DAC Network on Governance

ANTI-CORRUPTION TASK TEAM MEETING

Room Document 9: Concept Note - What does not get measured, does not get done? Expert meeting on the possibilities and limitations of methodologies to measure IFF.

7-8 October 2015 - OECD Conference Centre, Room CC6

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CONCEPT NOTE

What does not get measured, does not get done?
Expert meeting on the possibilities and limitations of methodologies to measure IFF

Summary: This concept note proposes the organisation of an expert meeting to present existing methodologies to measure Illicit Financial Flows and discuss challenges related to measuring the phenomenon. Given the call for international organisations to work on this topic, OECD offers its convening role to bring together those institutions and actors which could take the lead in taking forward work to improve existing methodologies or develop alternative ones.

Background:

Illicit financial flows (IFFs) strip resources that could finance development in poor countries. The phenomenon has become part of the global development debate in the mid-2000 and is integrated into the Sustainable Development Goals process, as a target under goal 16. To show progress in reducing IFF, which will be required pending SDG approval, countries will need to identify a baseline against which to measure the results of their efforts -- and a method to generate this baseline and conduct subsequent monitoring. However, despite a general consensus that IFFs are likely to exceed aid flows and inward investment, there is still disagreement on the existing methodologies to measure its global and national volumes.

Imprecision around the science of measuring the costs of criminal activity is a long standing problem. Figures and research have consistently been expressed in a cautionary manner, long before the expression ‘illicit financial flows’ became familiar to the development community. In the recent debate around IFF measurement, concerns have been raised regarding aspects of scope and data of methodologies. The following list is non exhaustive but describes some of the caveats:

On data:
- measuring the size of illicit activity relying exclusively on quantitative data is bound to be fraught with problems, given poorly recorded statistics. Even for developed countries, figures and estimates are judged cautiously (Borgers and Moors 2007);
- basing estimates on assumptions (for example, that net errors in the balance of payments of a country are synonym with illicit financial flows) may over state the problem;

1 This concept note understands IFF as including financial resources generated by any of the following practices: money laundering, bribery, commercial and personal tax evasion, trade mispricing, as well as criminal activity (OECD 2014).
2 Different institutions have proposed different methods or combinations of methodologies. Some economists base their methodologies around the World Bank Residual Model, the Hot Money Model, Gravity Model, rely on data collected by IMF Direction of Trade Statistics or generate estimates based on expert interviews (for a few explanations on different choices of methodologies see UNECA 2015; GFI no date; Levi et al 2013; Ferweda et al 2011; Ndikumana and Boyce 2008; Unger 2007; Baker 2005).
3 Literature in the area of costs of crime has been available since the early 20th century (Smith 1901 cited in Czabanski 2008, Gray 1979), as governments tried to estimate costs of crime, which can be divided in the cost of crime itself, costs of society’s response to crime and precautionary expenditures.
- relying on seizures of certain goods to generate estimates describes only a fraction of the whole amount of goods circulating – and possible loss of tax revenue in the case of taxable goods.

On scope:
- no single IFF measurement methodology so far provides a global figure of the full range of activities that can generate IFF (commercial and individual tax evasion, embezzlement of public funds, criminal activities, activities on the border between legal and illegal, bribery payments abroad, trade mispricing…). Therefore, there may be a disconnect between what current methods can offer and the expectations about measuring the full array of IFFs;
- illicit activities are by nature conducted in hiding and in many cases outside or at the margins of the formal economy. Therefore methodologies that rely on official data capture only part of the picture. This means leaving out many types of activities that also generate IFF;
- in many developing countries, financial transactions take place mostly in cash (this includes even relatively large deals such as purchasing property, a common way of laundering illicit funds). Therefore, an unknown portion of illicit funds in circulation may not be captured in official statistics;
- although financial loss is the most discussed consequence of IFF and the focus of several methodologies, the phenomenon has other significant consequences, many of value difficult to express in monetary terms (deterioration of governance, instability, reduced state legitimacy, etc). Ignoring these non-tangible impacts reduces the problem of IFF to a mere loss of financial resources and leads to suggestions of reform that may be myopic.

Nonetheless, the SDGs underlines the reasons for attempting to measure IFF as it is the case for measuring crime in general: one reason is to show the relative importance of this crime compared to others in a particular country. This leads to the second reason: measuring may help prioritize public action to reduce the crime (Czabanski 2008). Finally, a pragmatic reason connected to the SDGs discussion is that expressing IFF in figures is a way to show progress in fighting this crime. The OECD seeks to profile the causes and responses to IFF through its research work including a forthcoming report focusing on IFF coming out of illicit trade activities in West Africa. The OECD is therefore interested in facilitating a discussion among those institutions who could play a role on measurement.

Meeting on IFF measurement:

The request for measuring the size of the problem has been placed on the international agenda and a call for countries to assess the size of their problem appears in the Addis Ababa Agenda for Action.4 Within this context, the OECD proposes to organise an informal expert meeting to discuss the possibilities and limitations of existing methodologies to measure IFF. The proposed meeting would bring together stakeholders interested in these measurement challenges. The OECD does not intend to develop a new methodology neither to advance any specific method as the preferred or most appropriate, but it is interested in facilitating a conversation among experts who could work on this topic.

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4 Proposed Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels. Target 4 under this goal states that countries will strive “By 2030, [to] significantly reduce illicit nancial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime”. The Addis Agenda for Action calls countries to engage in attempts to measure the size of their IFF problem. See paragraph 24 of the Action Agenda document (http://www.un.org/ga/search/view_doc.asp?symbol=A/CONF.227/L.1)
The discussion will help clarify possibilities; enabling parties to engage in improving existing methodologies or develop alternative ones. The meeting also intends to be a contribution to advancing the work towards SDGs implantation by providing a forum for discussion to actors which will be called to support implementation – and measurement of progress – on goal 16.

**Objectives of the meeting:**

1. To understand the possibilities and limitations of existing methodologies on IFF;
2. To share lessons learned in applying such methodologies in specific countries or regions;
3. To discuss how to report progress on SDG 16 in order to show the diversity of activities that form the IFF phenomenon and the diversity of impacts IFF may have on a developing country.

**Audience:**
The meeting expects to gather a small group of experts from international development agencies, multilateral banks and independent researchers and organisations with an interest on this topic. Possible organisations and individuals to be invited include: IMF, World Bank, Global Financial Integrity, High Level Panel on Illicit Financial Flows from Africa, Brigitte Unger and Jonas Ferweda (Utrecht University), Michael Levi (Cardiff University), Peter Reuter (University of Maryland), James Boyce and Leonce Ndikumana (University of Massachusetts – Amherst), Friedrich Schneider, Konrad Raczkowski and Jacek Czabanski (Warsaw University), Gabriel Zucman (London School of Economics) and Piotr Stryszowski (OECD-GOV), Stuart Yikona (World Bank). Some of the OECD-DAC member agencies may wish to attend the meeting.

**Date:** 1 day meeting  
**Location:** to be defined (Paris)

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5 This is a non-exhaustive list of researchers that have worked on measuring the costs of different types of crime.

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Session 4

The SDGs process

This session would close the meeting with an open discussion about the implications of showing progress on SDGs 16 in light of available methodologies.

Reference


Unger (2007), *The scale and impacts of money laundering*, Edward Elgar Publishing Limited, Cheltenham, UK

