



Request for research proposals

# Detecting and countering illicit financial flows

## Background

Illicit financial flows (IFFs) constitute a major development challenge for countries in the Global South. While tax revenue relative to GDP has increased, they remain low compared to high-income countries; see Addison, Niño-Zarazúa, and Pirttilä (2018); World Bank (2020). Without adequate revenue to spend, states are limited in providing crucial public services such as education, healthcare, and infrastructure. Second, IFFs are inherently associated with international transactions, potentially resulting in unfair competition for domestic firms and severe misallocation of resources. Third, hiding of wealth is foremost done by the richest households, thereby increasing inequality in society; see Alstadsæter, Johannesen, and Zucman (2019). Fourth, perceptions about other people evading (complying with) taxes may create a circle of reduced (increased) tax compliance; Alm, Bloomquist, and McKee (2017); Hallsworth et al. (2017).

United Nations University World Institute for Development Economics (UNU-WIDER) together with the Department of Economics at the University of Copenhagen, with the generous support of the Norwegian Agency for Development Cooperation (Norad), is pursuing a research project on [Detecting and Countering Illicit Financial Flows](#). The project is led by [Niels Johannesen](#) and [Finn Tarp](#) of the University of Copenhagen supported by postdoc [Kasper Brandt](#). It seeks to address the challenge of illicit financial flows by investigating the magnitude of these flows, the channels through which they flow, and the policy responses that may dampen the flows. The aim is to expand the research frontier and provide knowledge for the governments of developing countries in support of policies which will increase revenue collection.

Examples of potential research topics include, but are not limited to:

- Profit-shifting behaviour of multinational enterprises (MNEs) in low- and middle-income countries.
- Optimal taxation policy of MNEs dependent on the capacity of tax authorities.
- Impacts on tax collection in low- and middle-income countries from both internal and external anti-IFF policies, such as thin-capitalization rules, documentation requirements, controlled foreign corporation rules, mandatory disclosure of tax payments, and cross-border information exchange agreements.

- Capacity of tax authorities and its impact on tax collection. In particular, how can technical assistance best support sustainable development of sound tax authorities?
- Related to the capacity of tax authorities, how does increased risk of audit affect tax payments in low-income countries? Do deterrence letters work as evidence suggests in middle- and high-income countries; Slemrod, Blumenthal, and Christian (2001); Kleven et al. 2011; Pomeranz (2015); Brockmeyer et al. (2019)? In particular, does addressing specific tax evasion channels and increased risk of audit change firm or individual behavior?
- Rent-seeking by government officials or politically-connected persons.
- Studying the role of the financial sector in facilitating and detecting IFFs.
- The effects of taxes; e.g., wealth taxes, on IFFs.
- Break down discrepancies between import and export prices into shipping and insurance costs and unexplained (potentially IFFs) differences. As of now, people outside academia assume discrepancies are homogenous independent of product type, shipping mode, and distance.
- Extractive Industries (oil & gas, mining): tax evasion and avoidance by MNEs. Smuggling of precious metals and gemstones (including from artisanal mines).
- Developing new methods for measuring extent of IFFs.
- Other IFFs not directly related to tax collection, such as the drug industry, trafficking, financing of terrorism, money laundering, and corruption. For instance, studying adherence to FATF guidelines against money laundering and terrorist financing.

## Offer and expectations

UNU-WIDER invites proposals from qualified researchers for papers examining the challenge of illicit financial flows. The aim is that these papers will be published in high-quality journals after publication in the WIDER Working paper series. The papers need to be written in English, and should be limited to 10,000 words maximum inclusive of everything (text, tables, figures, footnotes, references).

Proposals from individuals (or groups of individuals) as well as non-profit organizations are welcome. Applications from suitably-qualified women and developing country researchers are particularly encouraged. Proposals may address one or more of the research questions.

Individual researchers will be issued UNU Consultant Contracts (CTC), while non-profit organizations will be issued a UNU Institutional Contractual Agreements (ICA). A total research honorarium in the range of US\$10,000 will be paid upon delivery of a working paper and a one-page summary of the main research findings<sup>1</sup>. The deliverables must be deemed of an acceptable standard by the project co-ordinators before payment will be made. The honorarium is expected to cover all expenses associated with the conduct of the proposed research (including data collection, research assistance, etc.). It is not required to submit a budget.

After payment has been made, researchers may be asked to respond to reasonable requests by the project co-ordinators and UNU-WIDER Publication Team with respect to finalization of the working papers/publications.

All successful applicants are expected to attend a 1-2 day workshop in 2022 (date and venue TBD) where the results will be presented and discussed. Costs of attending this workshop will be borne by UNU-WIDER in accordance with United Nations University travel policy.

<sup>1</sup>In cases of co-authorship the honorarium will be divided equally among the contributors.

## Dates (Eastern European Time – EET)

14 January 2021	Announcement posted.
1 March 2021	Final opportunity for questions on the request for research proposals.
15 March 2021	Proposals due.
31 March 2021	Target date for informing on funding decisions.
30 April 2021	Target date for completion of necessary administrative procedures.
30 July 2021	Target date for submission of first drafts of papers.
15 November 2021	Target date for submission of final papers

## Evaluation process and criteria

Each proposal will be reviewed for scientific merit and feasibility. The final selection of proposed research projects is made in consultation with Niels Johannesen and Finn Tarp. Only the final decision on whether to fund the proposal or not will be communicated to applying researchers. Applicants must not expect feedback on their proposals. Researchers whose proposals are selected for support are expected to participate in a meeting on illicit financial flows, scheduled for 2022.

## Other considerations

For successful proposals:

1. Researchers or their institutions (non-profit) will sign a consultant contract or an institutional contractual agreement with UNU-WIDER that follows the UNU conditions of service for Consultant Contracts (CTC), or Institutional Contractual Agreements (ICA).
2. Researchers/institutions will transfer copyright of research produced under the contract to UNU-WIDER. The purpose of this copyright transfer is to allow UNU-WIDER to effectively negotiate with editors of journals in order to seek the most desirable possible publication outlet for a related set of papers. If no (further) publication is to be expected by UNU-WIDER, the copyright can be transferred to the author(s).

## Proposal submission details

1. Proposals should be succinct and no more than five pages (single-spaced, font size 12), everything included. Each proposal should describe: (1) the proposed research question; (2) the data and methods to be used; (3) the intended research team; and (4) any financial or other conflict of interest of the research team that may affect the proposed work. The cover page should contain the complete contact information of researcher(s) and a 200-word proposal abstract, which should summarize the research question, main method, data, and expected contribution to policy debate.
2. Submission of proposals is done electronically by using a form on the RFRP announcement page. There are three forms to select from: one for individuals, another for groups of individuals, and a third for non-profit organizations. Details (such as address, gender, nationality, date

of birth) of all researchers involved is to be entered onto the form and the cover page, the proposal, and short CVs (five pages or less) of researcher/s uploaded. Please familiarize yourself with the form in advance.

3. Submission of a budget is not required for the proposal.
4. Any questions on the proposal process should be sent to [researchproposal@wider.unu.edu](mailto:researchproposal@wider.unu.edu) by 1 March 2021. All queries and responses will be published on the [RFRP announcement page](#). Selected answers will be updated on a rolling basis.

## References

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