a statistical methodology to measure IFFs. The goal is to develop methodologies and guidelines that can be used at national and international level to estimate the SDG indicator and IFFs in general. As part of this program, a testing of the statistical measures will be conducted in selected countries in Latin America and Africa. The organizations held expert consultations in December 2017 and June 2018 to gather global expertise on IFFs and initiate a discussion on the scope and approaches for the measurement of the SDG indicator and IFFs in general. The upcoming Task Force meeting will build on the outcomes of the previous work carried out in the programme.

The meeting will bring together Task Force members to develop statistical definitions and methodologies in adherence with the Fundamental Principles of Official Statistics. The work builds on the expertise of the Task Force members representing different international organisations and government agencies, such as central banks, statistical offices, customs and tax authorities. The aim of the meeting is to gather expert knowledge to develop the statistical measurement framework on IFFs and prepare guidance for the compilation of statistics on IFFs, including the SDG indicator 16.4.1. Specifically, the meeting aims to:

- Develop statistical definitions and typologies for the measurement of IFFs from a developmental perspective.
- Take stock of available data for different agencies, other existing data sources and exchange relevant experience in data collection across organisations.
- Discuss methodologies to measure various types of IFFs and related phenomena to consider their feasibility for the measurement of the SDG indicator. These may include methods to measure illegal economic activities and related money flows, the grey economy, aggressive tax planning, tax gaps, trade misinvoicing, profit shifting, anti-money laundering etc.
- Plan and guide the upcoming pilot testing of the proposed data sources and initial methodologies for the measurement of IFFs.

The outcomes of the meeting will feed into a position paper to be finalised in fall 2019 for submission to the Inter-Agency and Expert Group on SDG indicators (IAEG-SDG). The paper will highlight the Task Force's proposal for statistical definitions for the measurement of indicator 16.4.1 and will summarise the results of previous consultations. In parallel, countries will pilot test potential methodologies and data sources to measure IFFs and the organizations will carry out consultations with users, researchers and policymakers on the proposed methodology. UNCTAD and UNODC expect to have a final proposal on the statistical definitions, data sources and methodologies, including the results of the pilot tests ready by the end of 2020.

Further activities are also planned to support extending the pilot implementation and the measurement of IFFs to countries across regions, and thus improve the possibility of targeted policy action to curb IFFs and related illegal activities.