

2025 Progress Report and 2026 Work Plan
ICA dated 17 December 2024 for UCPH-DERG DRM - Cross border
Taxation Project

1. Introduction

The Institutional Contractual Agreement (ICA) for the above project forms part of the work conducted during 2025-27 under the UNU-WIDER DRM Phase II Tax and Governance theme, funded by Norad. This reflects that under the DRM Phase II, UNU-WIDER aims to build a portfolio of research on cross-border taxation together with its long-term institutional partner, the University of Copenhagen Development Economics Research Group (UCPH-DERG). The work takes as its point of departure that the challenge of illicit financial flows (IFFs) has become even more acute than ever before, and that comprehensive policy action on domestic resource mobilisation (DRM) is called for at both national and international levels.

The work area of the project builds on the research conducted under DRM Phase I as well as incorporates recommendations from the DRM Phase I medium-term review (MTR) to expand research methods to include experimental methods. RCTs are a promising tool to evaluate a variety of policies in the space of cross-border flows across a range of countries. Moreover, exploratory work on cross-border traders by UCPH-DERG highlights that the decision to cross borders unofficially is often driven by an overestimation of the costs of trading officially (e.g., financial costs, inefficient bureaucracy, unnecessary checks, security issues), relative to the costs of trading unofficially.

Accordingly, UCPH-DERG will conduct two studies under this ICA employing experimental techniques. In addition, a second area of work includes two studies on cross-border financial flows that rely on data development and econometric data analyses, making the total number of studies four as listed and discussed below.

The work is conducted under the overall supervision of the UNU-WIDER Director, and the UCPH-DERG work is coordinated by Professor Finn Tarp, who holds the role of UNU-WIDER Non-Resident Senior Research Fellow (NRSRF). Over the three years of the project the following four studies will be conducted:¹

- (i) *International migration and cross-border financial flows (study 1)*: This research will use a gravity model to examine the influence of migration on both

¹ Please note studies have been renumbered as compared to the concept note to be in line with the agreed timeline for the deliverables.

formal and informal financial flows. It will investigate whether migration reduces informational frictions and how this impacts illicit financial flows, providing policymakers with insights into the interplay between migration and financial transparency.

- (ii) *Benchmarking traders' surveys with official data (study 2)*: This research involves collecting official trade data from border points to compare with traders' perceptions. By benchmarking these perceptions, the study aims to identify gaps and misconceptions in the costs of formal and informal trading, which may encourage traders to favour formal channels.
- (iii) *Studying the bargaining power of corrupt officials (study 3)*: Using decoy traders, this research explores the extent to which corruption among border officials deters formal trading. Decoy traders will interact with border officials, refusing bribes to assess officials' willingness to negotiate bribes. The study will provide insights into the bargaining dynamics at borders and suggest anti-corruption measures to improve transparency and fairness in cross-border trade.
- (iv) *Luxury goods and cross-border financial flows (study 4)*: By analysing trade data on luxury imports, this research will aim to detect patterns of illicit financial flows, particularly linked to corruption. Anomalies in luxury imports, such as surges potentially associated with exogenous changes in aid inflows, political events or commodity price booms, will be considered as indicators of hidden wealth. The study will offer tools for monitoring and controlling financial flows through luxury goods.

Furthermore, UCPH-DERG will as per the agreed ICA engage with the UNU-WIDER Knowledge Mobilization Unit to ensure research findings will be translated into concrete policy-bridging outputs and activities to allow for engagement in broader academic and policy discussions.

2. Progress in 2025

As a first step in 2025, the following UCPH-DERG staff were directly engaged in the proposed research programme:

- Professor Finn Tarp (responsible for study 4)
- Professor John Rand (responsible for study 1)
- Associate Professor Paolo Falco (responsible for studies 2 and 3)

The team started work on the four studies in early 2025 in a staged manner and in addition has been mobilising their respective networks in support of the proposed set of activities. They have included starting up the compilation of necessary data, planning of the implementation of field experiments, with a view to subsequent analysis, as well as networking.

Specific progress to be noted includes:

- Work on **study 1** on International Migration and Cross-Border Illicit Financial Flows, has included that literature has been reviewed, noting that papers linking migration to illicit financial flows remain largely absent, substantiating the rationale for paper 1. There is a robust empirical literature documenting the positive association between migration and formal financial flows, particularly FDI. There is also a growing body of evidence that FDI statistics can serve as a proxy for illicit financial flows, with phantom FDI capturing hidden profit-shifting activity. Yet, whether and how these two literatures intersect has not been systematically examined. Although adjacent studies point to potential mechanisms through which migration can facilitate illicit capital flows, rigorous empirical evidence is lacking. The aim of paper 1 is to address this gap.

Data was collected during 2025 and to measure whether migration flows affect illicit financial flows, the project lead combines data from multiple sources. Migration is measured using the United Nations International Migrant Stock dataset. For illicit financial flows, the concept of Phantom FDI is applied as proposed by Damgaard and co-authors in 2019. To strengthen this approach, a new 2025 bilateral FDI dataset by Kox, which corrects systematic measurement errors in official FDI statistics, is brought into use. Robustness is also being checked comparing the method of measuring IFFs in paper 1 with an alternative 2022 approach by Tørsløv and co-authors. The work on estimating the gravity models, and work on a shift-share instrument addressing the endogeneity concerns faced has also been started. A fully elaborated working paper will be submitted to the UNU-WIDER working paper series before the end of 2025.

- Work on **study 2** Benchmarking traders' surveys with official data, the exploratory work referred to above has gathered useful initial data on the perceptions of cross-border traders. However, to attain a more complete picture and a sound basis for publishable analytical work, plans are being elaborated to devote resources to gather comprehensive official government data from the border points. This will entail reaching out to the Kenya Revenue Authority (KRA) and collaborate in a comprehensive data-gathering exercise, which goes beyond the current capacity of the Authority and will require direct involvement from the research team.

The objective is to benchmark traders' perceptions with official data, and produce a rich analysis of the gaps between perceptions and reality. Importantly, this work will also allow investigating discrepancies between official reports of cross-border revenue and traders' reported payments, significantly improving existing estimates of the revenue loss for the tax authority.

- Work on **study 3** Studying the bargaining power of corrupt officials has in 2025 included literature studies taking as a starting point that a major factor influencing the choice of a trader to trade formally (via the official border) or informally (via the unofficial border) is the expectation of interacting with border officers, who have the power to extract bribes and potentially harass traders. However, little evidence is available on the true extent of this problem. This is because biases in self-reporting and endogenous selection of traders make analyses based on observational data unreliable.

Building on studies that make use of decoy visits to test the functioning of organisations (e.g., mystery shoppers, decoy visits to the police), the study lead will employ decoy traders, who will receive instructions to go across the border with a fixed bundle of goods, and we will carefully study their interaction with border officials.

- Work on **study 4** Luxury goods and cross-border financial flows, has included initial literature reviews and data exploration. The idea is that by analysing trade data on luxury imports, this research will be able to detect patterns of illicit financial flows, particularly linked to corruption. Anomalies in luxury imports, such as surges potentially associated with exogenous changes in aid inflows, political events or commodity price booms, will be considered as indicators of hidden wealth.

The study will offer tools for monitoring and controlling financial flows through luxury goods. Attached herewith is an annex to illustrate some of the exploratory work conducted so far and an excel file with the literature surveyed so far. In addition, time has been used to explore the content of [The Atlas of Economic Complexity](#) data and how to manage and extract the data required for study 4.

- Finally, the project lead has co-authored (with Professor Nadine Riedel) a **UNU-WIDER Policy brief** as follows: [UNU-WIDER : Policy Brief : Tackling profit shifting in low- and middle-income countries](#). This is in line with the objective that UCPH-DERG will collaborate throughout with the UNU-WIDER communications team to translate research findings into concrete policy-bridging outputs.

3. 2026 work plan

The 2026 work plan closely reflects the progress realised in 2025 as follows:

- **Study 1:** the working paper delivered before the end of 2025 is scheduled to be published as a WIDER working paper in early 2026 and will then be submitted for journal publication. Presentations at relevant workshops and conferences will also be pursued, and eventually a policy brief will be prepared.
- **Study 2:** The team is in contact with the Kenya Revenue Authority and is seeking to gather data on the official costs of cross-border trade. This will feed into a comparative analysis that matches traders' perceived and experienced costs from the team's surveys with official figures, enabling the planned analysis. A working paper will be submitted to UNU-WIDER by the end of 2026.
- **Study 3:** The team is designing the experimental activity that will form the basis of the planned analysis. The design will be ready by the end of 2026. The experimental activity will be conducted in early 2027. A working paper will be submitted to UNU-WIDER by the end of 2027.
- **Study 4:** By the end of 2025, the various definitions for the study and the complete conceptual basis will be ready, so work in 2026 will be focused on data development based on UN Comtrade data and other relevant sources. The plan is also to start up the empirical analysis, with exact timing depending on the extent of the data development challenge. The final working paper is to be submitted to UNU-WIDER in 2027.

Finally, it is foreseen that one or two policy briefs will be developed together with the UNU-WIDER Communications team on general topics related to illicit financial flows (IFFs).

4. Concluding remarks

The steps involved in the publication process include preparing studies to the WIDER working paper series before proceeding to journal submission. In addition, the team will present the work in relevant academic and policy-making fora both at global, regional, and national levels, including UNU-WIDER events as appropriate as part of outreach and dissemination to maximize research impact.

Luxury goods and cross-border financial flows

Literature and definitions

UNIVERSITY OF COPENHAGEN

UNIVERSITY OF COPENHAGEN

20/10/2025 2

Luxury goods – Definitions

- Many authors start with referencing Veblen (1899) and conspicuous consumption, luxury goods as a status symbol and a way to signal wealth
- **Single item** – e.g. **wristwatches** (Lan & Li, 2018), **luxury cars** (Gokcekus & Suzuki, 2014), **champagne** (Gokcekus, 2025)
- **Categories** – e.g. Tajaddini & Gholipour (2018), Qian & Wen (2015), Arezki, Nguyen & van der Ploeg (2025), Transparency International, Ray & Vatan (2013), Martin & Mayneris (2013) D'Arpizio, Levato, Steiner & Montgolfier (2024)
 - Designer apparel / clothing + leather goods / fur and skin
 - Wines, champagne, spirits
 - Electronic gadgets (Tajaddini & Gholipour, 2018)
 - Jewellery / precious metal and jewels
 - Watches
 - Cigars / tobacco
 - Real-estate (Transparency International, 2017)
 - Travel goods (Tajaddini & Gholipour, 2018)
 - Writing instruments and stationery (Tajaddini & Gholipour, 2018)
 - Beauty and personal care
 - Art
 - Vehicles – cars, yachts, jets
 - Furniture
 - Luxury hospitality / cruises (D'Arpizio, Levato, Steiner & Montgolfier, 2024)

Luxury goods - Measurement

- **UN ComTrade** – 4- or 6-digit HS codes
 - Multiple authors, some example lists available (e.g. single item / categories)
 - Example: 9 categories where: "A given product at the 6 -digit code level is identified as a luxury if it is in the **top 40%** of the highest **average value per unit** for every unit in which it is available, within a luxury category." (Arezki, Nguyen & van der Ploeg, 2025)
- **Euromonitor International** (Tajaddini & Gholipour, 2018)
 - Super premium brands (in specific categories), top of the price range and mostly sold through high-end department stores
- **French customs data** – firm-product-destination (Martin & Mayneris, 2013; Ray & Vatan, 2013)
 - List of French luxury brands (from Comité Colbert) and main competition
 - Firm considered high-end variety exporter if 85% of the value of exports corresponds to high-end variety exports

	...
Cosmetics	330410 - Cosmetic and toilet preparations; lip make-up 330491 - Cosmetic and toilet preparations; powders, whether or not compressed (excluding lip, eye, manicure or pedicure preparations) 330710 - Perfumery, cosmetic or toilet preparations; pre-shave, shaving or after-shave preparations ...
Furnitures	940569 - Luminaires; illuminated signs, illuminated name-plates and the like, designed for other than use solely with light-emitting diode (LED) light sources 940549 - Luminaires and light fittings; electric, designed for other than use solely with light-emitting diode (LED) light sources 940149 - Seats; convertible into beds of other than wood, other than garden seats or camping equipment ...
Precious stones and Jewellery	711021 - Metals; palladium, unwrought or in powder form 711041 - Metals; iridium, osmium, ruthenium, unwrought or in powder form 711011 - Metals; platinum, unwrought or in powder form ...
Leather, Fur and Skins	420310 - Apparel; articles of apparel, of leather or of composition leather 430211 - Furskins; tanned or dressed, of mink, whole, with or without head, tail or paws, not assembled 430310 - Furskin articles; apparel and clothing accessories ...
Vehicles	870422 - Vehicles; with only compression-ignition internal combustion piston engine (diesel or semi-diesel), for transport of goods, (of a g.v.w. exceeding 5 tonnes but not exceeding 20 tonnes), n.e.c. in item no 8704.1 870540 - Vehicles; concrete-mixer lorries

Arezki, Nguyen & van der Ploeg (2025)

Types of inflows / variance

- **Inflows :**
 - Aid (dependence)
 - Commodity windfalls / export prices
 - Capital on:
 - Imports of capital goods: FDI, portfolio & other debt inflows (Fidrmuc, Gaibulloev, Mirzaei & Moore, 2024)
 - Real exchange rate and economic growth: Aid, FDI, remittances, portfolio and other (Combes, Kinda, Ouedraogo & Plane, 2019)
- **Variance :**
 - Political institutions / electoral cycles / timing of leadership transitions
 - Corruption / Corruption control
 - Distance
 - Income levels / inequality
 - Economical shocks / crises
 - Tax rates / tariffs