### 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

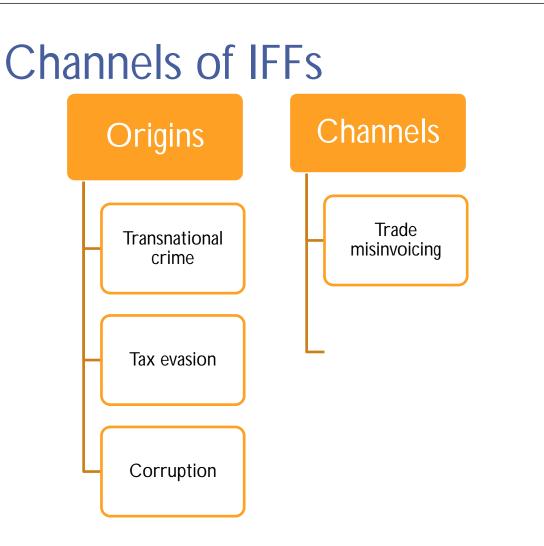
### Various definitions of IFFs

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.



### 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 ())