Panel discussion 2 – Combating illicit financial flows: How to improve collaboration?

2-4 July, Berlin/Germany

Day 1, 16:45 – 17:55

Background

The inclusion of Illicit Financial Flows (IFFs) as part of the Sustainable Development Goals (SDGs) has played an important role in elevating the importance of IFFs on the international development agenda. Most notably, goal 16, target 16.4 requires significant reduction in illicit financial and arms flows, strengthening of the recovery and return of stolen assets and combating of all forms of organized crime.

While many developing countries have stepped up their efforts to mobilise their domestic revenues, **tax-motivated illicit financial flows (IFFs) continue to undermine their domestic revenue mobilisation (DRM) endeavors in considerable ways**.[1] The rising concerns of IFFs on the international development agenda can be attributed to various events: The findings of the report from the High-Level Panel on Illicit Financial Flows from Africa revealed that the loss of public revenue from Africa due to IFFs amounts to at least $30 billion to $60 billion a year. According to the report, commercial or business activities accounts for 65% of illicit outflows, followed by criminal activities, which account for 30% of IFFs and corruption practices whose share of IFFs is 5%. Corrupt practices in Africa are also said to facilitate other types of outflows. According to a report by United Nations Economic Commission for Africa (UNECA), IFFs from Africa are seen more pronounced in a few sectors, namely the **extractive and mining industries**, with mispricing and smuggling of oil, precious metals and minerals, ores, copper, iron and steel contributing to major illicit flow.

IFF include revenues from activities as wide as organised crime, tax evasion, fraud in international trade, money laundering, international bribery and corruption. Each dollar leaving one country ends up in another, giving these flows a **clear cross-border dimension**. Thus, while money is made by illicit means in a given country, it is then often laundered and reinvested in the legal economic cycle of another. More often than not, the destination of these flows is a developed economy.[2]

The issue of how to tackle IFFs is a complex subject matter. Different types of IFFs have a different range of impacts, with numerous policy factors and incentives affecting their existence. Among other things, **flaws in the design or the implementation of international agreements/standards** are increasingly seen as part of the problem in partner countries. These indeed often prove ineffective in preventing fraud such as trade mispricing or misinvoicing. This issue is particularly difficult to overcome as developing countries often only face a constrained choice between adopting international standards wholesale, adopting them in simplified form, or waiting until they have the capacity to implement them well. At the same time, some argue that

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1 Thus, the High Level Panel on Illicit Financial Flows (IFF) under the leadership of Thabo Mbeki estimated in 2015 that at least $50 billion illicit gains are leaving Africa every year, the equivalent of the Gross Domestic Product of an economy of the size of Kenya. Please refer to https://www.uneca.org/sites/default/files/PublicationFiles/iff_main_report_26feb_en.pdf for more information. Research indeed suggests that about 45% of illicit flows end up in offshore havens while 55% are invested in industrialised countries. See Luckystar Miyandazi and Martin Ronceray, 2018, Understanding illicit financial flows and efforts to combat them in Europe and Africa, June, ECDPM Discussion Paper No. 227

improving policy coherence in developed economies could also contribute to better outcomes in tackling IFFs.

How to square the circle between the need to ensure compatibility and coordination and the demand for tailored solutions? How could existing international tax tools and processes be reformed to more effectively tackle tax motivated illicit flows? What reforms (building administrative capacity, creating new platforms for exchange, etc.) are most critically needed by partner countries to achieve this?

The panel will focus on identifying fields of action for international cooperation to strengthen the commitment of addressing IFFs, and what role the Addis Tax Initiative could play in enabling this process after 2020.

Intended outcomes

- Ways in which IFFs can form an additional area of untapped revenue and possible areas of collaborative efforts to tackle IFFs are identified;
- Reform options for stepping up the fight against IFFs in developing countries have been suggested and best practices presented;
- The possible role of the ATI post-2020 in supporting these efforts has been discussed.

Moderator

Monika Jones

Speakers

1. Patrick CHEGE, Chief Manager, International Tax Office, Kenya Revenue Authority
2. Eric MENSAH, Assistant Commissioner in charge of Legal Affairs and International Taxation Agreements, GRA Ghana
3. Joseph STEAD, Senior Policy Analyst, Centre for Tax Policy and Administration, OECD
4. Tom CARDOMONE, President and CEO, Global Finance Integrity (GFI)

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