International Cooperation in Combating Illicit Financial Flows

UN ECOSOC Special Meeting on International Cooperation in Tax Matters

ECOSOC Chamber, 7 April 2017

Issues

- Are there disagreements about the definition of IFFs?
- Is a consensus on the definition of IFFs necessary?
- Who benefits from the status quo?
- Policy: Capitalizing on gains and leveraging momentum

Various definitions of IFFs

UN: (2016): IFFs are “the proceeds of commercial tax evasion, revenues from criminal activities, and public corruption.” (UN, 2016(2)

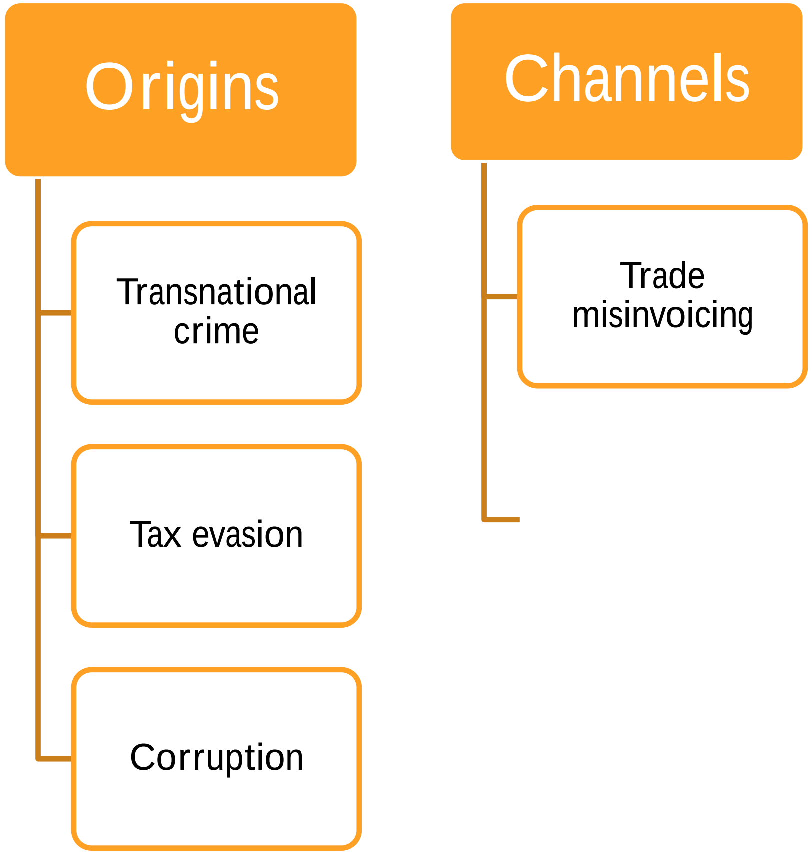
The High Level Panel on Illicit Financial Flows from Africa (2015) and GFI: IFFs as “money illegally earned, transferred or used”

The European Parliament (2015): IFFs are “all unrecorded private financial outflows involving capital that is illegally earned, transferred or utilized”

OECD (2013): IFFs are “a set of methods and practices aimed at transferring financial capital out of a country in contravention of national or international laws.”

World Bank (2016): IFFs “Now generally refers to cross-border movement of capital associated with illegal activity or more explicitly, money that is illegally earned, transferred or used that crosses borders.

Channels of IFFs



On global consensus on IFFs

- Conceptually, there is broad agreement on what constitutes IFFs
  - All definitions converge on IFFs characterized as:
    - Cross-border flows
    - Flows that violate the law per origin (acquisition), transfer, and use (concealment, financing of illegal activities, …)
  - There are some exceptions: For example, whether “Tax Avoidance” is/should be considered as IFFs
- Key reason of lack of consensus is diversity in focus: ***the Story of the Elephant and the Blind Men***
  - On which ‘post’ is the light shining: Type of activity (i.e., predicate crime); operator; motive; legality; morality; justice; fairness; impact/opportunity costs?

- **Questions:**
  - Why is tax avoidance so contentious?
  - Who is the ‘constituency’ of tax avoidance?

On global consensus on IFFs (cont'd)

- Operationally, there is less agreement on how to measure IFFs
  - This is because of the multiplicity of mechanisms, channels, and activities that generate, facilitate, enable IFFs
  - Implication: it will take time to come up with a consensus broad measure of IFFs
  - However, progress can be made rapidly on measurement of specific components of IFFs; for example:
    - IFFs through trade misinvoicing
    - IFFs through transfer mispricing
    - IFFs through embezzlement of public external debt
- There is no need for comprehensive operational consensus before we can move forward the agenda of combating IFFs

Policy implications

- **Incremental approach**: "Managing expectations"
  - Pursue quick wins
  - Identify short-term vs. long-term goals
- **Disaggregated approach:**
  - Sectoral policies
  - Tax system – national and international levels
    - Combatting tax evasion by MNCs. E.g., Make MNCs pay tax where their economic activity takes place – locatio-based taxation.
    - Prevent tax arbitrage by MNCs by strengthening tax cooperation, increasing transparency in international trade and finance statistics and fostering exchange of tax information

Policy (cont'd)

- **Consensus building:**
  - Capitalizing on gains and leveraging existing momentum
  - National level: The State, Civil Society, Private Sector
    - Inducing tax compliance
    - Capacity building in taxation, financial intelligence, management of the extractives sector
  - International level: cooperation and coordination of bilateral and multilateral efforts
    - Automatic exchange of tax information
    - Automatic exchange of financial accoun.040 0 21-16 (0 scn/0 scnr2 ( )0