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ESCWA



CONFERENCE ON

# FINANCING SUSTAINABLE DEVELOPMENT

CURBING ILLICIT FINANCIAL FLOWS

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Beirut, 28-29 November 2018

FINANCING FOR DEVELOPMENT OFFICE

ECONOMIC DEVELOPMENT & INTEGRATION DIVISION

**FINANCING FOR DEVELOPMENT OFFICE**  
ECONOMIC DEVELOPMENT & INTEGRATION DIVISION

# FINANCING IS THE BLOODLINE OF THE 2030 AGENDA

Yet, no price-tag can be placed on the inalienable right to aspire for a life of dignity  
and all-round sustainable development

| Anonymous |

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Printed at ESCWA, Beirut.

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Keywords: 2030 Agenda on Sustainable Development, Sustainable Development Goals, Financing for Development, Domestic Resource Mobilization, International and Domestic Private Finance, International Development Cooperation, Official Development Assistance, Multilateral Trade, Preferential Trade Arrangements, Regional Integration, Illicit Financial Flows, Trade Misinvoicing, Tax Evasion, Informal Economy, Trade-Based Money Laundering, Cryptocurrencies, Digitalization, Debt and Debt Sustainability.



# INTRODUCTION



The Conference on Financing Sustainable Development is a key regional milestone ahead of the High-level Dialogue on Financing for Development and the 2019 High-level Political Forum, to be held under the aegis of the United Nations General Assembly. The Conference is organized by the United Nations Economic and Social Commission for Western Asia (ESCWA) at the request of the Presidency of the G77 and China, and in response to several General Assembly resolutions on the promotion of international collaboration to achieve concrete financing for development outcomes and eliminate illicit financial flows by 2030.

The Conference takes cue from the recently launched United Nations Secretary-General Strategy on ‘Financing the 2030 Agenda for Sustainable Development (2018-2021)’. It seeks to trigger affirmative financing action by interrogating the conditions and conduits to conjure domestic, international, public, private, traditional and innovative financing solutions to propel the needed transition from ‘funding to financing (F2F)’ transformative change. It equally aims to map the landscape of measures to be deployed to combat Illicit financial flows (IFFs), especially at a time when these flows are evolving, both in scale and sophistication, undermining national efforts to finance sustainable development. In line with that Strategy, the Conference will attempt to formulate such solutions, tailored to the Arab region in a unique multi-stakeholder setting.

The Conference capitalizes on the wealth of experience that can be generated through the cross-fertilization of practices, expertise and ideas to mobilize the trillions needed to uphold the principle of ‘leaving no one behind’. No Sustainable Development Goal will be deemed satisfied unless met by all and for all. It remains the collective responsibility of all stakeholders to take concrete action to avoid reaching a point where development efforts would be impeded by ever-increasing financing needs.



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# CONCEPT NOTE



## SCENE-SETTER

One of the marked lessons drawn from the Millennium Development era was that sustainable development required broad systemic responses to the enablers and disablers of growth and development. The 2030 Agenda for Sustainable Development (2030 Agenda) was hence disposed to tackle the factors that advanced and redressed sustainable development. Political commitment of the highest order was placed to advance the enablers of development financing and control its disablers. These two contrasting dimensions were canvassed through the Addis Ababa Action Agenda (Addis Agenda) adopted at the Third International Conference on Financing for Development held in Addis Ababa between 13-16 July 2015.

The United Nations Secretary General laid down three broad objectives as part of the United Nations Strategy (2018-2021) to Finance the 2030 Agenda. The strategy recognizes the need to align global economic and financial policies with the 2030 Agenda. Equally, it emphasizes on the need for sustainable financing strategies, enhanced institutional governance and international collaboration to raise domestic resource mobilization capacities. To this end, the strategy places emphasis on illicit financial flows (IFFs) as a major disabler to sustainable development and highlights the actions to be taken to combat money laundering, tax evasion and the need to adopt enhanced forms of compliance and international collaboration.

Today, IFFs account for substantial financing leakages in developing countries causing severe drainage to domestic resource mobilization efforts, weak tax systems and low levels of investment in critical social infrastructure. IFFs continue to undermine the rule of law, stifle trade, worsen macroeconomic conditions, facilitated in part by tax evasion and tax havens, the proliferation of base erosion and profit shifting practices as well as entrenched trade-based money laundering. All of which deprive countries of the needed resources that could have otherwise been harnessed to pursue the Sustainable Development Goals (SDGs) and improve their perception-based governance and corruption standings.

In this vein, the Addis Agenda calls for redoubling efforts to substantially reduce IFFs, with a view to eliminating them by 2030. Commitment to combat IFFs was further emphasized in the SDGs (target 16.4). Against this backdrop, international institutions were called upon to publish estimates of the volume and composition of IFFs. The growing literature on the volume of these flows illustrates the magnitude of damages being caused to developing countries and their financing for development propensities.

According to the Washington-based Global Financial Integrity, the developing world lost \$7.8 trillion in IFFs between 2004 and 2013. Illicit financial outflows are said to be increasing nearly twice as fast as global gross domestic product. The Organization of Economic Cooperation and Development (OECD) estimated the negative impacts of IFFs and established that for every US\$1 granted to developing countries in official development assistance (ODA), US\$3 in turn leave these countries in the form of IFFs.

The United Nations Economic and Social Commission for Western Asia (UNESCWA) on its part conducted a study of IFFs and found that Arab economies fall prey to \$60.3-\$77.5 billion per year in damages due to illicit financial flows associated with four conduits of trade misinvoicing. Since 2014, these flows have outstripped the combined growth of ODA and foreign direct investment coming into the region. The African continent is also said to have witnessed US\$73 billion in annual net illicit financial outflows, whereas in the case of Latin America and the Caribbean IFFs amounted to US\$103 billion by 2013. Notwithstanding the methodologies employed, the implications are dire and point to the fact that, it is neither possible to adequately raise domestic resources nor achieve the 2030 Agenda if no concerted action is taken to enhance domestic resource mobilization capacities by combatting IFFs.

## SCOPE

Three years following the adoption of the 2030 and Addis Agenda's, the world continues to witness discernible progress across all levels of implementation. Despite the perceived momentum, there is growing concern that progress is not happening at the pace required to achieve the SDGs. In the outcome document of the 2018 ECOSOC Forum on Financing for Development follow-up (ECOSOC forum), Member States expressed concern over the challenges imposed by weak global economic and financial recovery whose fruits, in effect, have not been shared evenly across countries and regions. The financing gap continues to rise unabated with trillions needed in terms of quality investments of all kinds. The cost of conflict and post-conflict reconstruction adds to the anguish and risks diverting attention away from the 2030 Agenda.

A race to the bottom to spur growth and counter underinvestment in critical social infrastructure is not only fueling beggar-thy-neighbor dispositions, but is also breeding harmful tax competition and fiscal incentives that erode the tax base and consequently potential tax revenue. Domestic resource mobilization efforts are, nonetheless being pursued to broaden the tax base (mostly through regressive redistribution), remove tax exemptions and rationalize inefficient fossil-fuel subsidies (both in terms of consumption and production patterns). However, the resources mobilized domestically may fall short of achieving the SDGs if the informal sector remains unintegrated in the formal economy and insulated from the overall planning and implementation of the SDG reform agenda.

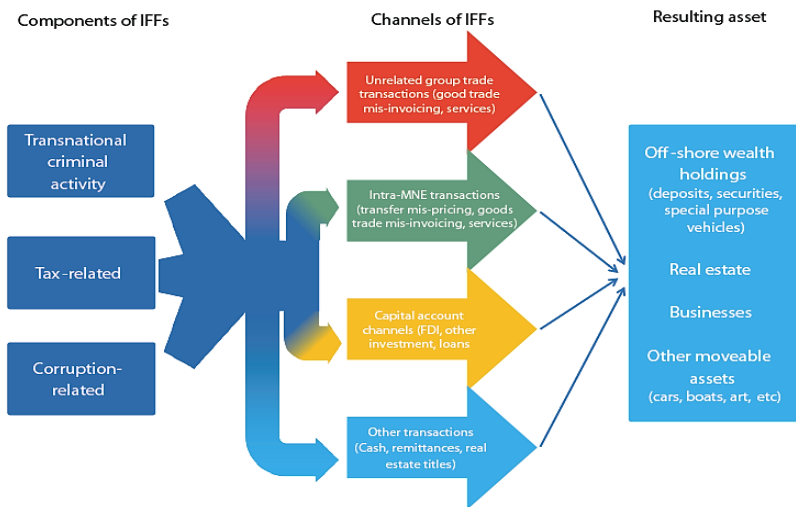
The United Nations Secretary General hence articulated a medium-term vision (2018-2021) to reinvigorate efforts aimed to finance sustainable development. The strategy is prompted by the fact, that the challenges facing developing countries no longer include the usual suspects influencing economic frailty, rather this time around they involve a broader stream of factors, including rising global interest rates leading to a reversal of capital flows to the disadvantage of developing countries; increased debt distress; subdued trade growth and more critical the increasing intensity of illicit financial flows.

"Too often, the finish line for illicit financial flows are banks in [the developed countries]. The Panama Papers, the and the Bahama briefs offer a defining moment for the discussion on IFFs and the ecosystem in place that facilitates IFFs from both developed and developing countries. It's also vital to illustrate that IFFs have a disproportionate impact on the poorest countries in the World"<sup>1</sup>. To date however, there is neither a multilateral definition to assess for IFFs nor an agreement over the methodology to scale their composition (proceeds of crime, stolen assets, goods trade misinvoicing, transfer mispricing, and undeclared offshore wealth).

Several methods have been employed to estimate IFFs components albeit, they do not provide a picture of the full scope and scale of IFFs. Institutional stakeholders therefore resort to different methodologies and select different elements to measure IFFs (figure-1), thereby frustrating the attempt to provide comparable global and regional assessments across both time and space. Data sources pose another constraint as they are generally not tested for robustness or validation. Under these conditions, measuring and tracking progress in combatting IFFs becomes difficult, if not impossible. The illicit nature of these flows frustrates further any attempt to systematically capture their true magnitude (both in intra and inter-regional settings).

Over the past decade, IFFs garnered greater attention in the international debate over development financing. This debate has been informed by valuable contributions from governments and international organizations. Equally so, the debate has been enriched by the work of the High-Level Panel on Illicit Financial Flows from Africa and the Economic Commission for Latin America and the Caribbean (ECLAC). The role of the civil society and non-profit organizations remain instrumental in generating greater awareness of the need to combat IFFs on many levels of the development ladder.

Figure-1: Schematic representation of Illicit Financial Flows (by type, channel of delivery and asset displacement)



Source: United Nations Inter-Agency Task Force on Financing for Development

There is a persistent gap however between normative dispositions, political posturing and economic nuances on one hand and concerted multilateral action among all stakeholders on the other. This is reflected by the fact that to date, there is no multilateral definition for IFFs. Equally so, the scope of IFFs continue to elude consensus as its components have neither tested under country specific, regional and cross-sectional variations. There is currently no integral road map for mutually supportive action to combat IFFs and their components have been adopted at the regional and global levels. There are no comparable methodologies to qualify and quantify the different components of IFFs.



Conventional wisdom, or rather ‘convenient wisdom’, would have us treat different components of IFFs as non-comparable given that the aggregation of delivery channels and components may lead to double-counting. Yet, there is no wisdom in yielding to imperfections. Rather, by analyzing regional idiosyncrasies and how they influence IFF delivery channels, some solutions can be tailored to conjure regional modalities to curb IFFs. This endeavor requires recognizing how regional contexts influence the systemic factors (legal, fiscal, tax, cultural, security, political, governance, macro-economic) that continue to drive IFFs till this very day.

## OBJECTIVES

Financing for development is neither happening at the pace nor magnitude that can turn conflicts, poverty, hunger, inequality and other socio-economic hardships into an issue of the past, let alone realize sustainable development.

As such, the recently launched UN Secretary General’s Strategy for Financing the 2030 Agenda was devised with hindsight to leverage the convening power of the United Nations to bring together the relevant actors to accelerate the mobilization of finance for the 2030 Agenda, including addressing domestic resource mobilization and base erosion leakages that have been found to be correlated with tax avoidance and evasion. Trade, an engine for growth and financing, is witnessing a new wave of protectionism which may aggravate trade-based money laundering and misinvoicing. Private business is affected by the level of informality and IFFs, whereas private finance remains contingent on the rule of law and the state of governance. Technologies are influencing IFFs in as much as they are affected by the security risks associated with these flows.

The conduits of IFFs and their delivery channels are constantly evolving outpacing detection at every corner. The very forces influencing global interconnectivity in trade, finance, communications and transport are the very forces that continue to drive IFFs to remain ahead of the curve, both in sophistication and use of technology. From funding crime to the revelations in the Panama Papers and Bahama briefs, recent events have propelled awareness of illicit finance and the channels through which it flows.

In this context and taking cue from the UN Secretary General’s Strategy for Financing the 2030 Agenda (2018-2021), ESCWA is organizing a conference on Financing for Development to converge regional agenda’s and efforts towards taking measurable actions to combat Illicit Financial Flows. The conference aims to support the G77 and China’s efforts in advancing action against IFFs in line with relevant international and regional mandates, including the 2030 and Addis Agenda’s. The conference will provide a unique multi-stakeholder platform trigger the next frontier of research and the needed actions to combat IFFs. It aims to account for regional idiosyncrasies and influence policy actions to address the multi-dimensional factors involved in combatting IFFs from developing countries perspectives and to account for asymmetric needs, capacities and disparities in the level of development.

The conference will offer a multi-stakeholder venue to consider the following:

- Assess FfD Progress, emerging threats & opportunities;
- Disseminate and discuss recent findings, novel concepts and IFF measures;
- Deliberate and identify new channels and modes of IFF delivery and emerging challenges to combat IFFs;
- Establish qualifiable approaches to factor regional idiosyncrasies to enhance international collaborative action to curb IFFs (i.e. localizing and regionalizing counter measures);
- Ensure sustained regional/global action to combat IFFs as a means to finance and achieve sustainable development, building on complementarities that can be drawn from regional mechanisms and frameworks;
- Support the enforcement of the rule of law and the crackdown on corruption (adding new indices to reflect the progress made on SDG-16); enhance the effectiveness of taxation and revenue collection systems; enhance the gains from multilateral and preferential trade; and foster resilience against security threats (terrorist or conflict financing);
- Influence the on-going discussions over defining IFFs to possibly elaborate a political neutral working definition and methodology to quantify and qualify IFFs along with their components;
- Share perspectives and experiences over dampening the socio-economic, legal, governance and security effects arising from IFFs;
- Deliberate on the possible elements for an IFFs outcome document that factors regional idiosyncrasies and address regional-specific drivers and motivations of IFFs.

## EXPECTED OUTCOMES

The conference aims to garner consensus over a number of ‘findings, principles and/or elements for a road map’ to be drawn on the basis of discussions to advance financing for sustainable development, including combatting IFFs. The conference aims to converge positions and benefit from discussions between decision-makers, practitioners, international experts, civil society and institutional stakeholders. The findings, actions and principles to be proposed would guide future work on IFFs, and are intended to maintain global, regional and national action to eliminate IFFs by 2030 and re-invigorate financing for development action on all fronts. The outcomes of the conference would be placed before the G77 and China to advance, where appropriate, in relevant multilateral and regional fora.





# ANNOTATED AGENDA





UNITED NATIONS

الاتحاد  
ESCWA



REPUBLIC OF LEBANON  
MINISTRY OF FINANCE



Arab Republic Of Egypt  
Ministry Of Foreign Affairs



ECA



UNITED NATIONS  
UNCTAD



UNODC

United Nations Office on Drugs and Crime



UN  
DP



THE WORLD BANK



OECD



dev  
DEVELOPMENT CENTRE



OXFAM



The  
Economist  
INTELLIGENCE  
UNIT



GPF  
Global Policy Forum



Egyptian Money Laundering  
& Terrorist Financing Combating Unit



UN GLOBAL COMPACT  
Network Lebanon



European Academy  
of Sciences and Arts



WORLD  
ACADEMY OF  
ART AND SCIENCE



50  
YEARS  
CLUB OF ROME  
SINCE 1968



SID

Society for International Development

Civil Society  
FfD Group



eurodad  
european network on  
debt and development



tax justice  
network



TRANSPARENCY  
INTERNATIONAL



CITY  
UNIVERSITY OF LONDON  
EST 1894



JUBILEE DEBT  
CAMPAIGN



SOUTH  
CENTRE



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Arab NGO Network for Development



معهد باسل فلهان  
المالي والاقتصادي  
Institut des Finances Basil Fuleihan



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CONFERENCE ON  
**FINANCING  
SUSTAINABLE  
DEVELOPMENT**  
CURBING ILLICIT FINANCIAL FLOWS

Day One	Wednesday, 28 November 2018
Registration	8:00-9:00
Session 1   Welcome Remarks ☞ Scene-setting	9:00-10:30

**H.E. Mr. Mounir Tabet**

Acting Executive Secretary

United Nations Economic & Social Commission for Western Asia

**H.E. Mr. Mahmoud Mohieldin**

Senior Vice President

The World Bank Group

**H.E. Mr. Mukhisa Kituyi**

Secretary-General

United Nations Conference on Trade & Development

**Honorable Mr. Ahmed Said Khalil**

Vice President of the Court of Cassation, Chairman of the Board of Trustees

Representative of the Governor of the Central Bank of Egypt

**H.E. Mr. Mohamed Maait**

Minister of Finance

The Arab Republic of Egypt

**H.E. Mr. Ali Hassan Khalil**

Minister of Finance

The Republic of Lebanon

**H.E. Mr. Saad Hariri (tbc)**

Prime Minister

The Republic of Lebanon

Coffee Break	10:30-10:45
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*Thematic sessions will feature interventions and presentations from keynote speakers followed by a time-bound interactive segment engaging speakers from the floor, including from Member States, civil society organizations and the private sector*

**Financing for Development: Progress, Emerging Threats & Opportunities**

*Three years following the adoption of the 2030 and Addis Ababa Action Agendas', the world continues to witness discernible progress across all levels of implementation of the two Agendas'. Yet, progress to finance sustainable development is neither happening at the pace required to achieve the Sustainable Development Goals (SDGs) nor to overcome entrenched socio-economic inequalities within and across regions.*

*Concerns are mounting over new challenges imposed by a broad stream of factors other than those initially contemplated at the time of the adoption of the 'FfD' and 'SDG' Agendas'. The panel will deliver insights from senior policy-makers and assessments from key stakeholders on the state of financing for development and delves to provide pathways to overcome the challenges superimposing themselves on regional and national financing propensities.*

**Moderator:****Mr. Marwan Barakat**

Assistant General Manager, Group Chief Economist & Head of Research  
Audi Bank

**Keynote Speakers:****H.E. Mr. Mohamed Edriss**

Permanent Representative of The Arab Republic of Egypt to the United Nations  
Chairperson of the G77 & China

**Ms. Lamia Moubayed**

Director, Institut des Finances-Basil Fuleihan  
The Republic of Lebanon

**Mr. Amr Nour**

Director, Regional Commissions New York Office  
United Nations

**Mr. Stefano Prato**

Managing Director of the Society for International Development  
Facilitator of the Civil Society Financing for Development Group

**Ms. Tove Maria Ryding**

Policy and Advocacy Manager, Tax Justice  
European Network on Debt and Development



**Private Finance, Development Cooperation, Trade & Debt Sustainability**

*International public and private finance remain essential to support the provision of public goods and attain macroeconomic stability. Developing countries are witnessing a reflux in their ability to galvanize and harness private finance as well as to incentivize long-term value approaches under prevalent risk conditions.*

*Equally, a disorderly tightening of financial conditions, inward-looking investment measures and trade protectionism lead to severe reversals in capital flows and erode developing countries trade preferences and raise debt distress levels. Trade inequality and declining private investments remain a stark reminder of the inability to align trade and investment with long-term development needs. The panel will deliver expert insights from senior policy-makers and assessments from key stakeholders on the regional implications arising from the contrasting global trends in international private finance, international cooperation, trade and debt sustainability within the new global financing for development framework.*

**Moderator:****Ms. Jessie Trad**

Head of Business News  
MTV- Lebanon

**Keynote Speakers:****Ms. Sarah-Jayne Clifton**

Director, Jubilee South-Debt Campaign

**Mr. Ibrahim Abdel Gelil**

Senior Adviser, Arab Forum for Environment and Development  
Adjunct Professor, Arabian Gulf University

**Mr. Nassib Ghobril**

Chief Economist, Head of the Economic Research & Analysis Department  
Byblos Bank Group

**Mr. Samir Hammoud**

Chairman of the Banking Control Commission of Lebanon, Central Bank of Lebanon

**Ms. Roula Majdalani**

Acting Deputy Executive Secretary, Economic & Social Commission for Western Asia

**Ms. Naoko Ueda**

Deputy Director, Development Centre  
Organization for Economic Cooperation and Development





## Domestic Resource Mobilization

*Domestic Resource Mobilization (DRM) is a prime means to finance sustainable development. The Addis Ababa Action Agenda highlights specific actions to be taken to enhance DRM capacities, including through improved tax administration, efficient revenue collection, enhanced forms of tax compliance and cooperation as well as by eliminating illicit financial flows (IFFs).*

*Efforts to strengthen progressivity of fiscal systems, and how tax incentives are set in turn affect many concerns central to the achievement of the SDGs. However, there continues to be a gap between normative dispositions and economic nuances on one hand and multilateral action on the other. The panel will deliver insights from senior policy-makers and key stakeholders on systemic issues associated with DRM, the role of tax reforms, parallel currencies, digitized-blockchain transactions and inclusive tax cooperation to combat IFFs within the realm of advancing the right to development to achieve the 2030 Agenda.*

### Moderator:

#### **Ms. Tove Maria Ryding**

Policy & Advocacy Manager, European Network on Debt and Development

### Keynote Speakers:

#### **Mr. Stefan Brunnhuber**

Fellow, World Academy of Arts & Sciences

Member of the Club of Rome

#### **Mr. Jan Kregel**

Director of Research & Head of the Monetary Policy and Financial Structure Program, The Levy Economics Institute

#### **Mr. Manuel Montes**

Senior Advisor, Finance and Development, The South Center

#### **Ms. Bhumika Muchhala**

Independent Consultant

Global Economic Governance, Sustainable Development & Social Justice

#### **Mr. Hisham Taha**

Economic Advisor, Head of the Financing for Development Office

United Nations Economic & Social Commission for Western Asia



**Illicit Financial Flows (Motives, Conduits & Emerging Challenges)**

*The emphasis on illicit financial flows (IFFs) as a major disabler to sustainable development is well grounded in the Addis Ababa Action Agenda (substantially reduce IFFs, with a view to eliminating them by 2030). Commitment to combat IFFs was further upheld by SDG target (16.4).*

*The conduits of IFFs and their delivery channels are nonetheless evolving outpacing detection at every corner. The forces influencing global interconnectivity in trade, finance, communications and transport are the very forces that continue to influence IFFs driving them ahead of the curve both in sophistication and use of technology.*

*The panel will deliver expert insights from senior policy-makers and assessments from key stakeholders on the illicit finance landscape to determine effective approaches to define IFFs, identify where most significant increases are taking place and how successful have international efforts been in combatting them.*

**Moderator:****Mr. Osama Habib**

Business Editor, The Daily Star

**Keynote Speakers:****Mr. Christopher Clague**

Managing Editor and Global Editorial Lead

Trade &amp; Globalization, The Economist Intelligence Unit

**Ms. Dima Jamali**

Member of Parliament, President of Global Compact Network Lebanon

**Ms. Aida Opoku-Mensah**

Special Advisor to the Executive Secretary on Special Initiatives, SDGs &amp; the 2030 Sustainable Development Agenda

**Mr. Amr Farouk Moussa**

Counsellor, Chief Prosecutor Office, The Arab Republic of Egypt



**Governance, Corruption & Crime related illicit financial flows**

*Macroeconomic and broader governance related factors act as drivers of IFFs. These factors include red tape, bureaucratic hurdles, weakness in regulatory oversight, deficient customs enforcement, long judicial delays, bribery and kickbacks. Other governance related factors that prompt IFFs involve the skewed distribution of income. The vicious cycle of rising income of high net-worth individuals, non-inclusive growth exacerbated by tax fatigue (due to narrow tax bases), and subsequent tax evasion exacerbates inequality.*

*These factors act as mark-ups that provide incentives for IFFs. This vicious cycle indicates that inequality may be a cause as much as it effects trade-based IFFs. Human trafficking and smuggling; criminal and terrorist networks continue to profit immensely from illicit trade, including in natural resources. The panel will deliver expert insights on governance related drivers of IFFs, including those associated with drug trafficking and crime and those arising from traditional governance related IFFs (e.g. corruption, tax evasion) and non-traditional threats.*

**Moderator:****Ms. Dina Harake**

Executive Director, Global Compact Network Lebanon

**Key-note Speakers:****Mr. Enrico Bisogno**Chief, Data Development & Dissemination Section  
United Nations Office on Drugs & Crime**Ms. Vanda Felbab-Brown**Senior Fellow, Center for 21<sup>st</sup> Century Security & Intelligence, Foreign Policy Program  
The Brookings Institution**Ms. Kinda Hattar**Regional Advisor, Middle East & North Africa Region  
Transparency International**Mr. Arkan El-Seblani**Project Manager & Chief Technical Advisor, Anti-Corruption Programme  
United Nations Development Programme

**Tax-related illicit financial flows**

*There is emerging consensus that IFFs should include cross-border movement of illicit funds and assets undertaken in contravention to national laws and international conventions, including tax-related IFFs (tax evasion). There is disagreement, however, on whether tax avoidance, aggressive tax planning and optimization and treaty shopping should be considered within the ambit of IFFs as these flows often fall in a grey area between legality and illegality due to differences in legal standards.*

*Nonetheless, tax evasion and avoidance tend to adversely affect the tax base of developing countries stripping them of the needed public resources to finance their own development imperatives. The panel will deliver expert insights and assessments on best practices to enhance the effectiveness of tax administration for development, including addressing base erosion and profit shifting and transfer pricing practices that continue to undermine taxation systems and the more broader effort towards enhancing domestic resource mobilization capacities.*

**Moderator:****Ms. Zahra Bazzi**

Program Manager, Arab NGO Network for Development

**Key-note Speakers:****Mr. Richard Murphy**Professor of Practice in International Political Economy – City, University of London  
Director, Tax Research United Kingdom**Mr. Alex Cobham**

Chief Executive, Tax Justice Network

**Ms. Manal Abdel Samad**Head of VAT Audit and Tax Refund Department  
Ministry of Finance, The Republic of Lebanon**Mr. Wolfgang Obenland**

Program Coordinator, The Global Policy Forum

**Mr. Oliver Pearce**

Policy Manager, Tax and Inequalities, Oxfam GB



**Closing Remarks – Conclusions & Way Forward**

**H.E. Mr. Mohamed Edriss**

Permanent Representative of Egypt to the United Nations  
Chairperson of the G77 & China

**Mr. Mounir Tabet**

Acting Executive Secretary  
United Nations Economic & Social Commission for Western Asia

Networking Cocktail

16:15-17:00



# SYNOPSIS





# CIVIL SOCIETY FFD GROUP'S STATEMENT\* TO THE 2018

## “INTERNATIONAL CONFERENCE ON FINANCING SUSTAINABLE DEVELOPMENT”

ORGANIZED BY UNESCWA



We, participating organizations, networks and movements of the Civil Society FfD Group, welcome the “International Conference on Financing Sustainable Development - Curbing Illicit Financial Flows” organized by UNESCWA. This is a timely and important initiative as we are firmly convinced that the FfD process can and must play a pivotal role in removing many of the structural barriers to the socio-economic transformation and advancing systemic reforms of global economic frameworks to realign them with the imperatives of human rights, gender justice, people-centeredness and sustainable development. We believe that FfD process is critical to unlock the necessary means of implementation to realize the aspirations exposed by the 2030 Agenda for Sustainable Development. We also continue to re-affirm the importance of multilateralism and the democratic ideals that it upholds and demand firm and bold steps in the necessary democratization of global economic governance.

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*\* This document has been adapted from the statement which was collectively developed by the Civil Society Financing for Development (FfD) Group for the 2018 ECOSOC Forum on Financing for Development Follow-up. The Group is a very broad platform of civil society organizations, networks and federations from around the world, including the Women’s Working Group on FfD, which followed closely the FfD process since its origins, facilitated civil society’s contribution to the Third International Conference on FfD, and continues to provide a facilitation mechanism for the collective expression of civil society in the FfD follow-up process. While the group is diverse, and positions might differ on specific issues, this document expresses the elements of common concern. For more information, please visit the Civil Society FfD Group’s website*

Despite the high-level political promises, we are off track to reach the 2030 Agenda, the cost being paid by all those people and communities that continue to be marginalized in the face of a world economy that is increasingly focused on its new frontiers of digitalization and dematerialization. But there is nothing digital in the unacceptable levels of deprivation that continue to persist. Indeed, we are outraged that the current systems allow the overconcentration of massive wealth on the 1%, while billions live in poverty and marginalization. Furthermore, the latest economic cyclical upturn, not generalized and mostly centred within the Global North, has been accompanied by an increase in hunger and the worsening in the profile of vulnerabilities, heightened carbon emissions, and the persistence of structural levels of inequalities between and within countries. Our economy fails when it downturns and fails us again when it moves forward. 10 years into the last financial crisis, some of the root determinants remain unaddressed and, combined with increasing levels of financialization, continue to fuel a slow-motion – not for that less damaging – new financial crisis and the re-emergence of debt sustainability challenges, which seriously constraint the fiscal and policy space to advance the development agenda. The combined evolution of commodity prices and exchange rates have been exacerbating existing conditions of commodity dependence and exposed the short-sightedness of export-led strategies and premature financial liberalization.

Against this challenging background, we are struck by three profound levels of dissonance in the policy discussions on FfD. First, the mismatch between the scope and urgency posed by world's current multiple challenges and the far-too timid level of ambition in terms of public policies and investment. Secondly, the dissonance between the impetus to use public funds to leverage and de-risk private investments while being concerned with the looming debt crises, without recognizing that these are the two sides of the same coin. And, lastly, the asynchrony between the commitment to place people and planet at the centre and continued unwillingness to re-align economic, monetary and financial frameworks.

Realigning the business models to the imperatives of sustainable development should not be seen as an act of seduction; it requires a new set of bold public norms, policies and investments. It requires the reaffirmation, rather than the abdication, of the role of the State in defining a new set of global rules for people's peaceful and sustainable cohabitation on this small planet. It requires the courage to stop unsustainable investments and predatory practices. It calls for upholding the centrality of human rights – the foundations of the United Nations- as the overarching frame of our common action and the guiding track of our life courses.

We agree with the leitmotiv of many policy debates that the private sector should contribute much more to development finance. But we differ on the modalities of catalysing finance from the private sector. The dominant discourse is that finance from the private sector come in the form of investments, subjecting the pursuit of public goals to the expectation of profitability and, increasingly, public guarantees for private risks. On the contrary, we call for more effective taxation of private and corporate wealth, assets and income, so that the State could have the adequate fiscal space to pursue its duty-bearer responsibilities.

We are also deeply concerned that the number of Low-Income Countries facing debt crisis has doubled since 2013, with only 1 in 5 countries considered to be at low risk of debt distress. The new wave of debt crises has emerged as the key risks for the 2030 Agenda and the implementation of the Sustainable Development Goals. Irresponsible lending by private creditors - by private banks and even transnational



corporations from the extractive industry sector - have forced some of the poorest crisis into default. Middle and High-Income countries also suffer from the highest debt burdens ever. High payments on debt crowd out spending on essential services, compete with development financing and hinder the progressive realization of human rights in all country groupings.

We therefore invite to step-up the leadership, ambition and practical actions to change the current course:

1. We reiterate our call for an inclusive intergovernmental UN tax commission to be established, with the mandate and resources to ensure effective and fully inclusive international tax cooperation and domestic resource mobilization, as well as address all issues related to illicit financial flows, including international tax avoidance and evasion. Such an intergovernmental tax commission, where all countries participate on a truly equal footing, should deliver a convention with legally binding rules to ensure effective international tax cooperation, including by ensuring transparency, tackling harmful tax policies and practices, tax havens and secrecy jurisdictions, and other elements facilitating illicit financial flows. We further pressure all governments to immediately move towards progressive, effective and gender-just tax systems which contribute to equitable redistribution and ensure appropriate public funding for gender responsive public services (GRPS). We also stress the importance of ensuring adequate fiscal space to support social protection and note with regret that many states have retrenched benefits and services under the pressure of biased austerity programmes;
2. We urge both governments and private enterprises to effectively implement the ILO Labour Conventions, the UN guiding principles on Business and Human Rights, and the OECD guidelines for Multi National Enterprises, and to set up effective mechanisms for resolving abuses and provide adequate remedy, especially for indigenous peoples. Recognizing that voluntary principles are insufficient, we call on governments to engage constructively in the ongoing development in the Human Rights Council towards an international legally binding instrument on Transnational Corporations and other Business Enterprises. We further urge governments to prioritize policies and development funds supporting decent work and sustainable economic models, such as those of the social and solidarity economy and agroecology, that enhances local economic development and livelihoods strategies, domestic financing, democratic ownership and supports domestic micro, small and medium-sized enterprises that have a greater sustainable development impact;
3. We reject the World Bank Group's Maximising Finance for Development (MFD) approach that implies a problematic 'private finance first' attitude to development finance and reaffirm the centrality of public policies and investments. We have exposed the profound shortcomings of the public-private partnership (PPP) model. The refusal of the Bank to reassess its preferential leanings towards PPPs, is a self-perpetuated institutional blind spot that, we believe, amounts to willful negligence. We therefore invite governments to declare a moratorium on funding, promoting or providing technical assessment for PPPs until an independent review into their development outcomes, and particularly of the World Bank's PPP portfolio, is completed. This should include accumulated off-balance sheet debts, human rights and environmental impacts;

4. With many donors not reaching global commitments on aid, including the 0,7% target, the global community should make sure that the quality resources available are not utilized to serve other interests or be invested in blending mechanisms whose development impacts are still to be demonstrated. Rather, it should back innovative financing mechanisms to generate new concessional resources as well as address the need of the countries in transition with limited capacity to access to the financial market; Official Development Assistance (ODA) can be profitably used to strengthen domestic resource mobilization and tax capacity in countries and should never be used in a way that subordinates local priorities to the interests of stakeholders in the Global North, for example through tied aid. In this respect, we remain deeply concerned with ongoing trends to divert funds away from the core purpose of poverty alleviation and tackling inequalities, which calls for urgency in accelerating action on quality and quantity public financing. As country ownership of development processes is a key building block to the realization of lasting and sustainable development results, all parties to the UN system should play their role to secure development plans genuinely inclusive as well as to coordinate their action accordingly. In this regard, progress on development effectiveness remains insufficient and the lack of ambition on efforts as to 'Leave No One Behind' persists, despite high rhetoric;
5. A key gap in the international financial architecture remains the absence of a multilateral debt workout mechanism – a debt workout institution and a legal framework – that can restructure the whole debt stock of a country in crisis in one single and speedy process. We therefore urge the United Nations to adopt a Multilateral legal framework for sovereign debt restructurings, and establish a transparent and accountable Debt Workout Institution, independent of creditors and debtors to reduce and resolve debt crises and to comprehensively, rapidly and fairly restructure debt. The mandate to do so already exists through the outcomes of the FfD Summits and Resolutions adopted by the UN General Assembly (namely 69/319). Procrastination is no longer an option if we want to avoid that the 2030 Agenda turns into a new lost decade for development. We further reject any normative hierarchy between loan contracts and human rights treaties, and that governments have to prioritize human rights spending over debt service when they allocate budgets – as explained by the UN Guiding Principles on Foreign Debt and Human Rights;
6. The trade related instruments of the Addis Agenda and the Means of Implementation prescribed by the 2030 Agenda, including the conclusion of the Doha Development Round and the principle of Special and Differential Treatment, must be deployed fully for meeting the sustainable development objectives especially the needs of small farmers, workers, women, small producers, indigenous peoples and other marginal constituencies that do not find a voice and place in the design and execution of trade policy. Most important, developing country's policy space for pursuing sustainable development must not be obstructed by trade rules especially in new issues. We also call for ex-ante and ex-post sustainable development or SDG impact assessment and human rights impacts assessment of trade and investment agreements;

7. We renew our call to reformulate the very foundations of an international financial and monetary system that fails to serve sustainable development and rights. While banks have been more strictly regulated, more and more complex and risky financial products are again being issued on the financial market which increases uncertainty and could become a systemic risk for the global financial system. Too many financial sector organisations have captured regulators to create a race to the bottom in terms of financial regulation and transparency. Therefore, we urge Member States to take coordinated measures to impose stricter regulations of the so-called market-based finance sector (shadow banking). Banks and other finance institutions that are “too big to fail” need to be made smaller and engage in less risky activities. Further expansion of securitization and derivatives have to be monitored for systemic risk, controlled and limited. We also urge them to agree on measures, rules and actions like capital controls that encourage countries to limit short-term capital inflows and outflows in order to prevent excessive financial and exchange rate volatility. Capital control measures should be considered standard policy measures in the context of a comprehensive set of policy options. We further call for reform of the Special Drawing Rights regime towards its full potential to serve as a development finance tool and as the centre of the international monetary system. Failing to do so validates the insufficiencies of the IMF governance reform process. The extension of the use of double majority voting at the IMF – requiring relevant majorities of both votes and countries for all decisions – would be a simple but effective way of giving developing countries a fair voice.

To pursue these ambitious objectives there is an urgent need to improve the FfD follow-up modalities, also to provide adequate normative responses to the mandates provided to the Inter-Agency Task Force. First, the next ECOSOC FfD Follow-up Forum should call for the establishment of “workstreams” co-chaired by Member States, or other similar mechanisms to generate policy convergence on key issues, if necessary over multiyear schedules. Secondly, the FfD Forum agenda needs to be more focused and designed to provide adequate space to tackle key issues and take related decisions, including the conclusions of the negotiations on the intergovernmentally-agreed outcomes, to maximize the knowledge benefit and democratic dividend provided by the extensive presence of national delegations, civil society and other constituencies. Lastly and most importantly, we call for a new heads of state FfD summit so that global leaders can work towards ensuring the implementation of previous commitments as well as agree a major new set of ambitious actions on financing for development.

However, we are cognisant that these reform processes take time. But time is a luxury some of our communities do not have. Time for analysis is over. The time for action is now.





# FINANCING FOR SUSTAINABLE DEVELOPMENT

OSCILLATING BETWEEN  
(IN) EQUALITY & (IN) JUSTICE



## Introduction:

Financing is the bed-rock of any development effort. Yet, three years following the adoption of the Addis Ababa Action Agenda and the 2030 Agenda for Sustainable Development, the Arab region continues to bear the brunt of 3Fs—*financial* instability, *funding* shortfalls and *financing* inequalities. Financing for Development (FfD) in the region remains exposed to mounting risks and cascading crisis, some of which amount from a strained socioeconomic fabric, others, not the least, from escalated levels of violence, conflicts and the largest crisis of forced displacement witnessed since the Second World War. Nonetheless, the region continues to demonstrate a unique form of resilience as it strives to finance sustainable development, both within and outside its confines.

By

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In its analysis of direct and indirect FfD exposures, the United Nations Economic and Social Commission for Western Asia (ESCWA) reveals that on average,

*for every  
\$1 the Arab region gains through prime cross-border FfD channels,  
it correspondingly losses \$2.5, including to many high-income bracket  
economies.*

This 'FfD-reflux' defies the dominating development narrative and challenges the attempt to recalibrate the trajectories of development finance. This FfD-reflux poses a lost opportunity to finance the region's reconstruction and sustainable development imperatives and is instigating beggar-thy-neighbor schemes that are breeding harmful tax competition and fiscal policy conjectures, pushing economic activity further into the informal sector to the detriment of domestic resource mobilization capacities.

The regions' fiscal space continues to be strained due to surmountable efforts needed to overcome structural vulnerabilities and break the cycle of poverty regeneration. Severe pressures on public finances, due to de-risking practices and losses in banking correspondent relations, reduce the resources available to advance financial inclusion and support small and medium enterprises. The region is also facing the double jeopardy arising from commodity price volatilities and deteriorating terms of trade. Significant shifts in migration patterns, both legal and illegal, is taking place in search for vital remittances to meet basic household needs. The current trend whereby the region sends out nearly three times more remittances than resides therein is proving economically and socially unsustainable.

The cost of conflict is rising unabated, with an estimated \$752–\$856 billion lost in terms of economic activity and material damage to productive capacities. The rising death toll constitutes a more critical concern to reconciliation: no price tag can be placed on the loss of life, which remains largely unaccounted for by empirical assessments. Excessive military expenditure, running at two-and-a-half times higher than the global average share in output growth, coupled with the hefty reconstruction bill for war-torn economies, risks diverting resources further away from financing core sustainable development imperatives.

The threat of a "lost generation" of Arab youth looms large as more than 92 million decent jobs need to be created by 2030 (requiring an annual investment bill of \$220 billion). With long-term investments subdued (nearly 63 per cent short of their record highs) and lower-than-potential international private finance, inequalities within and between the different segments of Arab societies are becoming more acute. The Arab region's FfD resilience is also undermined by \$60 billion worth of leakages arising from fraudulent non-oil trade-misinvoicing. Illicit financial flows (IFFs) associated with drug trafficking, illicit trade in small arms, light weapons and antiques and undeclared oil trade activity on the part of non-state actors continues to impede financial deregulation and erode domestic resource mobilization capacity.

Considering these conditions, the new global FfD framework remains a normative ideal that is being continuously challenged by the region's specificities. Between 2011 and 2016, the region seems to have turned into:

- A net exporter of both capital and primary income (*for every \$1 of FDI the region generated, a corresponding \$1.8 left the region*);
- A lender of first resort (*with the net stock lending to international banks and non-financial institutions reaching \$223 billion*);
- A debt service financier (*for every \$1 of debt inflows the region received, a corresponding \$1.5 was paid back in arrears on outstanding debt stocks*);
- A medium for illicit transfers (*since 2014, IFFs outpaced the region's combined inflows of FDI and ODA; and between 2011 and 2015, for every \$1 of total trade proceeds, 8 cents are lost due to trade-based money laundering*);
- A net exporter of private capital, namely remittances (*for every \$1 of remittances generated and retained in the region, \$2.8 are sent elsewhere with 7 cents on the dollar lost to high-cost corridors*);
- An ODA grantor (*Arab ODA represents, on average, 83 per cent of non-DAC ODA and for every \$1 the region received in ODA, 65 cents are returned through bilateral and regional funds*).

In the 2016 Arab Sustainable Development Report, the Arab region was estimated to require \$3.6 trillion in gross fixed capital formation to achieve sustained growth during 2015-2030 and achieve the SDGs. At the time, this bill did not account for the negative net resource transfers (NRTs) or the FfD reflux. If current trends continue, the Arab region will need to conjure \$6.3 trillion by 2030 to achieve the SDGs. Leveraging such resources remains possible if the region's FfD exposures are reversed and its financing leakages are stopped. There remains potential for the Arab region to both meet most of its SDG bill and continue to finance sustainable development in other regions.





# A STATISTICAL FRAMEWORK FOR MEASURING ILLICIT FINANCIAL FLOWS (SDG INDICATOR 16.4.1)



## Introduction:

Illicit Financial Flows (IFFs) pose various economic and security risks to countries and the international community. They drive criminal markets and negatively affect the stability and security of social, economic and financial environments. These risks have been acknowledged in the 2030 Agenda for Sustainable Development. Sustainable Development Goal (SDG) 16.4 seeks to:

*“By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime”.*

To monitor achievements towards that goal, SDG indicator 16.4.1 was defined as the “Total value of inward and outward illicit financial flows”. Developing the methodology and carrying out the measurements was delegated to UNODC and UNCTAD<sup>2</sup>, who act as co-custodians of the indicator.

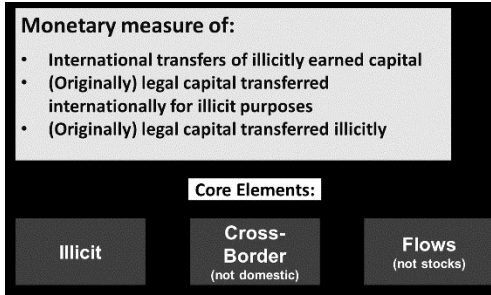
*By Enrico Bisogno  
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# DEFINING IFFS FOR STATISTICAL PURPOSES

For statistical purposes, IFFs can be defined as a monetary measure of illicit capital transfers, broadly distinguishable as per origin, destination, and mode of transfer:

- Illicit origin (e.g. funds generated from illicit activities such as drug trafficking), and/or
- Illicit destination (e.g. funds aimed at financing illicit activities such as terrorism), and/or
- Illicit mode of transfer (e.g. funds moved violating the maximum limit for cash transfers)

Figure 1. Definition and Core Elements of IFFs for Statistical Purposes



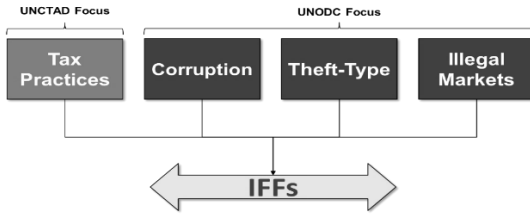
## CATEGORIES OF IFFS

Within the category of illicitly generated IFFs, various subcategories can be distinguished further. These include IFFs emerging from:

- Criminal markets, meaning flows that derive from economically productive though criminal processes. Such processes often involve a degree of criminal organization and are aimed at creating profit. This may include any type of trafficking in humans or goods such as drugs, firearms, or wildlife derivatives, among others;
- Theft-type activities, meaning activities that entail a forced and illicit transfer of economic resources between two actors. Such transfers do not produce any economic value;
- Corruption, meaning activities that consist in the misuse of a public or private position for direct or indirect personal gain. Such activities may either be non-productive, taking the form embezzlement, misappropriation or other diversion of economic resources; or embedded in illicit business models and value-adding processes, then taking the form of bribery and trading in influence;
- Illicit tax practices, meaning activities that may or may not clearly be identifiable as criminal, but are considered harmful practices and hence illicit, because they extract or withhold economic resources from communities and thus weaken public governance.



Figure 2. Categories of Illicit Financial Flows



## DUAL FOCUS IN MEASURING IFFS

IFFs relate to different stages within economic and financial processes. These stages can be distinguished as “Illicit Income Generation” and “Illicit Income Management”, and require a dual focus in measuring IFFs.

Criminal activities such as trafficking, theft, and corruption generate illicit profits. Any IFFs that emerge in this context fall under the category of Illicit Income Generation. This mostly concerns value-added activities related to criminal markets that often produce IFFs in the form of intermediate costs within overall illicit value chains. To measure such IFFs, it is necessary to analyse the functioning and size of underlying illicit markets (such as the illicit drug market), which then allows for the estimation of IFFs in the form of a “bottom-up” approach.

Figure 3. Challenges for Measuring Income Generation-Related IFFs (on the example of the drug market)

- **Challenge:** Comprehensively measuring economic activities related to transnational drug trafficking and corresponding IFFs
- **Data/information sources:** Existing data on drug seizures, cultivation areas, and market prices as collected by UNODC

Once illicit income has been generated, IFFs emerge from transfers of illicit profits. Activities such as trafficking, theft, and corruption are thus understood to be “predicate offences”, meaning that any handling of the resulting profits is also to be considered illicit. This especially concerns money-laundering, but in a broader sense any transfers, investments or consumption of illicitly generated income. IFFs from such activities fall under the category of Illicit Income Management.

Figure 4. Challenges for Measuring Income Management-Related IFFs (on the example of the drug market)

- **Challenge:** Measuring international transfers and investments of illicit proceeds derived from drug trafficking
- **Data/information sources (currently explored):** Financial intelligence data on suspicious transactions; Qualitative information from practitioners; Confiscation data; Leveraging existing knowledge about typical investment patterns as related to characteristics of OC groups





# DISRUPTING ILLICIT FLOWS: THE IMPERATIVES, DOWNSIDES, AND WAYS TO IMPROVE POLICY



## **Introduction:**

The focus on organized crime, illicit financial flows, and illicit economies significantly intensified after 9-11 when it became obvious that belligerent groups, such as the Taliban in Afghanistan and Pakistan and the Islamic State (IS) in Iraq and Syria, derive large profits from participating in illicit economies. In addition to expanding the resources of terrorist and belligerent groups, the persistence and growth of illegal economies also have come to complicate post-conflict stabilization and reconstruction efforts in countries that have emerged from civil wars – be they Cambodia or Haiti.

Illicit financial flows, such as taxation evasion and illegal outflows, sometimes outright theft of public resources through corruption and money-laundering, have deprived states of means to effectively design and implement public policies and residents of enjoying essential public goods. Illicit economies weaken states, fuel internal conflict, and undermine international order. They also cause undesirable international spillovers: the trafficking of illicit commodities and, perhaps, fueling of conflict in other countries. Hence, the standard logic goes, if illicit financial flows and illicit economies are suppressed, the belligerents are weakened, internal conflict recedes, the state is strengthened, and international order is reinforced. Yet these relationships are far more multidirectional and multifaceted, and many of the policy recommendations derived the standard simplistic characterizations are not only ineffective but outright counterproductive.

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## THE THREATS ILLICIT FINANCIAL FLOWS AND ILLICIT ECONOMIES POSE

Large-scale criminal economies generate multiple threats to states and domestic and international stability. They can threaten the state politically by providing an avenue for criminal organizations and corrupt politicians to enter the political space, undermining the democratic process. These crime-connected actors frequently experience great success in the political process, wielding influence from official jobs or behind the scenes. Consequently, the legitimacy of the political process is subverted. The problem perpetuates itself as successful politicians bankrolled with illicit money make it more difficult for other actors to resist participating in the illicit economy, leading to endemic corruption at both the local and national levels.

Large illicit economies with powerful traffickers also have a pernicious effect on the judicial system of a country. As the illicit economy grows, the investigative capacity of law enforcement agencies diminishes. Impunity for criminal activity also increases, undermining the credibility and deterrence capacities of the judicial system.

Illicit economies also have large and complex economic effects. Illicit financial outflows, such as corruption and money laundering, and tax evasion can siphon off large resources from governments and residents, depriving the state of capacity to defectively and implement public policy and elemental and essential public goods, such as infrastructure, health care, and resources for public safety. Such loss of money undermines both the state's effectiveness and human capital, generating further negative spillovers for the economy. Inadequate provision of social services and public goods by the state in turn has profound political effects, alienating local populations from the state and undermining the state's legitimacy.

There are other significant negative economic effects associated with illicit economies. Burgeoning economies, such as large-scale drug cultivation or smuggling, can contribute to inflation and appreciation of land and labor costs, which harm legal, export-oriented, import-substituting industries that poor countries need for their economic development. The illegal drug trade encourages real estate speculation and a rapid rise in real estate prices, undermines currency stability, and often fuels drug addiction within the supplier states.

But at the same time, some illicit financial inflows and illicit economies, such as large-scale illegal drug cultivation and processing, generate income and employment for impoverished rural populations, numbering frequently in the hundreds of thousands. Moreover, in some circumstances the drug economy not only allows the poor and marginalized to make ends meet, it can also facilitate some level of upward mobility, even if only from grinding poverty to lesser poverty.

Certain illicit economies also generate environmental threats. Poaching and smuggling of wildlife throughout Africa as well as Southeast Asia, for example, depletes biodiversity and contributes to the demise of endangered species. Illegal logging in East and West Africa leads to further soil erosion and desertification, making land inhospitable for agriculture. Both illegal logging and wildlife trafficking have fueled civil wars, such as in Burma, Cambodia, and South Sudan.

Illicit smuggling of toxic waste into Africa generates critical health problems and ecological catastrophes. States caught up in civil wars or intense insurgencies have fewer resources to devote to effectively suppress these other negative effects and threats. Crucially, because insurgent and terrorist groups obtain multiple benefits by sponsoring these illicit economies, the presence of a large-scale illicit economy in the context of violent political conflict greatly exacerbates security threats to the state.<sup>3</sup>

Armed groups, such as the Taliban in Afghanistan, the Sendero Luminoso (Shining Path) in Peru, and the FARC (Revolutionary Armed Forces of Colombia) and paramilitaries in Colombia, often obtain tens of millions and sometimes hundreds of millions of dollars per year by sponsoring and taxing illicit economies like the drug trade. With these vast profits, they can hire more combatants, pay better salaries, and purchase superior weapons and other equipment.

Critically, participation in illicit economies greatly increases the belligerents' political capital: that is, the extent to which the population welcomes and tolerates the presence of the belligerents. Large-scale illicit economies frequently provide basic livelihoods for the population in a conflict zone, and by sponsoring the illicit economy, belligerents are able to distribute real-time economic benefits to that population. Moreover, beyond the basic provision of livelihoods, belligerents also provide protection and regulation services to the illicit economy and its producers against, for instance, brutal and unreliable traffickers. With large financial profits from the illicit economy, belligerents also often provide a variety of otherwise absent social services, such as clinics, roads, sewage, and schools. They reduce the dependence on external sponsors for funding. The state's willingness and capacity to provide basic social services is lacking in large parts of the world; a Western-like social contract does not exist. Illicit economies are thus a crucial source of distribution of resources to the marginalized, and their sponsors can obtain large political support.

Four factors have a decisive influence on the extent to which belligerent groups derive political capital from their sponsorship of illicit economies:

**The state of the overall economy** determines the extent to which the local population is dependent on the illicit economy for basic livelihoods and any chance of social advancement. The poorer the country and the fewer legal jobs, the greater the dependence of the population on the illicit economy, and the greater the political capital accrued by belligerents for sponsoring it. In contrast, in a wealthy, developed country with a plentitude of legal economic opportunities, the local population may well object to the illicit economy and the belligerents can become discredited by participating in criminal economies.

**The character of the illicit economy** determines the extent to which the criminal economy provides employment for the population. Labor-intensive illicit economies, such as the cultivation of drug crops, easily employ hundreds of thousands to millions of people in a particular locale. The employment needs and opportunities, such as in the case of illegal logging or poppy cultivation (far more so than of coca), can also accommodate an extensive itinerant and migrant labor force, often mostly domestic, but sometimes cross-border. The smuggling of drugs or other contraband, by contrast, are labor-non intensive illicit activities that frequently employ only hundreds of people. Belligerents' sponsorship of labor-intensive illicit economies thus brings them much greater and more widespread political capital than their sponsorship of labor-non intensive ones.

**The presence or absence of independent traffickers** determines the extent to which belligerents can provide protection and regulation for the population against the traffickers. To the extent that independent traffickers are present and abuse the local population, the belligerents can insert themselves into the relationship and act as protection and regulation agents.

Finally, **the government's response to the illicit economy** critically influences the extent to which belligerents can derive political capital from sponsoring the illicit economy. The government's response can range from suppression–eradication and interdiction–to laissez-faire, to some form of official sanctioning of the illegal economy, including legalization. Although suppression policies often dominate government responses, increasingly less-punitive policies are being explored as well.

The more the government attempts to suppress the illicit economy, the more it boosts demand for the belligerents' protection and regulation services, and the more dependent both the criminal business elites and the wider population are on the belligerents for the preservation of the illicit economy. Government suppression policies, such as the effort to eradicate illicit crops, thus frequently have the inadvertent and highly counterproductive effect of strengthening the belligerents politically. Policies to suppress illicit economies on which the local population depends for basic livelihoods thus encourage the local population to support the belligerents and discourage the population from providing intelligence on them. Accurate and actionable human intelligence is of course essential for successful counterterrorism and counterinsurgency operations.

Moreover, although they alienate the population, government efforts to crack down on illicit economies rarely result in a substantial curtailment of the belligerents' financial income. For example, drug eradication policies so far have not bankrupted or seriously weakened any belligerent group. Eradication policies fail in their goal to stop the money flows to belligerents because belligerents, drug farmers, and smugglers have a variety of adaptive methods at their disposal: relocating production to new areas, altering production methods to avoid detection or survive suppression, or even switching to other illegal fundraising activities.

## CONCEPTUALIZING CRIME AS COMPETITION IN STATE

### MAKING AND DESIGNING AN EFFECTIVE RESPONSE

It is thus important to stop thinking about crime solely as aberrant social activity to be suppressed and illicit financial flows to be disrupted and halted, but instead think of crime as a competition in state-making. In areas of state weakness and under provision of public goods, the effective state strategy toward organized crime is thus not merely one of law enforcement suppression of crime. An appropriate response in areas of such state weakness is a multifaceted state-building effort that seeks to strengthen the bonds between the state and marginalized communities dependent on or vulnerable to participation in the drug trade and other illicit economies for reasons of economic survival and physical insecurity. Such a multifaceted approach requires that the state address all the complex reasons why populations turn to illegality, including law enforcement deficiencies and physical insecurity, economic poverty, and social marginalization.

Efforts need to focus on ensuring that peoples and communities will obey laws – by increasing the likelihood that illegal behavior and corruption will be punished, but also by creating the social, economic, and political environment in which the laws are consistent with the needs of the people so that the laws can be seen as legitimate and hence be internalized.

In the case of the suppression of illicit economies, this includes the proper sequencing of suppression, such as drug eradication, and the development of economic alternatives. The priority should be to focus on non-labor-intensive illicit economies or non-labor-intensive illicit flows, such as financial interdiction or physical interdiction of illicit economies, as opposed to disrupting the labor-intensive aspects of an illicit economy. Thus, disrupting drug trafficking and seizing illicit financial flows should be prioritized over eradicating drug crops. Theft of public resource, illicit financial outflows, and tax evasion should also be prioritized. Equally, the most disruptive and dangerous networks, those that cause most damage should be prioritized. These include those with the greatest links or potential links to international terrorist groups, those that are most rapacious and detrimental to the development of an equitable state, and those that most concentrate rents to a narrow clique of people.

Effective economic development – be it for urban or rural spaces - does require not only proper sequencing with suppression policies and security, but also a well-funded, long-lasting, and comprehensive development approach that centers on the creation of legal jobs. Moreover, development efforts need to address all the structural drivers of why communities participate in illegal economies, such as access to markets, deficiencies in infrastructure and irrigation systems, access to microcredit, the establishment of value-added chains, and the provision of legal dispute resolution mechanisms, and not merely chase the replacement crop.

The international community should define good governance in ways that are consistent with the views of local populations as well as key international principles: good governance is not just the delivery of services, but also, critically, physical security, food security, the provision of justice, and a reduction in impunity for egregious corruption and extensive crime. A good measure of the quality of governance is one derived from a comprehensive concept of human security: that is, security from physical abuse, whether from insurgents, criminals, warlords, local militias, or the local government, and security from great economic want, as well as access to justice and accountability mechanisms.

Promoting good governance thus does not imply promoting particular political or institutional visions and arrangements. But the international community's long-term goals in any place where it seeks to establish a sustainable local order should include strengthening checks and balances within the political system, reducing patronage, clientelism, and corruption, and enhancing government service delivery. Such equitable and inclusive political systems have a much better chance of being sustainable than rapacious and exclusionary ones.





# FINANCING THE SUSTAINABILITY DEVELOPMENT GOALS:

## BLOCKCHAIN - ILLICIT TRANSACTIONS AND THE ROLE OF A PARALLEL CURRENCY



### Summary:

The indispensable missing link in the debate on sustainability is the monetary system. To date, the Sustainability Development Goals (SDG) have primarily been financed through private sector financing, conventional public-sector funding (taxes and fees) and philanthropic commitment. However, these are not enough in scale and speed to finance our future.

The introduction of a parallel electronic currency specifically designed to finance global commons goods would provide the necessary resources to achieve the SDGs while reducing the shadow economy and stabilizing the existing monetary system. This could be achieved by giving Central Banks a modified monetary mandate to inject new liquidity into the system (top down), or through corporate initiatives (bottom up). By issuing a block chain enabled parallel electronic currency earmarked for SDG-related projects and using channels for monetary flow other than the conventional system, our future could be financed in a different manner.

Letting go of our current monetary monoculture would in the long run reduce illicit transactions, stabilize international financial markets, increase monetary regulatory efforts, reduce negative externalities, increase social pareto-optimum and stabilize democracies.

*By Stefan Brunnhuber  
MD, PhD, Member Club of Rome  
Dresden, Germany*

In 2015, world leaders signed up in New York for a future road map with 17 Sustainability Developments Goals (SDG) to improve Humanity, the Planet, Wealth, Peace and Partnerships. Most of these SDGs focus on common goods such as clean air, universal access to health care, education and maintaining biodiversity. These goods are not exclusive and should be accessible to and enjoyed by everyone. Each of these goals has enough scientific evidence, technological know-how and political consensus to be achieved, and are valid for the entire planet.

But these goals are expensive to achieve and require approximately 5 trillion US/year over the next 15-20 years to finance. Our global Gross Domestic Product (GDP), which includes all goods and services, is approximately 80 trillion USD/year. The conventional way to finance social and ecological projects globally has been by redistributing the money remaining at the end of this pipeline. Historically, the world community has spent 0,7% of the world GDP - roughly 500 billion USD/year – to finance common goods. Other than the Scandinavian countries, the vast majority of the world has never attained this 0,7%. But even if all countries attained the 0,7%, this sum is realistically not enough to finance our future. Approximately 8-10 times more funding - equivalent to 5 out of the 80 trillion USD global GDP - is required to meet the social and environmental challenges we face.

Withdrawing 5 trillion from the economic process, even in a gradual manner, would lead to a global recession. In fact, it is impossible to finance our future solely through monetary re-distribution. In addition, the stability of the financial system itself is an impediment to sustainable financing. Over the last 40 years, the financial system has become more unstable, with over 425 banking, monetary, or currency exit crises; and with every consecutive event, higher debt load and greater expenses amounting to more than 10% of GDP. Because of this, the world community spends much effort repairing, stabilizing, and refunding the monetary domain to maintain the status quo. This limitation in our financial system thwarts any improvements in the technological and political field to make the world a better place.

## IS THERE A DIFFERENT WAY TO FINANCE OUR FUTURE?

Using systems thinking, we propose an outside the box solution to generate the funds needed to finance global common goods. Central banks would be given a new monetary mandate to create and issue the 5 trillion US Dollar-equivalent liquidity using block chain technologies. Alternatively, properly regulated corporate initiatives would receive a mandate to issue additional liquidity. These funds would be earmarked and used exclusively to finance SDG-related projects. This electronic liquidity would run through monetary channels other than the ones in the conventional system. We would then have a supplementary currency operating in parallel to the conventional monetary system generating the 5 trillion USD-equivalent annually needed for the next 20 years.

Research on optional parallel currency systems has shown a dozen positive effects. For example, this new technology could be used to create and channel targeted financial liquidity to millions of African citizens through their mobile phone network. In India, the existing microcredit banking system could be used to transfer additional liquidity to millions Indian citizens. Any dollar spent and invested through these green, parallel channels has the potential to reduce or even eliminate absolute poverty globally within less than one year. The electronic format would prevent corruption and fraud, as each transaction is transparent and public. The new employment created through such a parallel, SDG-targeted currency would



eventually result in reduced illicit transactions and contraction of the shadow economy. Once the currency was eligible to pay taxes, communal offices would have additional liquidity to rebuild public infrastructure such as kindergartens, public parks, communal hospitals and public libraries. And the millions of non-governmental-organizations globally would finally receive the funding they need to properly do their jobs. This targeted added liquidity would enhance education and access to universal health care that would otherwise never happen. It would reduce resource depletion and clean up air avoiding the negative effects on our planet and common health. We would eventually tap into the untapped potential of millions of unemployed individuals through the creation of new jobs, thereby unleashing the creativity of billions of humans.

What would be the effects on the conventional economy? This added liquidity (5 trillion USD-equivalent per year) would not hurt or harm the conventional economy. In fact, the opposite would be true. Corporate and state planning, production and price level would become more robust and reliable with a longer-term vision. Furthermore, it would stabilize the cyclical economy of booms and busts. Despite arguments to the contrary, we need much more financialization (Finance/GDP). However, it must be designed in a more democratic and humane manner, to protect the planet, while increasing wealth for the two thirds of the global population currently in poverty. If there is a single most important variable beyond technology, governance, behavioral changes and demography to change the world, it is a parallel monetary system. This is the “game changer”. All this can be started in less than 6 months, if the six largest Central Banks agreed to create a parallel, optional complimentary currency. A redesign of the financial system does not solve all our problems, but all our problems can more easily be addressed by it. This, or a very similar mechanism, is the missing link to achieving greater Humanity, Wealth, Peace, a greener Planet and better global partnerships.



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# THE GROWING DEBT CRISIS

AND

# FINANCE FOR DEVELOPMENT



## 1. THE GROWING DEBT CRISIS

After improving in the mid-200s, in recent years the debt situation across the global South has worsened dramatically. Average (unweighted) external debt payments for 126 countries increased by 60% from 2014 to 2017.<sup>4</sup> The increasing debt burden reduces space for financing for development as payments use up foreign currency available to governments and reduce the financing space for new borrowing which could be invested in useful activities.

The IMF and World Bank now rate 31 of the 67 countries they assess as in debt distress or at high risk, up from 15 in 2013. Meanwhile, 11 are rated as at low risk, down from 24 in 2013.<sup>5</sup>

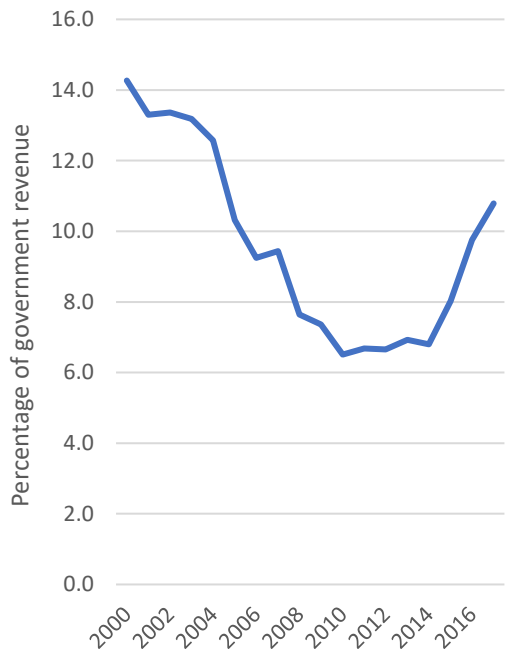
*By Sarah-Jayne Clifton  
Director, Jubilee Debt Campaign  
United Kingdom*

The IMF and World Bank now rate 31 of the 67 countries they assess as in debt distress or at high risk, up from 15 in 2013. Meanwhile, 11 are rated as at low risk, down from 24 in 2013.<sup>6</sup>

There are three main reasons for this increase in debt payments in recent years:

- There has been a boom in lending since the financial crisis of 2008, driven by low interest rates in the Western world, and new governmental lenders
- In mid-2014 the price of many commodities fell. This reduced revenue for many commodity exporters, and caused exchange rates to fall against the dollar
- Rising US interest rates have been increasing interest payments, and further increased the value of the US dollar against local currencies

Developing country government average (unweighted) external debt payments, as a proportion of revenue, 2000 - 2017



This process has intensified over 2018. The US Federal Reserve has continued to increase interest rates and is expected to continue to do so to counteract over-stimulus of the US economy by recent tax cuts for the rich. This has meant:

- US government interest rates have increased, pushing up interest rates for many other governments
- The US dollar has continued to increase in value
- Dollars have been repatriated back to the US because of the increase in returns available there, which has led to dramatic falls for some emerging market currencies

Jubilee Debt Campaign analysis of 15 low- and lower-middle income countries with publicly traded bonds finds that bond yields, which effectively measure the cost of future borrowing, have increased by an average of 1.4% so far in 2018. For the same countries their currencies have fallen by an average of 9% against the dollar.<sup>7</sup>

## 2. WHO THE DEBT IS OWED TO

External debt of low- and lower-middle income countries tends to be spread across a variety of creditors. For low income countries, 54% of external government debt is owed to multilateral institutions such as the World Bank, 33% to other governments, and 13% to the private sector.<sup>8</sup>

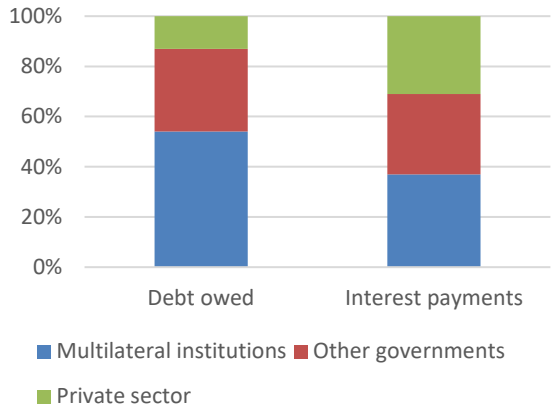
However, interest rates on debt to the private sector are higher than to other governments, with interest rates on debt to governments higher than to multilateral institutions.

This means that for low income countries, multilateral institutions account for 37% of external interest payments, other governments 32% and the private sector 31%.<sup>9</sup>

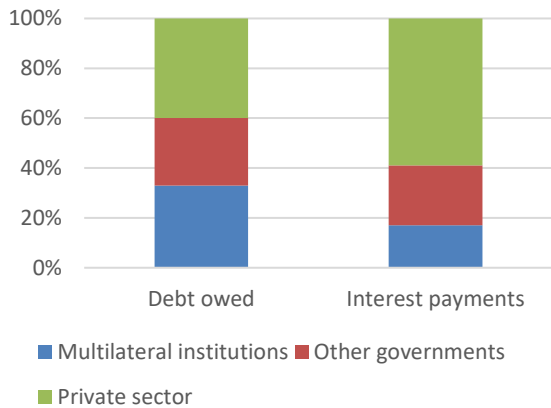
For lower-middle income countries, much more debt is owed to the private sector. For external government debt, 40% is owed to the private sector, 33% to multilateral institutions and 27% to other governments. This means

the private sector dominates interest payments. 59% of external interest payments are to the private sector, 24% to other governments and 17% to multilateral institutions.<sup>10</sup>

Who low income government external debt is owed to, and relative size of interest payments, 2016



Who lower-middle income government external debt is owed to, and relative size of interest payments, 2016



## 3. MAXIMISING FINANCE FOR DEVELOPMENT

### 3.1 Transparency of loans

Where loans are given, steps are needed to ensure the money is well used. There have been recent cases where loans were not disclosed when contracts were signed, which meant media, parliaments and civil society were not able to hold loan programmes to account. Government debt is taken out in the name of the people of a country, so those people have a right to know about the existence of loans.

Governments should ensure that their borrowing programmes are transparent. Lenders should also ensure that loans are disclosed. Borrowers and lenders should commit to reporting all loans on a publicly available database within 30 days of contracts being signed.

88% of international sovereign bond contracts are owed under New York or English law.<sup>11</sup> To incentivise transparency from lenders, all major financial centres should pass a requirement that for loans to be enforceable they have to have been publicly declared when they were given.

### 3.2 Stop bailing out lenders

In the debt crisis of the 1980s and 1990s the standard response was for international institutions, primarily the IMF and World Bank, to lend more money which paid off previous lenders. This both continued the debt crisis for the country concerned, and created a moral hazard where lenders were incentivised not to take risk into account. Unfortunately, the same responses are now being made to the current round of debt crises.

When unsustainable debts arise, lenders should be required to restructure debts, rather than be bailed out. One way to encourage this to happen is for the IMF to only lend to debt crisis countries if:

- A restructuring will happen as part of a lending programme, which will get the debt down to a sustainable level, or
- A government defaults on debts, so that IMF money is not used to pay off previous lenders

Clear IMF rules on the points above would increase the pressure on lenders to accept necessary debt restructurings, freeing up money to finance development, and mean lenders act more responsibly in the future.

### 3.3 Prevent holdout creditors avoiding debt restructurings

Where debt restructurings do take place, they can be undermined by holdout creditors, often known as vulture funds, who refuse to take part in a restructuring agreed to by other creditors. If a country continues to be in default, the holdouts then sue the government concerned. These cases are usually heard in New York or London, as 88% of international debt contracts are owed under New York or English law.

In 2010 the UK passed a law which enforced the Heavily Indebted Poor Countries (HIPC) debt relief programme across all creditors. This prevented vulture funds from suing 40 HIPC's on old debts. However, it has no impact on new debts and non-HIPC's. Belgium and France have passed more extensive laws which limit the ability of holdouts to sue.

Major financial centres, especially the UK and New York, should pass new laws to ensure that debt restructurings agreed to by a majority of creditors are enforced across all creditors.

### **3.4 Pursue an international debt workout mechanism**

In 2014 and 2015<sup>12</sup> the UN General Assembly voted for new procedures and principles for responding to debt crises when they arise. This work programme should be continued, and all countries should contribute to it, to create a more effective, fair and transparent debt workout process in response to debt crises.

### **3.5 Tackling tax avoidance and evasion**

Any and all measures to reduce tax avoidance and evasion, as well as broader illicit financial flows, will help to maximise finance for development, and make governments less reliant on external borrowing.





# POLICY PRIORITIES TO CURB ILLICIT FINANCIAL FLOWS



## Summary:

Scandal after scandal reveals the patterns of hidden ownership through tax havens and confirms the corrupting influence of financial secrecy. A growing body of research shows the scale of lost tax revenues worldwide due to undeclared offshore assets and the opaque profit shifting of multinational companies. Lower-income countries suffer the most intense losses, and most urgently need additional revenues to support their sustainable development – but at the same time, lower-income countries are largely excluded from the transparency mechanisms that have been established.

Sustainable Development Goal 16.4 represents a global commitment to curb illicit financial flows. The United Nations can, first, deliver powerful indicators that ensure state-level accountability for illicit financial flows; and, second, convene a fully inclusive process aimed at delivering the international convention that would eliminate the underlying drivers of illicit flows once and for all.

*By Alex Cobham  
Chief Executive, Tax Justice Network*

## TAX IS CENTRAL TO THE SDGS

The Sustainable Development Goals framework recognizes the importance of domestic resource mobilization, with tax identified as the primary target in the goal relating to means of implementation (SDG 17.1). The 4Rs of tax (Cobham, 2005) show the range of important contributions:

- Revenue: Tax provides the core funding for public services including universal health and education, for effective public administration and the just and comprehensive rule of law, and for investments in infrastructure that underpin long-term economic development.
- Redistribution: Challenging inequalities is a central component of the SDG approach. As well as financing inclusive public services and direct transfers to lower-income groups, taxes can support progressive redistribution from the highest-income groups. This is especially true of direct taxes on income, assets, profits and capital gains.
- Re-pricing: Sustainable development depends on structural transformation of economies, including major shifts away from damaging forms of production and consumption. Effective tax systems in this context support the re-pricing of public 'bads' such as carbon emissions and tobacco consumption.
- Representation: The fourth R of tax is perhaps the most important and often overlooked. The evidence shows that the higher the share of tax in government expenditures (as opposed to natural resource wealth or even aid), and perhaps direct taxes in particular, the stronger the development over time of a country's governance standards (Ross, 2004; Prichard, 2016). To take a particular example, Cobham & Carter (2016) show that not only do more tax-reliant governments tend to spend more of their budget on public healthcare, but both the coverage and the outcomes tend to be better.

*When states rely more on taxpayers for their revenues, states are more likely to be responsive and representative – so not only may there be higher revenues, but they are more likely to be spent on inclusive, sustainable development, with lower corruption.*

## THE THREAT OF ILLICIT FINANCIAL FLOWS

Recent years have seen repeated leaks of data, with the International Consortium of Investigative Journalists (ICIJ) publishing a series of what amount to snapshots of the systemic nature of international tax abuse and other corrupt practices. SwissLeaks showed the extent of assets held by just one bank in the world's leading secrecy jurisdiction. LuxLeaks revealed the volume of profit shifting organized by the big four accounting firms into one of the leading corporate tax havens. The OffshoreLeaks, Panama Papers and Paradise Papers produced scandal after scandal, as they revealed hidden ownership behind companies, trusts and foundations around the world.



'Illicit financial flows' (IFF) is an umbrella term for the broad group of hidden, harmful, cross-border economic and financial transactions, comprising two main types. One involves flows of strictly illegal capital. Specifically, this can be capital resulting from the outright theft of state funds, or the proceeds of criminal markets such as trafficking in humans or illegal drugs. Legal capital IFF are those where the origin of the funds may be licit, but the subsequent transactions are not. This includes tax-motivated flows designed to hide the ownership or location of assets or income streams, which may fall into the categories of tax evasion or of lawful or unlawful tax avoidance. Also included are IFF where anonymity is engineered in order to facilitate regulatory abuses – for example, circumvention of anti-monopoly measures, or of measures designed to prevent political conflicts of interest.

As the figure illustrates, each type of IFF gives rise to similar issues that threaten human security (from Cobham & Janský, 2018). Most simply, IFF act directly counter to the benefits of effective taxation: they erode the resources available to states, and states' ability and willingness to use those resources for the benefit of, and as directed by their people. The deliberately hidden nature of IFF makes quantification difficult, but the area of tax abuse in particular has been the subject of significant recent efforts by researchers in academia, the Tax Justice Network, UNCTAD and the IMF. The leading suggest that undeclared offshore assets may result in tax losses approaching \$200 billion annually; while losses associated with multinational companies' tax avoidance may be of the order of \$500 billion annually (TJN, 2017). In each case, the greatest losses in currency terms is estimated to be suffered by major economies. But, crucially, the most intense losses when evaluated as a proportion of current tax revenues, are seen to occur in smaller and lower-income countries. Those states most in need of revenues to support their sustainable development strategies are precisely those most damaged by illicit flows.

## POLICY RESPONSES

Recognizing the IFF threat and building on the pivotal work of the High-Level Panel on Illicit Financial Flows out of Africa (African Union/UN Economic Commission for Africa, 2015), the Sustainable Development Goals include a target to reduce IFF (SDG 16.4). Key policy responses identified in the High-Level Panel report and elsewhere reflect the Tax Justice Network's 'ABC of tax transparency'. This policy platform was proposed following the Tax Justice Network's formal establishment in 2003, building on the expertise of professionals and academics from around the world. It was initially derided as utopian and unrealistic by OECD figures and others in international policy institutions – but by the time of the G20 and G8 meetings in 2013, these measures had come to form the basis of the global policy agenda.

**A**utomatic exchange of tax information between jurisdictions is a critical measure to end bank secrecy, requiring the provision to foreign tax authorities of data on the financial accounts held by their tax residents. As of September 2018, more than 100 jurisdictions are participating in the new multilateral instrument for automatic exchange, the OECD Common Reporting Standard. But most lower-income countries remain excluded, due to onerous requirements for immediate reciprocity (as if the problem were e.g. Malawi's banks holding accounts of Swiss tax residents, rather than the reverse) and further hurdles justified on the basis of confidentiality. In addition, some of the most important secrecy jurisdictions such as Switzerland have refused to provide information to all signatories, instead picking and choosing. And most worryingly, the world's biggest financial center, the USA, has refused to participate.

Beneficial ownership transparency is the requirement for public registers in every country of the warm blooded human beings who ultimately own and control companies, trusts and foundations, to eliminate the anonymous transactions that are so often at the heart of tax abuses and the whole range of other illicit financial flows. Here there has been important progress in a range of lower-income countries and across the EU, but many of the most heavily-used secrecy jurisdictions are taking a lead from the USA and refusing to consider adhering to this emerging standard.

Country-by-country reporting by multinational companies is the requirement for public information, showing for each jurisdiction the extent of economic activity, and – for comparison – where profits are declared and taxes paid. This measure allows multinationals to be held to account for the divergences that result from their profit shifting behaviour; and so too the jurisdictions responsible, such as Luxembourg, the Cayman Islands, and the Netherlands. The G20 mandated the OECD to produce a country-by-country reporting standard, which closely resembled the original Tax Justice Network proposal in all but one respect: the OECD deemed that the data should be held privately. Data would be received directly only by the tax authority in the home country (overwhelmingly, OECD members) – with a bespoke set of exchange arrangements created that, predictably, has resulted in weak access for smaller and lower-income countries.

Despite the progress made, two major problems stand out. First, lower-income countries are systematically excluded from the benefits of progress made; and second, too many jurisdictions continue to resist transparency. These can be addressed by requiring truly comprehensive, multilateral automatic information exchange, with temporary reciprocity waivers for lower-income countries and appropriate counter-measures for non-cooperative jurisdictions; by setting a standard with meaningful counter-measures for public beneficial ownership registers for companies, trusts and foundations in every jurisdiction; and by making country-by-country reporting public, to bring multinationals broadly in line with the transparency expected of companies that operate in individual countries and publish annual accounts.

## TWO PRIORITIES FOR THE UN

It is abundantly clear from recent experience that the OECD is not the appropriate body to deliver on these sustainable development aims. As a membership club for rich countries only, the OECD lacks legitimacy as a global body. This is unaffected by the recent creation of the ‘Inclusive Framework’ through which lower-income countries have been allowed to sign up to the Base Erosion and Profit Shifting (BEPS) initiative on which the great majority had little or no say.

The OECD’s performance of the roles asked of it by the G20 confirm this political vulnerability. The need to respond to its members, rather than others, is repeatedly evident: from the caving in to lobbying against country-by-country reporting being made public, or even provided directly to lower-income country tax authorities; to the continuing inability to call out its biggest member, the USA, for its complete non-cooperation with information exchange; and overall, the systematic exclusion of lower-income countries from the benefits of progress. Ultimately, the OECD is not the appropriate forum for measures which are intended to allow the world to deliver on the Sustainable Development Goals. The United Nations is.

# 1. POWERFUL INDICATORS FOR SDG 16.4

Unscrupulous individuals, multinational companies and professional enablers including major banks, law firms and accountants are the immediate actors behind illicit financial flows. But a crucial feature of these phenomena is that they rely on state actions, by financial secrecy jurisdictions and corporate tax havens. The two indicators currently under consideration for SDG 16.4 would support progress by using newly available data to ensure that states can be held accountable for their role (Cobham & Janský, 2018). Each indicator captures the global scale, but can also be disaggregated to expose the role of individual states in capturing illicit flows.

## 16.4.1: MISALIGNED PROFITS

*The value of profits reported by multinationals in countries, for which there is no proportionate economic activity*

## 16.4.2: UNDECLARED OFFSHORE ASSETS

*The value of residents' assets recorded by other jurisdictions, for which there is no corresponding declaration to tax authorities*

# 2. UN CONVENTION ON FINANCIAL TRANSPARENCY

A UN Convention on Financial Transparency has the potential to make a major contribution to the SDGs, delivering global progress against the financial secrecy that drives tax abuse and other illicit financial flows. The UN is the legitimate forum in which such global minimum standards should be set, to curtail the extent to which individual jurisdictions are able to undermine others' prospects for sustainable development. The broad idea for a convention of this type was proposed by the Norwegian government's Commission on Capital Flight from Poor Countries (2009), but the absent of high-level international leadership has prevented progress.

With the G77 now highly engaged on these issues, and the main principles at least of the financial transparency platform largely supported in OECD countries, the time is right to move forward to concrete negotiations, by the UN Secretary-General convening a process to establish a UN Convention on Financial Transparency, with a secretariat drawn from relevant experts including staff at UNCTAD, UNDESA, UNODC and the UN regional economic commissions that are currently engaged in the process to set indicators for SDG 16.4.



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# ILLICIT FINANCIAL FLOWS



Illicit financial flows affect the Lebanese economy in the most discrete and detrimental ways imaginable.

IFFs are directly related to the United Nation's 17 Sustainable Development Goals that are the gateway to monitoring and keeping track of implementing proper human rights in the most sustainable and responsible ways possible. Risky examples experienced in Lebanon include "corruption, organized crime, illegal exploitation of natural resources, fraud in international trade and tax evasion are as harmful as the diversion of money from public priorities," (The World Bank, 2017).

When Lebanon's Global Compact Network Lebanon (GCNL) took on the platform of the SDGs, it was a crucial responsibility for Dr. Jamali, as the President of GCNL and the member in the Parliament of Lebanon to partake in an action call that not only recommends legal transactions and job creation, but also obliges to do so in Lebanon. IFFs can also be in "Illegal logging, fishing and mineral extraction are strongly connected with deforestation, the depletion of fishing stocks and environmental degradation as well as the impoverishment of individuals and communities who rely on those resources to sustain their existence. Drugs counterfeiting can have even more dire consequences, such as the thousands of preventable deaths from malaria and tuberculosis due to sub-standard counterfeit drugs," (The World Bank, 2017).

*By Dima Jamali  
Member of Parliament  
President, Global Compact Network Lebanon*

As Lebanon's economy is deteriorating below potential, with stagflation and the high unemployment rate, we are in serious need of uplifting this recessive stagnation. "The GDP growth in Lebanon in 2017 is estimated to have undergone a slight acceleration to reach an estimated 2 percent, compared to 1.7 percent in 2016. In addition, the public debt continues to rise (153.4% of GDP at end-2017), due to low growth and a relatively high cost of debt financing," (The World Bank, 2017). The total tax evasion in Lebanon is "estimated between \$1.1 billion and \$1.7 billion; however, many parameters crucial to identifying potential gaps in the administration of tax revenues remain "hidden," or buried in the country's informal economic activities," (The Daily Star, 2017).

## RECOMMENDATIONS:

1. The public and private sector should cooperate towards a common goal of eradicating IFFs, such as focusing on how crime rates and taxes are regulated and monitored.
2. Strict monitoring of the payment of taxes, and of illegal acts such as money laundering, by the government.
3. Establishing transparent tax and trade policies that hold people in the private and public sector accountable.
4. Continuously assessing the profit of the public and private sector, and publishing a yearly report containing details that are accessible to the public.
5. Encouraging a digital economy that will boost Lebanon on macroeconomic level, in terms of innovation and infrastructure.





# CHALLENGES TO DOMESTIC RESOURCE MOBILISATION FOR FINANCING FOR SUSTAINABLE DEVELOPMENT -SYSTEMIC ISSUES-



## **Introduction:**

Within the context of the UN efforts on financing for development the theme of today's meeting falls under the general rubric of mobilization of domestic resources and in particular the direction of public resources to sustainable development.<sup>13</sup>

Despite the transition to include a broader objective of sustainability that characterized the Third International Conference on Financing for Development, this particular theme reprises the general thrust of UN development policy since its inception in the Development Decades, in searching for supplemental sources of financing for developing countries rather than seeking remedies to the underlying conditions that have led to the impression that developing countries lack the ability to generate sufficient domestic financial resources. I would thus like to start with a short historical reflection on how successful these policies have been.

*By Jan Kregel*

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## HOW ARE WE DOING SIXTY YEARS ON?

The formal presentation of UN development policy was put forward, in the context of the US Alliance for Progress initiative in the First UN Development Decade (1961) which expressed the rationale for the support of policies to mobilise foreign financial resources for transfer to developing countries. It was based on the argument that low or subsistence incomes in developing countries made sufficient domestic savings problematical and thus made finance from foreign resources imperative.

To achieve a 5 percent growth in national income over the period, it was proposed that 1.0 (eventually reduced to 0.7% on the assumption of 0.3 per cent private flows) of developing countries' GDP should take the form of official development assistance. While the growth target was achieved, in the sixty-plus years since the proposal, the financing objective was never achieved, and indeed, after the 1970s private financial flows to developing countries have been dominant, producing the disappointing experience of the predominance of negative net private financial flows. That is, developing countries are providing financing for the developed countries, rather than vice versa as was the intention.

The first UNCTAD Conference (1964) shifted the emphasis from the need for foreign financial flows to the impact of international trade and proposed mobilisation of external trade in support of development. The Secretary of the Conference (Raul Prebisch) pointed out that the declining terms of trade for the majority of products exported by developing countries would more than counter any beneficial impact of financial flows on development. He called for a reversal of policy that would allow developing countries to "earn" their way to development by making the international trading system more supportive of development. This produced calls for policies such as special and differential treatment of developing country exports, a General System of Preferences for developing country exports by developed countries, the creation of Buffer Stocks to smooth fluctuations in commodity prices.

But the main point of this shift was to call attention to the systemic impediments to development produced by a structure of production and exports in developing countries dominated by primary commodity exports and the need for measures to provide a more balanced productive structure through support for domestic manufacturing production.

Unfortunately, these measures have done little to remedy these systemic impediments to development; the tendency to decline in the terms of trade and the volatility of commodity prices have remained a difficulty and there has been increasing resistance in developed countries to the need to support manufacturing in developing countries. Developed countries have followed Adam Smith's recommendation to the Crown that the manufacturing production in the Colonies should be prevented at all costs. Thus, the main point of the UNCTAD initiative, that reform of the trading system to make it more equitable would be in the interests of both developed and developing countries was soon lost, and even those developing countries that managed a degree of domestic expansion in manufacturing have experienced precocious deindustrialisation.



Nonetheless, the initiative shifted the discussion away from external finance to the importance of domestic measures to produce a more efficient use of domestic resource possibilities through the creation of a manufacturing base for exports.

It was the impact of the Asian crisis on those developing countries that had been most successful in transforming their domestic production to successful export earnings that brought financing back onto the UN development agenda: this time it was the reform of the International Financial Architecture, again driven by proposals of the US president. However, in the lapse between the 1997 Asian financial crisis and the first Financing for Development Conference in 2002, the focus had shifted away from international finance reform and the Monterrey Consensus document placed renewed emphasis on the mobilisation of Domestic Resources.

The first pillar of the consensus highlighted the importance of creating a supportive enabling environment characterized by good governance; control of corruption; sound macroeconomic policies; public resources/budgeting; sound banking systems; micro-finance/SMEs—including those operated by women and in rural areas; and capacity building, with special focus on Africa.

It also included a shift away from emphasis on financial transfers, suggesting that the short fall of official assistance could in part be offset by “innovative sources of finance.” These included well known measures such as financial transaction taxes, air ticket taxes; elimination of illicit financial flows and other measures such as fighting corruption to better channel public resources to development purposes.

The importance of international financial system reform reemerged after the 2007/8 Great Recession and the Report of the President of the General Assembly on the Reform of the International financial system Conference and follow up converged with the follow-up to the Doha conference reviewing the Consensus, with emphasis focusing on public resource mobilization of financial resources. We thus note that the thrust to discussion has again returned to the search for financial resources to supplement the shortfall in official assistance and the negative impact of the dominant role of private financial flows and away from seeking remedies for structural impediments to development. It also demonstrates a shift away from discussion of the impact of international institutions in the development process and back to domestic measures of financing.

## PUBLIC SECTOR RESOURCE MOBILIZATION?

The first question that must be raised in considering the role of the public sector in resource mobilization is just exactly what resources the public sector has to mobilize. In principle the “public sector” itself has no resources to mobilize, and its role is usually defined as supporting private sector mobilization or acquiring private resources for public uses. The former is the formulation of economic policies that support economic development of the private sector, while the second refers to the manner in which the public sector uses those resources acquired from the private sector by various means, but most generally by taxation. The public sector is then a facilitator rather than a source of actual financing, and discussion of its role should be more directed towards management of the resources that it appropriate from the private sector rather than dealing with systemic impediments.

In this respect, taxation, which represents a resource transfer either from the private to public sector or within the private sector cannot be a “source” of financing. Thus, the measures to deal with illicit financial flows, which represent evasion or avoidance of measures to raise government revenue cannot be considered formally under the rubric of additional financial resources. Rather they deal with a management constraint on the ability of the public sector to use financial transfers in support of development and in response to systemic constraints. This is what is generally defined as fiscal policy.

These measures are usually supported by a presumed need for governments not only to use tax resources efficiently, but to have sufficient resources to support sound fiscal policy in the form of a balanced fiscal position. It is important to remember that the government “budget balance” is an endogenous variable determined by other autonomous decisionmakers in the economy, in particular private domestic expenditure decisions of households and firms, the net foreign expenditure represented by domestic production structure and foreign demand, decisions of foreign financial institutions and national public expenditure decisions. It is thus virtually impossible for government to implement any particular fiscal policy without the concomitant action of these other economic decisionmakers.

For example, government can attract foreign financial flows through policies to restrain relative wage growth, or by high interest rates. It can influence foreign demand through depreciation of the exchange rate, low relative production costs, or controls or tariffs on imports and exports. But the response of the private sector to these measures rely beyond government control. Instead it is domestic demand in the form of government expenditure policies that offers the most important impact by means of Government expenditure policy, that is, how government directs demand to the private sector or chooses public provision by direct production. This is a question of what private resources government should mobilise. Let us provide a list of the most important areas in which Government budget policies may provide mobilization of domestic resources.

## 1<sup>ST</sup> DEVELOPMENT OBJECTIVE: EMPLOYMENT

For all developing countries the most underutilized domestic resource is labour. Indeed, no matter the level of development, every economy faces the problem of finding employment for what one of the very early UN reports Measures for the Economic Development of Underdeveloped Countries 14 defined as “disguised unemployment.” However, reliance on traditional fiscal policy to generate demand which might produce an increase in employment is but a “blunt instrument.” What is required is a targeted policy of demand for employment in particular sectors, or even the direct employment by government in certain sectors. In this regard it is well known that it is difficult to generate private sector incentives to support environmental policies. This is explained by difficulty in the private appropriation of gains from what are non-excludable public goods. Public provision of what may be called “green jobs” in support of environmental policy would mobilize employment and mobilize environmental benefits.

There are additional benefits to be gained from a direct focus on job creation by government. The use of policies to promote private sector investment requires private sector financing or public subsidies, which leads to the creation of public or private debt liabilities which must be serviced from private or public revenues. Failure to produce the required earnings to provide debt service produces financial fragility and the possible reversal of the benefits of these measures. If government policy supports full employment, it provides incomes directly to households and provides a floor on incomes and by definition would produce a rate of growth equal to labour force growth. If there is productivity, then this rate is levered up.

## **2<sup>ND</sup> OBJECTIVE: TRANSFORMATION OF PRODUCTIVE STRUCTURE**

The primordial development impediment identified by Prebisch, Singer and Myrdal in the form of the declining terms of trade and formalized by Lewis in his model of unlimited supplies of labour was dependence on agriculture for domestic output and primary commodities for exports, they all proposed policies to transfer the “underemployed” or “disguised unemployed” agricultural workers to other higher productivity occupations. Since manufacturing provides a much higher possibility of productivity growth they proposed development of manufacturing to absorb agricultural workers and generate non-commodity exports.

The higher wage growth due to higher technical progress in industry raises living standards and provides demand for additional investment in manufacturing, but the very innovation that produces increased demand also reduces labour coefficients in manufacturing as output per unit of labour rises, reducing the demand for labour in manufacturing. Manufacturing is thus only a temporary solution and many countries have been driven to develop service sector policies to absorb unemployed manufacturing workers. Again, environmental employment policies would meet this problem directly.

Since innovation produces higher per capita income, as it reduces demand for labour per unit of output, no matter the level of development, the employment problem repeats: finding employment for disguised unemployment. The remedy for this requires sectoral policy and the involvement of government expenditure policy and the creation of appropriate institutions.

## **3<sup>RD</sup> OBJECTIVE: BUILD DOMESTIC FINANCIAL SYSTEM**

For Schumpeter<sup>15</sup>, the banker was the “ephor” of capitalism, that is, the mastermind of successful development. It was the finance provided by the banker that allowed innovative entrepreneurs the possibility to introduce new productive methods and products at the base of economic development. Bankers could do this through the creation of credit that provided the entrepreneur with purchasing power; it could be created, said Schumpeter, “out of nothing”. The reason bankers could do this is because they had a monopoly on the provision of means of payment. For Schumpeter and other Austrian economists this meant that development could not be limited or constrained by domestic saving if the country had its own financial system to create the finance. Financial transfers from abroad were not required.

More importantly this meant that governments need not be constrained in their development policies by a need to finance those expenditures by borrowing or by taxation. Debt management and taxation policy were still important, but not to finance development, they were important for the design of the direction of development.

The taxation system is crucial to this process because with an effective fiscal system, taxes are a liability that can be extinguished only by means of acquiring government liabilities, i.e. government debt. The private sector can only acquire government debt by selling goods and services to the government and they do so because they use these government liabilities in payment of taxes. Efficient taxation is then only required to allow the government to follow Schumpeter's advice: create purchasing power "out of nothing" to finance development. It is not to raise resources, but rather to create them.

Thus, the mobilization of illicit financial flows is not to capture finance for development, it is to support the ability of government to have an effective taxation system because it is only if taxation is binding and effective that the government can finance development out of nothing. An effective taxation system is thus the foundation of an efficient domestic financial system to support development finance. It is a matter of choice whether government holds a monopoly on the payments system, or whether it is shared with the private sector. But in the latter case it is important to stress that the private sector remains the client of government in providing these financing services. The resource that the public sector can mobilize is the purchasing power that it can create out of nothing through the creation of a domestic financing system.

Once the domestic financial system has been developed, and government has the possibility to produce domestic finance, it becomes possible to turn to the problem of selecting government policies that are sustainable over time — that is not only in the environmental sense, but in preserving the financial system from crisis.

## 4<sup>TH</sup> OBJECTIVE:

### DEVELOPMENT FRIENDLY INTERNATIONAL FINANCIAL SYSTEM

Under the Bretton Woods system the objective of exchange rate stability placed a inherent limit on the rate of a country's development if it had primary commodity exports. Whenever growth produced a demand for imports that could not be financed by expanding exports due to declining terms of trade, pressure on the exchange rate would require a change in policy, either to reduce expansion or to try to generate an export surplus to replenish reserves or repay the IMF if it had required support to keep the exchange rate stable.

Post-Bretton Woods this regime changed, and private capital flows allowed countries to run external deficits and flexible exchange rates eliminated the need use IMF funding. Thus, deficits became very large and were subject to capital flow reversals which generated financial crisis. The IMF support program was required not so much to provide financing, but to guarantee to international creditors that the hapless government would change policy and generate the export surplus

required to repay private lenders. The end result was the same, but the mechanism was different. Thus, to prevent international markets from disrupting growth strategies based on domestic financing it is necessary to control and manage international capital flows and manage the impact of free capital markets to determine the domestic structure of production; extractive industries; soft commodities; and deindustrialization.

## 5<sup>TH</sup> OBJECTIVE: DEVELOPMENT FRIENDLY INTERNATIONAL FINANCIAL SYSTEM

One possibility would be to resurrect Keynes' proposal for an international financial system based on what he called the "banking principle". This meant the possibility to finance external payments deficits out of nothing and finance development by preserving global demand. The World Bank and the IMF would never consider such proposal and the current proposals for regional development banks do not do this. However, the Keynes system is more efficient than supporting international capital flows for development finance and would involve creation of Regional Clearing Unions or developing country clearing unions.<sup>16</sup> This would not resolve the underlying problem of developed country financial system dominance but would provide a modicum of autonomy in national development strategy.

### SUMMARY

The challenges facing development financing are to introduce measures to

- Mobilise domestic employment;
- Support domestic sectoral transformation of the production structure;
- Mobilize domestic finance: monetary sovereignty;
- Manage international financial flows or build a development-friendly international financial system;
- Build an environmentally sustainable development strategy.





# IMPACT OF ILLICIT FINANCIAL FLOWS ON AFRICA'S DEVELOPMENT OBJECTIVES



*Illicit Financial Flows (IFFs) from Africa are directly damaging Africa's development prospects. It is time to stop them...*

An excerpt from the 'Stop the Bleeding' campaign; a joint advocacy campaign by the ECA and the Coalition of African CSOs which essentially represents the response of African citizens to the scourge of IFFs from Africa.

This quote illustrates how illicit financial outflows are a huge drain on Africa's resources and are of serious concern given that first, Africa's inadequate growth with at average growth of 5% annually is encouraging at best and second, the continent still suffers from high levels of poverty with the number of people living on less than \$1.25/day increased from 290 million to 414 million.

To shed more light on the statistics, estimates from various recent studies (including Kar and Cartwright-Smith, 2010) reveal that, from 1970 to 2008, Africa lost between \$854 billion and \$1.8 trillion in illicit financial flows. The progress report of the High-level Panel on Illicit Financial Flows from Africa released in 2014 revealed that the annual average is over \$50 billion (ECA, 2013) but this has since increased. Commercial IFFs which include tax evasion, trade and services mispricing and transfer pricing abuses by multinational corporations account for the largest proportion of illicit financial flows. This is closely followed by proceeds from criminal activities and then corruption.

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A 2015 study by the Global Financial Integrity further indicates that Sub-Saharan Africa tops the list when IFFs are scaled as a percentage of gross domestic product (GDP), with illicit financial outflows averaging 6.1 percent of the region's GDP. The same study also clarified that Africa is actually estimated to be losing in excess of over \$70bn in IFFs annually. This is well over previous estimations of \$50bn and even these estimates may well be short of reality because accurate data do not exist for all African countries. Moreover, these estimates often exclude some forms of IFFs which by nature are secretive and cannot be properly estimated. These include proceeds of bribery and trafficking in drugs, people, and firearms. These outflows are of serious concern given Africa's inadequate growth, poverty, resource needs and the changing global landscape of official development assistance.

With regards to the outflows which we have been able to put figures to; Illicit financial flows from Africa measured through trade mis-pricing show high concentration in a few sectors, notably the extractive and mining industries. Over the period, 2000-2009, 56% of illicit financial flows from Africa came from the oil, precious metals, minerals, ores, iron, steel, and copper sectors. Sectors such as fruits and nuts for human consumption, electrical machinery and equipment, fish and crustaceans, clothing and cocoa have also been targets for illicit financial flows with each sector accounting for between 3 and 4 per cent of total illicit flows from Africa over the past decade.

Illicit financial flows also appear to flow overwhelmingly to a small number of destination countries. For example, in 2008, 76.4% of illicit financial flows from the Nigerian oil Sector ended up in just five countries, namely the United States, Spain, France, Japan and Germany. More generally, it appears that the main receivers of such flows are primarily developed countries (in particular, the United States, Japan, the Republic of Korea and European countries) and emerging economies (China and India). Interestingly, these countries are also Africa's major trade partners. Evidently, the magnitudes of these illicit outflows from Africa have been found to be even larger than the Official Development Assistance (ODA) from these developed countries to Africa. This is an issue which has been cited by the AU/ECA High Level Panel Report on IFFs.

Undeniably, the development consequences of IFFs are quite severe. When monies are illicitly transferred out of African countries, their economies do not benefit from the multiplier effects of the domestic use of such resources, whether for consumption or investment. Such lost opportunities impact negatively on growth and ultimately on job creation in Africa. Similarly, when profits are illicitly transferred out of African countries, reinvestment and the concomitant expansion by companies are not taking place in Africa. Some have estimated that Africa's capital stock would have expanded by more than 60 per cent if funds leaving Africa illicitly had remained on the continent, while GDP per capita would be up to 15 per cent more (Boyce and Ndikumana, 2012). Just as telling is the estimate in the 2012 African Economic Outlook that Africa's ratio of domestic investment to GDP would increase from 19 per cent to 30 per cent if the stock of capital taken out were available for investment within the continent.

The considerable repercussions and multiple threats posed by illicit financial flows go well beyond this. First, they drain resources and tax revenues by eroding the much-needed tax base for public investment and social spending. Deficiencies in African countries' tax revenue are also partly responsible for the vulnerability of African economies to recurring fiscal deficits. While not necessarily problematic in the short run, continuing fiscal deficits will eventually cause resort to reductions in spending and attendant austerity.

IFFs also curb domestic savings, which are needed to reduce the continent's annual \$31 billion infrastructure financing gap and to tackle climate change and youth unemployment. Second, IFFs lead to governance issues, for example by exacerbating inequality and by encouraging rent-seeking rather than productivity maximization. This practice can be damaging to countries as it undermines institutions such as banks and financial intelligence units and legal mechanisms for detecting and prosecuting perpetrators of illicit financial flows. Third, such flows perpetuate Africa's economic dependence on external aid. This is reflected by the proportion of official development assistance in the budgets of African Governments. Indeed, for some countries, official development assistance accounts for 70 % of total government revenue.

Indeed, IFFs can contribute to austerity in other ways. Balance of payments statistics influence fiscal and monetary policy, yet IFFs mask the real export performance of African countries. The well-known effects of austerity manifest themselves in various ways. These include a squeeze on growth, slowdown of investment, and factories operating at far less than full capacity—all of which are accompanied by retrenchment and job losses. Given their role in managing economic shocks and adjustment in African countries, and their assigned role in generating financial statistics, the IMF, World Bank and Bank for International Settlements should play a more active role in refining data that will assist in tracking IFFs.

Instead, IFFs contribute to shifting resources from productive to less productive activities. They reduce the efficiency of resource allocation through the focus on activities with the highest pre-tax returns to those with best after-tax returns. This focus tends to reduce value creation, which is very important as Africa seeks to shift its production structures from primary to secondary activities.

In addition to other governance and development consequences, IFFs strain the capacities of African governments in various ways. While a good deal of IFFs take place because of weak regulatory and law enforcement capacities, the effort to stem such outflows strains these already weak capacities. Drawing on the example of global negotiations in development, trade, and climate change for instance, the ability of African countries to negotiate and obtain fair outcomes is always a matter of concern. On a more positive note, African leaders have given the issue of illicit financial flows from Africa and its reduction the necessary priority it requires ever since it was brought to their attention. In order to significantly improve Africa's domestic resource mobilization efforts, the leaders agreed that the continent had to urgently address the critical challenge of Illicit Financial Flows (IFFs) from Africa. These illicit outflows which derive from proceeds of tax evasion and laundered commercial transactions; proceeds of criminal activities; and proceeds of theft of public resources, bribery and other forms of corruption hinder the level of savings required to address the continent's key development issues.



This awareness of the problem was also indicated by the prompt passage of the High Level Panel Report on Illicit Financial Flows from Africa as a Special Declaration by the African Union Heads of States at the 24th African Union Summit subsequent to its presentation. This marked a critical step which demonstrated the concern shared by African governments about illicit financial flows. However, it only marked the beginning of the work ahead. With a full understanding of the concerns raised by illicit financial flows, the Assembly noted the growing need for domestic resources to meet the financial requirements for actualizing the AU Agenda 2063 and the Post 2015 Development Agenda, which both call for inclusive growth, sustainable development and social and economic structural transformation of Africa through optimal utilization of its natural resource endowments.

The necessity of curtailing illicit financial flows cannot be overstressed. Fighting corruption and the institution of tax havens, so as to ensure the efficient and effective use of resources and domestic long-term financing are just some of the more crucial steps that need to be taken. High and increasing illicit financial flows from Africa impact on development through losses in tax revenue and a global consensus in tackling the problem is required which means that decisions to pursue solutions will have to be taken at the political level. While various countries and regions are developing mechanisms for information sharing, there is the need to move to a common global mechanism in order to increase transparency. More importantly, African countries need to pay closer attention to illicit flows from the commercial sector and they need to pay close attention to activities in the extractive sector in efforts to curb illicit financial flows from Africa. Indeed, curtailing illicit financial flows could become a key delivery mechanism for sustainable development. Tackling the issue of illicit financial flows requires concerted efforts by countries of origin and destination countries alike. The legal and financial approach must be transparent and the international asset recovery regime integrated, in an effort to curb these outflows and unlock the much-needed resources for Africa's development.





# CURRENT ISSUES PERTAINING TO DOMESTIC RESOURCE MOBILIZATION AND ILLICIT FINANCIAL FLOWS



## THE DISCIPLINES IN THE CONCEPT OF ILLICIT FINANCIAL FLOWS

Work on concept of “illicit financial flows” (IFF) formally began in 2011 with the commissioning of a High-Level Panel on Illicit Financial Flows from Africa (led by former South African President Thabo Mbeki) by the Conference of Ministers of Finance, Planning and Economic Development of the African Union and the United Nations Economic Commission for Africa.

The outcome of the commissioned study, almost immediately after publication called the “Mbeki Report,” carries with it some key dimensions which I would like to call the elements of the discipline within the concept of IFF.

First, the term illicit financial flows denotes economic transactions that apply to more than one tax jurisdiction. Strictly speaking, events within only one tax jurisdiction are not of interest to the IFF discipline. IFF involves transfers from one jurisdiction to another. Second, the choice of the term “illicit” is deliberate in order to encompass actions that are contrary to public policy or that might be legal in some context or some other jurisdiction. The intention is to encompass actions that go beyond actions that are illegal in the law. Thus, IFF would implicate actions that systematically flout government policy. It also implicates actions that could be legal or official policy in some jurisdictions, but illegal or contrary to policy in other jurisdictions.

As a direct application of the principle that illicit flows include socially undesirable beyond those prohibited by law is the Mbeki Report’s three-part classification of IFF into: (1) “Commercial”, (2) Criminal, and (3) Corrupt.

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## IFF AND DOMESTIC RESOURCE MOBILIZATION

These two aspects that accompany the IFF concept have critical implications when considering the question of Domestic Resource Mobilization (DRM).

While DRM is often associated with domestic policies, if IFF has an impact on DRM, then performance in DRM is shaped by external rules and events, making DRM itself a matter of cross-country cooperation and the set of internationally agreed and enforceable disciplines. IFF concerns transactions involving more than one tax jurisdiction and those which have the property of being legal in some jurisdictions but not in others.

## DRM AND SUSTAINABLE DEVELOPMENT GOALS

Agenda 2030, the platform for the sustainable development goals (SDGs), consists of a plan of action organized around 17 goals and 169 targets. Target 16.4 of the SDGs calls for a significant reduction of IFFs by 2030.

To meet the SDGs, there is a range of estimates of investment requirements, from a low of almost US\$1 trillion to US\$3 trillion. Paying attention to financing these investments is important because investment requires the availability of upfront resources. Infrastructure investment, for example, requires resources for the payment of steel, cement, materials and labor to construct facilities whose returns are spread out far into the future. Resources for education and health have to be paid today for returns that will return in the future in terms of higher productivity and incomes.

These upfront costs mean that SDGs create debt – the advance payment today to be paid back in a series of payments in the future. Achieving the SDGs would require a movement from ‘billions to trillions’ of debt financing.

The feasibility of achieving the SDGs will depend on how effectively investing countries can mobilize their tax authorities for revenue generation. This requires as a minimum reducing significantly the losses that they incur due to IFFs and the broken international tax system. Because of the billions to trillions ramp up, it will actually require that tax revenues increase as incomes and economic productivity increase – in the same historical pattern as that seen in advanced countries.

## INTERNATIONAL STANDARDS AND NORMS FOR ‘SIGNIFICANTLY REDUCING IFF’

Among the three IFF categories, the Mbeki report proposes that commercially driven transactions account for 65 per cent of IFFs from Africa. These transactions exploit ‘legal’ channels derived from accounting standards and practices legitimated by norms enshrined in double taxation treaties. Developing countries have long advocated alternative standards and complained about how these are the standards promoted by developed countries in their treaty proposals. Since the 2007-08 trans-Atlantic financial crisis, developed countries themselves have begun rethinking their favored norms. Under the OECD and the G20, they have launched the Base Erosion and Profit Shifting project and invited developing countries to participate.

The question is not whether the global tax system will change, but in what direction it will change. There are quite a few indications that the OECD-led effort will result in important changes, but these changes are not the priority areas that developing countries have long sought. Moreover, the new standards could reinforce developed country dominance over tax norms and taxing rights.

The following topics are worth considering in ongoing struggle over the governance of the global tax reform effort:

1. Tax treaties, taxing rights, bilateral versus multilateral
2. Transfer pricing methods
3. Treatment of tax havens and offshore finance centers
4. Capacities in domestic tax administration
5. Transitioning to single entity approaches of international companies
6. Exchange of information and country-by-country reporting
7. Taxation of extractive industries
8. Taxation of technical services
9. Taxation of the digital economy

Each of these issues, many of them interrelated represent issues that developing country governments and their tax officials must address at the present time and in the coming years.

For example, the 2017 study on origins of IFF in Lebanon presented in the previous ESCWA expert group meeting on IFF suggests that the following to be important: services, oil and gas, vehicles, pearls and precious metals, pharmaceutical products, and electrical machines.

For example, internationally traded services, the first in the list from Lebanon, can be addressed with methods of taxing technical services as suggested by a recent set of approaches published by the UN Committee of Experts on International Cooperation in Tax Matters. This is a new chapter that does not exist in the OECD disciplines. The taxation of technical services is the implementation of the principle agreed in the Addis Ababa Action Agenda to “make sure that all companies, including multinationals, pay taxes to the Governments of countries where economic activity occurs” (paragraph 23). The problem is that services provided to subsidiaries hosted by developing countries are often the channel through which profits are shifted and their tax base transferred to developed countries.

The second source in the list for Lebanon is oil and gas. These are transactions in companies in extractive industries. The conundrum is that extractive industries are not in agenda of OECD’s Base Erosion and Profit Shifting (BEPS), even though developing countries are under intense pressure to rely on BEPS to reform their tax regimes.

## THE GOVERNANCE OF THE EFFORT TO SIGNIFICANTLY REDUCE

The current struggles over the governance of the effort to reform of the global tax system highlight the obstacles significantly reducing IFF by 2030.

At the present time, through the Inclusive Framework (IF) and the Global Forum on Transparency and Exchange of Information, the OECD has captured a dominant position in international tax discussions if judged by the extent of participation of tax authorities. At the same time, progress is unusually slow even over the identification of basic shared principles on moving forward in these venues.

In the first place, as illustrated in the previous section, tax priorities, such as the taxation of extractive industries and of technical services, of developing countries are poorly represented in OECD-operated fora.

Second, the norms and standards emphasized in these fora are those favoured by the OECD secretariat, including in the case of transfer pricing comparable prices, while leading developing country authorities such as Brazil, Argentina, India, and others have on their own innovated in approaches that are more practical and more legally defensible but on which the OECD is skeptical because these tend to weaken residence-based taxation.

Third, the methods used in OECD cooperation, such as the dependence on digital data bases, can be too expensive for many developing countries. Fourth, differences among developed countries themselves, to whom the OECD secretariat is accountable, are themselves obstacles to arriving at a common approach; this is particularly true in the case of the tax treatment of the digital economy where the existing dominance of US companies can be substantially curtailed by the introduction of international disciplines.

Without the active participation of developing countries in its discussions, the OECD is a poor platform for pushing tax reform forward. In the meantime, the bearers of the greatest determination and energy in tax reform are in the developing countries, who require practical and predictable approaches in their revenue systems.

As a framework for promoting this effort, IFF is an excellent platform for developing countries to intensify their experimentation and innovation in tax policies and tax cooperation. The program of an Accelerated IFF Agenda as proposed in January 2017 is a useful platform. Many of the elements of the Accelerated IFF Agenda are in the nature of process or institutional changes. But wading in these changes will immediately bring up the challenges posed by the “commercial” aspects of IFF, for which developing country innovations, breaking free of OECD fetters, will be indispensable.





# THE RIGHT TO DEVELOPMENT & ILLICIT FINANCIAL FLOWS

Realizing the Sustainable Development Goals and Financing for Development\*



## Introduction:

The phenomenon of illicit financial flows in the international economy can be examined through three specific frameworks: The 1986 UN Declaration on the Right to Development; ‘Transforming our world: the 2030 Agenda and Sustainable Development’ and Sustainable Development Goals; and the Addis Ababa Action Agenda, the outcome document of the Third International Conference for Financing for Development held in 2015. Such an approach considers means to operationalize the normative principles of the Declaration on the Right to Development in implementing the Sustainable Development Goals and the Addis Ababa Action Agenda, to achieve inclusive, equitable and sustainable development in consonance with human rights norms, standards and principles. The right to development makes the prevention and regulation of illicit financial flows a human rights imperative.

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\* The full version of this paper was presented to the Human Rights Council, Working Group on RTD, Geneva-April 2018 (A/HRC/WG.2/19/CRP.3).

## IMPACTS ON THE 2030 AGENDA

Illicit financial flows have significant impacts on realizing the right to development and sustainable development, the 2030 Agenda and the Sustainable Development Goals, as well as financing for development and the Addis Ababa Action Agenda, especially in developing countries that experience a net outflow of financial resources from the activities of transnational corporations in their countries. Transfer mispricing by transnational corporations undermine the right to development, which aims to create a national and international enabling environment conducive to development which is just, equitable, inclusive and sustainable for all people.

First, these outflows prevent developing countries, especially Least Developed Countries, from mobilizing and spending significant public financial resources required for inclusive, equitable social and economic development as well as undermine SDG target 17.1, which calls for strengthening domestic resource mobilization.

Second, illicit flows constitute a transfer of development finance from developing to developed countries and consequently exacerbates inequalities between countries, negatively impacting the prospects of SDG 10 to reduce inequalities.

Third, the loss of potential public funds through illicit financial flows and the consequent reductions in public sector investments as well as the amplification of foreign debt burdens impair the capacity of the State to invest in social sectors vital to sustainable development, particularly health and education, or in human rights terms, the rights to health and to education.

In Article 2 of the Declaration on the Right to Development, all human beings have a responsibility for development, individually and collectively, taking into account the need for full respect for their human rights and fundamental freedoms as well as their duties to the community. States whose business enterprises are responsible for tax evasion and transfer mispricing are obligated under the Declaration to cooperate internationally to address the impacts of their acts on developing countries in which they operate, and to do no harm. The duty of international cooperation is central to the right to development, which looks to a just international economic order for all humanity. The inherently international dimension of this right based on notions of a common humanity, invokes shared global responsibilities of States and accountability of the international community across national boundaries.

Shared responsibilities and mutual accountability underscore the right to development, pursuant to which States have obligations at three levels: (a) internally, through the formulation of national development policies and programmes affecting persons within their jurisdictions; (b) internationally, through the adoption and implementation of policies extending beyond their jurisdictions; and (c) collectively through global and regional partnerships. These include global human rights obligations in the context of global finance and trade, which can be applied to the extraterritorial impacts of corporate actors on the countries from which they evade and shift taxes.

*States must take resolute steps to eliminate violations of human rights under Article 5 of the Declaration on the Right to Development and must co-operate to strengthen universal respect for and observance of all human rights and fundamental freedoms for all without distinctions, under Article 6. Realizing this right requires the generation of sufficient financial resources, for which the recovery of illicit financial flows is imperative.*

Illicit financial resource outflows ultimately narrow the national tax base, which in turn impairs the ability of the State to fund social protection or adequate and accessible public services. In order to compensate for revenue shortfalls, regressive tax measures such as consumption taxes and other forms of indirect taxes are implemented. Indirect and consumption taxes disproportionately affect the income of low-income households and their ability to purchase basic goods and public services. When public services are absent or inadequate, the additional costs and labour of unpaid care work as well as informal sector work are often placed on women and girls. In the face of the inability of the public sector to finance essential social services, these services may be privatized, posing problems of affordability and accessibility. Often the results are multiple with adverse impacts on gender equality, creating barriers to basic human rights such as the rights to food, health, including healthcare and medicines.

## GLOBAL TAX COOPERATION

With regard to the growing momentum for international cooperation to tackle illicit financial flows, the role of the G20 and the Organization for Economic Cooperation and Development, the International Monetary Fund and the World Bank, as well as the United Nations, are distinct, and provide value in many ways. However, the United Nations can play a unique role in view of its universal membership and the decision-making process of the General Assembly, which is based on the sovereign equality of one-nation, one-vote. This is consonant with the right to development, which is premised on sovereign equality, free, active and meaningful participation, fair and democratic representation and voice for all.

There is a critical need for global governance reforms towards creating a global body for international tax cooperation defined by universal membership of all states. Current forums for international tax cooperation, such as the OECD and UN tax committee, are marked by a membership of predominantly developed countries, such as in the former, or only a select group of countries, such as in the latter. At the foundation of all reforms is the *sine-qua-non* shift in the ethos of commercial business and economic activity from that of amassing profits at all costs to people to one based on accountability and responsibility, anchored in the right to development and all universal, indivisible, interdependent and inter-related human rights.

The key forum advancing international tax cooperation in the U.N. is the Committee of Experts on International Cooperation in Tax Matters, which has a mandate to foster international tax cooperation among national tax authorities, consider emerging issues in global taxation, and make recommendations on capacity building and the provision of technical assistance to developing countries and economies in transition.



During the Third FfD Conference in 2015, the Group of 77 (G77) proposed the establishment of an intergovernmental organ under the auspices of the U.N. It would have the universal membership and the decision-making process of the General Assembly based on sovereign equality, that of one-nation, one-vote, which is also consonant with the DRTD. The draft outcome document of 10 February 2015 included this proposal and detailed that such an intergovernmental body would be tasked with “developing policies & attuning them to the needs of developing countries, including:

- i) internationally agreed standards for public country-by-country reporting by multinational enterprises;
- ii) the creation of public beneficial ownership registries, and
- iii) a system for multilateral, automatic exchange of tax information, including non-reciprocity for developing countries for suitable periods to ensure that global efforts make a difference on the ground for all participating countries.” Given the global operations of TNCs, all countries have a stake in the system that taxes TNCs and thereby, should have a voice in shaping global tax rules.

At the General Assembly in January 2018, Member States called on the next President of the GA to convene “a high-level meeting on international cooperation to combat illicit financial flows and strengthen good practices on assets return to foster sustainable development.” They also noted that building on the FfD Forum, this event could provide a venue for a deeper stocktaking.

## CONCLUSION

The principle of common but differentiated responsibilities is implicit in the DRTD and explicitly integrated in the 2030 Agenda, acknowledging asymmetries between the capacity of developed and developing countries. This also applies to capacity to take action to prevent and regulate IFFs. Shared global responsibilities including through collective action in international organizations as well as extra-territorial obligations, seek to address how actions in a country affect the fulfillment of human rights beyond borders. They comprise a critical link in human rights protection in an age of globalization and can serve to strengthen accountability and regulation of TNCs in the context of transnational economic and financial activity.

Based on this analysis, this paper concludes with policy recommendations for reforms and actions to prevent and regulate illicit financial flows resulting from transnational commercial activities addressed to four specific categories of key stakeholders - States, international organizations, the private sector and civil society. These recommendations include the automatic exchange of tax information, beneficial ownership, country-by-country reporting, conducive and gender-sensitive tax policies at the State level, human rights impact assessments and international and regional cooperation for States; access to data on illicit financial flows, human rights impact assessments, international and regional cooperation, capacity building for national tax administrations and reassessing the Doing Business Indicators for international organizations; mandatory reporting from banks and financial institutions and country-by-country reporting for the private sector; and, strengthening advocacy on enhancing global financial transparency and international cooperation for tax governance for international civil society.





# THE TAX GAP



## HOW TO TACKLE IT



### 1. WHAT IS THE TAX GAP PROBLEM AND WHAT ARE ITS CONSEQUENCES?

Illicit Financial Flows (IFF) are a multifaceted problem. The flows in question range from the proceeds of numerous varieties of crime to illicit funds resulting from the evasion of numerous forms of regulation of which the most common is taxation. The problem is an issue at a number of micro, mezzo and macro levels.

At the micro level the issues are:

- Identifying crime; Tracking the proceeds of crime; Delivering taxpayer compliance;
- Enforcing regulation; Preventing corruption; Protecting those abused.

At the mezzo level, which has been too often ignored, the issues are:

- Protecting communities impacted by IFFs and related activity;
- Maintaining social cohesion in the face of the challenges of inequality that IFFs create;
- Delivering free and competitive markets when IFFs create an environment where effective markets frequently cannot exist;
- Preventing the development of criminogenic environments;
- Ensuring that law enforcement agencies are not just effective but are not corrupted.

At the macro level the issues are:

- The economic cost of the breakdown of trust in society;
- The economic cost of crime;
- The cost of all forms of enforcement;
- The drain of the shadow economy and the cost of the interface between it and the recorded economy.

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There are other issues to consider as well. In particular there is the loss of tax. This involves consideration of:

- The loss of tax revenues;
- The undermining of tax morale;
- Lost government programmes resulting from increased government deficits curtailing scope for activity;
- The cost of failed social and economic policy that is ineffectively delivered because the tax system is not fully functional.

There is also the cost of the loss of economic control to consider:

- The loss of effective fiscal policy;
- The cost of multiple currencies circulating in an economy, which usually happens when the shadow economy is large;
- The loss of confidence in government itself.

This last point is often overlooked. IFFs undermine faith in the state, and impose a cost because of the limitation on its remit. Nothing is beyond corruption by IFFs.

## 2. HOW MUCH IS LOST?

The scale of the tax losses requires us to estimate:

- How much of GDP is recorded;
- By corollary, how much of GDP is unrecorded;
- What tax is lost because it relates to activity that would never have appeared in GDP e.g. because it relates to capital flows and not income, and therefore falls out of GDP based tax gap estimates;
- What the effective tax rate might be on the income not recorded within GDP, which might be the prevailing tax rate but also might not be: tax rates might be lower, for example, if everyone did pay the tax that they owed;
- Data on how much tax is actually paid, where my current research suggests that this is surprisingly hard to secure.

It is not apparent that all these questions can be answered. In many countries we are at present working at the limits of knowledge and any estimate offered is decidedly approximate. That said, there is some evidence that can be considered:

- Although the bases of calculation are quiet different MIMIC (multiple indicator; multiple cause) models of the shadow economy in the EU are at present producing estimates of the shadow economy quite similar in scale to those prepared using estimated VAT losses calculated for the European Commission;
- Those losses are at present remarkably similar to the scale of loss I estimated<sup>17</sup> for the EU in 2012.
- If that European estimate remains reasonable then I suggest that the worldwide data is also similar to that I presented<sup>18</sup> in 2011. Then I estimated that total tax evasion amounted to 5.07% of worldwide GDP. If that is still the case, then tax evasion worldwide might have cost US\$4 trillion in lost revenues in 2017 based on World Bank GDP estimates. Data from the IMF and others would suggest that corporate tax avoidance of maybe US\$500 million might be added to this sum, which indicates it is of a lesser scale of significance.

### 3. WHAT CAN BE DONE ABOUT THIS ISSUE?

The critical facts on which most would agree are that:

- Whatever the weaknesses in the estimates the scale of the IFF and tax evasion problem is economically significant and has a serious impact on development;
- The illegal activity that gives rise to these flows - which could amount to nearly 20% of world GDP - is deeply disruptive to well-being for billions of people around the world;
- Sustainable development; stable and efficient markets; effective government, efficient fiscal policy, the rule of law and secure societies cannot be maintained if this problem persists.

What then can be done? First, we need to improve the quality of our data:

- This requires better GDP data;
- It also requires more official candour than we enjoy at present about the scale of the shadow economy that appropriate GDP data might reflect;
- In turn that requires better estimation of the shadow economy itself because there is still little agreement on, and too little study of, this issue despite it being quite literally one of the biggest issues in economics.

Second, we need better tax data. My research is showing that we do not know enough about what is paid where, and that there are major inconsistencies between data from various agencies. These are hard to explain.

Third, we need more data on how many taxpayers there are: we simply do not know in too many cases.

Fourth, we need to improve tax gap methodologies. Most that we have are heavily microeconomically focused. This is of use if the aim is to measure the efficiency of particular jurisdictions tax authorities, but the goal of tax gap measurement is much bigger than that. We do therefore need to develop and refine macroeconomic measures of the tax gap.

Fifth, we also need to understand how much tax is given away by governments in the form of allowances, reliefs, concessions, special measures, and so on, all of which mean that the taxable capacity of countries is forgone without necessarily securing matching economic benefit in exchange. The approach to the tax gap has to be about creating optimal tax systems, and not just beating crime, however important that is.

Sixth, we need to think much more broadly about this issue. I still meet people who think that most tax evasion involves tax havens and that most tax loss is as a result of the activities of multinational corporations. Both are significant, and both are more significant to developing countries than they are to developed countries, but it is also true that around the world domestic tax evasion is a much bigger issue when we look at the total sum of illicit financial flows. I stress the point: IFFs do not need to flow across international borders to be illicit, and the problems within domestic economies have to be identified as well as those that exist internationally. In other words, as important as country-by-country reporting; the automatic exchange of information from tax havens and registers of beneficial ownership of corporations throughout the world might be (and I stress that they are) they will not by themselves solve all the problems that create the tax gap.

Seventh, it remains the unfortunate case that tax evasion is not always considered a predicate offence for money laundering purposes, and that even when it is the standards used to determine whether prosecution is appropriate, or not, are inconsistent and inconsistently applied. Much more work is required in this area as long experience has indicated that prosecution for tax evasion is very often the easiest way in which those participating in criminal activity can be pursued.

#### 4. WHERE TO GO FROM HERE?

I have already outlined some of the detailed tasks that need to be addressed if IFFs are to be appropriately tackled but there is one more issue to mention. It is fair to note that the issue of tax justice has come a long way since I was one of the founders of the Tax Justice Network in 2003. Back then there were a tiny handful of us who thought that tax could be a significant issue for the development. I am delighted that so many now agree. But, in my opinion the time has come to identify the next big issues that we need to address if we are to make further progress in tackling tax injustice.

Campaigners concentrated on the low hanging fruit when we started work in this area. So, for example we looked at tax havens, corporate tax abuse, and the obvious problem of secrecy that has been so effectively highlighted by the Financial Secrecy Index over the years. However, that did mean that insufficient attention was given to domestic tax evasion. And in looking at international issues I would suggest that perhaps too much attention has, in retrospect, been focused on corporate taxation issues in particular when these taxes do not, even in developing countries, usually comprise more than 20% of taxation revenues.

What we now need to do is recognize the tax is a much broader issue, and so, therefore, is tax abuse. All countries suffer domestic tax losses. In addition, too many jurisdictions are tax aggressors, and look like tax havens. But most countries, even those that are tax havens, are also vulnerable to abuse from other tax havens. And there is no one tax that operates in isolation. So, for example, if someone evades a sales tax, they will also fail to declare their income or corporation taxes, and might well evade social security contributions as well, whether due by themselves, or by the staff that they employ. These statements are simple matters of accounting certainty. In that case the risks within tax systems are not bilateral i.e. from one country to another particular country, or solely between taxes of a similar type. There is instead a significant risk of tax spillovers: that is, a weakness in one tax or one aspect of a tax administration system can impact on many other taxes and not only in a domestic jurisdiction, but beyond it.

It is, of course, the case that we need data to appraise just how big our losses are to international financial flows. But I now argue that it is no longer the case that addressing particular and isolated aspects of this problem is enough. What we now need is an international organization, or a range of those organizations, to come together to undertake both quantitative and qualitative reviews of tax systems to properly identify the risks that exist between them and within them, and between particular aspects of individual taxes and aspects of tax administration in all potential scenarios.

I have been looking at developing an appraisal system to facilitate this task with my colleague Professor Andrew Baker of Sheffield University. We hope to publish academic research on this issue very shortly and would like to share it with you. Our goal in doing so is simple. In February this year the United Nations, the World Bank, the International Monetary Fund and the OECD all committed in a common statement to look at tax spillovers but did not say how they were going to do so. What we want is that those organizations work with those in civil society and academia who have long worked in this area to develop the necessary methodologies to appraise precisely where the tax risks are on a country-by country basis. The goal is to ensure that measures to identify and address illicit financial flows, wherever they might occur, can be put into effect with the greatest chance of yielding maximum return on the investment in this process so that people around the world can be convinced that the better societies, the better economies, and the better markets that might result are truly within their reach. This, in my opinion, is the way to achieve the Sustainable Development Goals and I am as a result delighted that this conference is looking at this issue.





# CUSTOMS, TAX AUTHORITIES, AND OTHER FINANCIAL INSTITUTIONS ARE NOW AT RISK!



Many positive developments have taken place globally and have changed the business operating models; we invoke among other matters:

- Revolution of the digital age that allowed the trade to be more complicated and intangible.
- Free movement of goods, labor, and capital.
- Developments in Information and Communication Technology (ICT).
- Accelerated evolution in the financial systems, turning from simple physical exchange markets where people make deals by shouting at each other, to a complex virtual system of computers where a large number of operations are carried out online and millions of dollars are transferred electronically at the speed of light.

However, more political, economic, and social challenges are facing countries nowadays. These advances have put Customs and Tax Administrations at more potential risk due to growing financial crimes, mainly across international borders. We talk about illicit financial flows associated with money laundering, terrorist financing, customs violations, tax evasion and tax avoidance, compliance management, and risk measurement and management.

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Estimates of global losses from illicit financial flows are not standardized, but all are enormous. Corruption, one of the main elements of IFF, costs the world more than one trillion dollars per year, and it increases the cost of public contracts up to 25% in developing countries<sup>19</sup>. Money laundering transactions, another maneuver of IFF, cost more than one trillion dollars worldwide, or around 2 to 5% of global GDP (in 2009, the money laundering amounted around \$1.6 trillion globally, or 2.7 percent)<sup>20</sup>. In addition, the Financial Action Task Force (FATF) estimates the money laundering transactions through cross-border cash trafficking to amount between hundreds of billions and a trillion US dollars per year<sup>21</sup>. Obviously, IFFs have a massive effect on impeding the sustainable development of countries that deploy their own funds and financial resources.

Since 2012, this concern has arisen after FATF has amended the list of predicate offences for money laundering. It has included tax crimes (related to direct and indirect taxes) and goods smuggling (related to customs duties and excise taxes) in the revised version of the “International Standards on Combating Money Laundering, the Financing of Terrorism and Proliferation”. These updated standards were mirrored in the domestic laws of some countries, including Lebanon, which helps improve the financial and fiscal coordination and collaboration between Customs Authorities, Tax Administrations, Anti-Money Laundering Compliance Units, Financial Investigation Units, and other related authorities.

Other challenges are related to globalization that transformed the world to a small village without borders, while easing business operations and reducing trading burdens. However, Customs, Tax Authorities, and other financial institutions continue to work with limited resources, old and traditional legislations and regulations, without considering the advances in cross-border trade and the mutual cooperation required internally, between domestic agencies, and transnationally.

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## 1. WHAT IS REQUIRED?

While the 21st Century witnesses a rapid growth in globalization and cross-border activities, collaboration and cooperation between tax authorities is a key element to ensure that taxpayers comply with domestic laws by paying the due tax to the appropriate jurisdiction. To face this challenge, tax agencies need to update their legislations and develop their administrative and IT resources.

## 2. WHAT HAS BEEN DONE?

International organisations have taken several initiatives to enhance tax transparency and exchange of information. As illustration, OECD issued in 2014, in response to G20 request, the “Standard for Automatic Exchange of Financial Account Information in Tax Matters” and launched its second edition in March 2017. In this respect, Customs and Tax Authorities are required to coordinate and collaborate with each other to face evolving challenges and leverage fiscal transparency, especially when these administrations work separately as is the case in Lebanon. This cooperation can be ensured by establishing protocols or Memorandums of Understanding/Agreement that aim at exchanging technical information, automatically or upon request.

## 3. HOW LEBANON HAS CONFIRMED ITS COMMITMENT TOWARDS COMBATTING IFFS?

Lebanon has revised and issued several laws and regulations that help in combating IFF. The Law no. 44 dated 24 November 2015 (the Anti-Money Laundering and Terrorism Financing Law) has replaced the Law no. 318/2001 mainly to include some provisions that bring the proceeds of tax evasion within the scope of money laundering investigations.

Lebanon has also approved Law no. 42 of November 24, 2015 (Declaring the Cross-Border Transportation of Money). It states that individuals transporting physically, inside or outside border, Currency or their negotiable Instruments, in their accompanying luggage, or by any other means, must submit a written declaration to the Customs authorities, whenever the value of the Currency/Negotiable Instruments exceeds the amount of USD 15,000 or its equivalent in other currencies. In this case, these persons should fill in a form that includes full requested information.

Moreover, Lebanon has enacted Law no. 55 dated October 27, 2016 (Exchange of Information for Tax Purposes). The purpose of this Law is to enforce and implement the terms of any Agreement related to exchange of information for tax purposes signed and enforced in conformity with the Lebanese laws and regulations; - to require from any person to disclose the requested information in accordance with the said agreement.

In addition, Lebanon has shown greater tax transparency by enacting the Law no. 75 dated October 27, 2016 (Cancelling bearer shares and promissory notes). As per its unique article, and notwithstanding any other text, joint stock companies (including companies limited by shares) are prohibited to issue bearer shares and promissory notes after the entry into force of the present law. Companies with shares that

include bearer shares or promissory notes are obliged to exchange these latter into registered shares, if issued before the release date of the present law, and that in compliance with the provisions of the third clause and within a period of one year as of the law enforcement date. In addition, companies must amend their bylaws according to the above-mentioned provisions, within a maximum period ending at the first meeting of the shareholders' general assembly.

This year, a considerable progress has taken place; the Lebanese Ministry of Finance enacted a decision requiring the registration of beneficial owners, while the draft law waits to be ratified in the coming months. Beneficial ownership transparency is a pivotal tool to fight against illicit financial flows related to money laundering, tax evasion and tax avoidance, and terrorism financing. It allows identifying the individuals who eventually own or control legal vehicles (companies, partnerships, trusts, or private foundations), and thus detecting criminals who hide behind entities to engage in illegal acts.

Furthermore, Lebanon has signed different multilateral agreements that strengthen financial cooperation related to tax crimes and other financial crimes. These include the Multilateral Convention on Mutual Administrative Assistance in Tax Matters – May 12, 2017, and the Multilateral Competent Authority Agreement for the Common Reporting Standard (CRS MCAA) –May 12, 2017.

Lebanon has also shown intention to sign the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the MLI). The MLI is a “legal instrument designed to prevent base erosion and profit shifting (BEPS) by multinational enterprises. BEPS refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations”<sup>22</sup>.

## 4. WHAT IS NEXT?

The panel discussion over these issues will shed the light on the key challenges that face tax administrations and other financial institutions, worldwide, in respect to illicit trade and illicit financial flows. More discussion will address the IFFs main players, and the effects and implications of IFFs on the economy.

What type of governance is required to ensure effective Tax authorities? What actions are required to tackle illicit financial flows resulting from tax evasion, money laundering, corruption, and other financial crimes?

At the end, several concluding remarks and recommendations will be addressed, in respect to the road map and action plan needed at the Lebanese level, at the Arab Region level, and more generally at the global level, to overcome these financial challenges and curtail their implications on tax revenue mobilization.





# OPTIONS FOR STRENGTHENING GLOBAL TAX GOVERNANCE TO CURB ILLICIT FINANCIAL FLOWS



## **Introduction:**

The importance of international – or even better, global – cooperation on tax issues is becoming more and more evident in the light of tax evasion and avoidance scandals that have come to wider public attention. Countries in the global North and South have been shown to offer preferential treatment to foreigners – from Panama to Luxemburg and from the Cayman Islands to Hong Kong –, the numbers on illicit financial flows are remaining at unacceptable high levels. Individuals and huge transnational corporations are using a fragmented and inconsistently regulated global system of trans-border taxation and financial oversight to evade and/or avoid taxes, launder money and finance illegal activities. The sums forgone amount to hundreds of billions annually.

Depending on the model of estimation, developing countries are losing more than 1 trillion US dollars per year in illicit financial flows, most of which can be attributed to the abuse of transfer pricing rules. A panel of the UN Economic Commission for Africa chaired by former South African president Thabo Mbeki estimates the losses of Africa alone at approximately 50 billion US dollars per year. The Organisation for Economic Co-operation and Development (OECD) puts global revenue losses from Base Erosion and Profit Shifting (BEPS) at between 100 and 240 billion US dollars each year.

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In effect, countries in both the global North and South are losing money they urgently need to finance basic social services or to finance their human rights obligations, find ways of dealing with problematic levels of sovereign debt and contribute to their international responsibilities in financing the goals, targets, and means of implementation of the 2030 Agenda for Sustainable Development adopted by UN members in September 2015.

It is true that there have been numerous reforms and new initiatives in international cooperation on tax at national, regional, and global levels, building on existing work by various institutions, but they still neglect some critical issues.

## GAPS IN INTERNATIONAL GOVERNANCE

While some advancements have been made toward creating an international system that makes it more difficult for individuals and companies to minimize their tax burden in illegal, illicit or legal ways, civil society organizations in particular have been active in identifying the gaps in global tax governance. These gaps can be identified in both the institutional settings and with regard to the substantive issues that these institutions are dealing with.

### LACK OF A UNIVERSAL SPACE FOR TAX ISSUES

Strong criticism is focused on the fact that while there is general agreement that tax issues need to be tackled at a global level and that all countries should participate on an equal footing, there is as yet no institution with a truly universal membership and/or an institutional apparatus that would be equally accountable to all members. All existing institutions lack particular characteristics in this regard, in one or more ways. The OECD's Global Forum, while having a large membership, can by no means claim to be a universal body, nor can its institutional location be ignored. And the very design of the Inclusive Framework was aimed at curbing criticism right from the start by giving every interested partner the opportunity to come in on an equal footing, as far as possible.

The problem here is rather that many of the decisions have already been taken in the OECD during the BEPS process and new members are forced to accept them before being able to participate in decision-making based on the already agreed measures. This is not improved much by the establishment of the Platform on Collaboration on Tax by the IMF, the OECD, the World Bank and the UN. This initiative, while it may bring some improvements in terms of capacity-building, is by design limited by it being a »club« of organizations rather than a body representative of member states and by its self-ascribed subordination under the BEPS process.

Another issue with membership in OECD processes is that it is understood differently from that in the United Nations. Unlike in the UN, jurisdictions without full sovereignty can become members of the Global Forum or the Inclusive Framework, as – to name but one example – several British crown dependencies and overseas territories have. While in the UN, the United Kingdom speaks with one voice (and has one vote), in the Global Forum Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Guernsey, Jersey, the Isle of Man, the Turks and Caicos Islands, and Gibraltar speak on their own behalf.

The UNTC, on the other hand, lacks legitimacy – by design – in that it comprises experts in their individual capacity. Its very nature rules out the political accountability that can be attributed only to formal government representatives (as the OECD recognizes in its two-layer structure for the Inclusive Framework).

## MISSING AGENDA ITEMS

Beyond this institutional gap in global tax governance, there is also a need for a forum that can discuss or at least raise issues that so far have not or have only superficially been dealt with at international and global levels – and some of which create opportunities for illicit financial flows:

One set of issues is related to the **taxation of resource extraction**. While some progress has been made in increasing the transparency of payments to governments, other problems persist. One is that of determining the right value of raw materials that are not necessarily traded on open markets but within integrated value chains.

Related to this is the whole issue of **tax competition** that many countries are engaging in wilfully in order to attract foreign direct investment.

This is even more striking when it comes to creating **preferential tax regimes** (also in the form of subsidies) for potential investors. While the BEPS package addresses the issue by emphasizing greater transparency (for example, on tax rulings), there is currently no mechanism that would allow for disputes among countries to be settled.

Another fundamental issue missing in almost all approaches towards global agreements in tax matters is the dispute between the principle of taxing companies according to **the source or the residence principle**.

The issue also overlaps with the question of how to deal with intra-group trade, the dealings between separate entities within a single corporation. The currently applied method of attributing tax bases works using **transfer pricing** in combination with the arm's length principle. Because this system is extremely complex and has caused many loopholes for tax avoidance, several experts, for example in the Independent Commission for the Reform of International Corporate Taxation, have argued for transfer prices to be replaced as a basis for attributing taxing rights by a formula, and for corporations, including all their subsidiaries, to be treated as single entities.

## OPTIONS FOR IMPROVING INTERNATIONAL TAX GOVERNANCE

In order to fill these institutional and substantive gaps, either existing institutions need to be further developed, or new ones established, or both. Such institutional development should fulfil certain functional and formal requirements.

### WHAT A NEW BODY SHOULD BE ABLE TO ACHIEVE

- 1) It would need to be able to raise new agenda items as they occur, and without a minority being able to block them. Particularly, a new institutional framework should give greater emphasis to the needs and wants of smaller or less affluent countries and thus increase its substantive inclusiveness.

- 2) A new institution would need to be able to actually negotiate new regulations and ensure that its outcomes would be more than just technical models and voluntary guidelines.
- 3) It might consider mechanisms for non-compliance, which could range from naming-and-shaming exercises to actual conflict resolution mechanisms.
- 4) A new body would need the capacity to facilitate and support the implementation of its decisions. While this may sound rather simplistic, capacity can be a predetermining condition of being able to participate in certain agreements; also, it is not irrelevant who is providing capacity-building and under what conditions: in other words, who is paying teachers and who wrote the textbooks?

In line with functional requirements, a new body will need to overcome some of the institutional inadequacies of its predecessors.

- a) It will have to have universal membership of sovereign states;
- b) It will have the ability to independently monitor the implementation of its decisions;
- c) It will have to live up to certain procedural standards that legitimize the outcomes of such an institution not just with governments, but with citizens, for which the openness of processes at the United Nations could serve as a good example.

## WHAT A NEW BODY COULD LOOK LIKE

The question remains where or how best to build an institution that meets these criteria. One attempt already on the way is the establishment of the OECD Inclusive Framework on BEPS Implementation (see above). Establishing new institutional frameworks under the auspices of the OECD, however, suffers from several intrinsic weaknesses that prevent it from falling in line with above-mentioned criteria. The OECD will always be an organization dedicated first and foremost to its full members.

The UN is the one place that would be able to close this gap of legitimacy without having to re-invent itself. A body dealing with the above-mentioned issues could be based on various models.

**1) Strengthening the UN Committee of Experts:** The most pertinent option to further strengthen the UN's capacities to work on tax issues would be to strengthen the already existing Committee of Experts, as was decided at the FfD3 conference of Addis Ababa. However, this option does not fulfil the listed requirements.

**2) Upgrading the UN Committee of Experts:** With this in mind, several governments and NGOs proposed to upgrade the present expert body into an intergovernmental one in the run-up to the Addis Ababa conference. Just like the already existing UN Statistical Commission, the Tax Commission would consist of government experts, but still be nationally accountable to take decisions of a binding nature by consensus.

**3) Creating a functional commission under the auspices of ECOSOC:** Another option would be creating an inter-governmental, functional commission under the auspices of ECOSOC while retaining the existing Expert Committee as one of its subsidiary bodies, in order to keep its technical expertise and supplement it with more political legitimacy and accountability.

**4) Establish a global convention on tax and a treaty body:** Should the UN turn out to be the wrong venue for making progress on global tax governance, another idea could be to further the issue through the adoption of an international convention on tax cooperation. The convention could, for example, legally define what constitutes a harmful tax practice and even establish independent arbitration mechanisms among its members. And it could also set standards for international organizations concerning the kind of capacity-building support they grant. As is the case with the Framework Convention on Climate Change or Convention on Biological Diversity, a treaty body would oversee their implementation, formulate optional protocols and create a secretariat function to create oversight and technical expertise.

#### **5) Establish a new international organization**

The most far-ranging version of such proposals is that of creating a new multilateral or global organization with its own governance, membership and secretariat. A newly established International Tax Organization could be designed in a way that fulfils all the above-mentioned criteria and take shape as a specialized agency of the UN or a body outside the UN system.

The examples of the WHO, the FAO or the WTO at the same time make clear that institutional design is of the utmost importance. Given the current political climate, which seems sceptical towards greater global integration and to creating new global institutions, this proposal appears to be rather unrealistic. Nevertheless, similar proposals come not just from activists or academics. Already in 2001, the High-level Panel on Financing for Development in preparation of the first FfD conference in Monterrey (“Zedillo Panel”) proposed “[to] consider the potential benefits of an International Tax Organization (ITO)”.

## **EPILOGUE**

The idea to institutionally strengthen the UN in its work on tax justice has by no means ended with the conclusion of the 3<sup>rd</sup> International Conference on Financing for Development or the first Financing for Development Forums in 2016 through 2018. International actors have given new drive to establish what is usually referred to as an »intergovernmental UN Tax Body«, whatever concrete form this may take in the end.

In short, the discussions around the global governance in tax have only just begun and it will be interesting to see where they will lead in the face of the multiple options open to the international community in creating institutional arrangements to curb tax evasion and avoidance, as well as unnecessary forms of tax competition.





OVERVIEW ON THE LATEST ASSESSMENTS ON

# TAX DODGING AND ILLICIT FINANCIAL FLOWS



**Introduction:**

The Financing for Development Summit highlighted the scale of finance needed to fulfil the Sustainable Development Goals. There is striking agreement in the development sector – and well beyond – that the SDGs are ambitious but achievable. To have a decent chance of eradicating extreme poverty by 2030, developing countries in particular will need to raise hugely significant sums of funding, much of it to be invested in essential services for women, men and children.

There has been great progress in tackling extreme poverty over the last 30 years, but to realize a world without extreme poverty means countries need universal and free access to essential public services. These are costly, and taxes will have to bear the greatest share of financing. Overcoming extreme economic inequality is also a prerequisite for eliminating poverty. For a wide range of economic and social reasons, it is also urgent to close the gap between the richest and the rest. Tax plays a vital role here too, assuming of course that tax systems are fair, and that tax owed is paid.

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Many developing countries are increasing the amount of money they raise from tax. To some extent, growing economies tend to help this trajectory since wealthier countries tend to have higher tax/ GDP ratios but there are a number of reasons which make it easier or harder for governments to raise more revenue through taxes.

In line with international trends, most developing countries have reduced trade taxes, and have tended to raise more revenue from consumption taxes which are usually regressive. Whilst reliance on personal income tax is growing and individuals get wealthier, in most developing countries only a small fraction of people are liable for income tax. Corporate tax remains a key tax for many developing countries, contributing around one in six government tax dollars in many developing countries, around double the proportion in most high-income countries. Importantly, it should also be a progressive tax, raising money in line with profits earned, and therefore contributing to greater fiscal equality.

As well as being relatively more important for developing countries, one of the key features of corporate tax is that it transcends national borders in ways that are more complex than for other taxes. There are also opportunities for taxpayers to lower their liabilities through a range of incentives or other exemptions, and to defer tax liabilities. And there are significant loopholes in the international tax system which allow multinational companies in particular to avoid paying tax that is due. In some cases, companies may use tax planning to lower tax liabilities in a way which is seen as tax avoidance; such avoidance may later be deemed contrary to laws and thus be evasion.

There is a range of practices from legal through avoidance to evasion. The dividing lines between these practices are blurred which is one reason to focus on illicit tax practices as part of the wider illicit financial flows agenda. After all, we are concerned with why – in this case companies – are not paying the full amount of corporate tax due and what governments – and companies themselves – can do to prevent tax loss, whether through avoidance or evasion.

When the SDGs were agreed, the inclusion of target 16.4 to reduce the flow of illicit financial and arms flow was an important recognition of the damage caused by a wide range of illicit financial practices crossing borders. There has been much focus on international tax rules in the UN system and beyond, not least with the OECD led Base Erosion and Profit Shifting (BEPS) project. This has demonstrated that above all that the opportunities to avoid tax are shifting with practices previously on the margins of legality now deemed illegal, but new loopholes are also being identified. The context of agreement of the SDGs has included UN-backed work on tax which continues to highlight the centrality of tax avoidance to illicit financial flows, from - for example Secretary-General's High-Level Panel on the post 2015 development agenda (Cameron et al) and the ground-breaking Mbeki report on IFFs in Africa. The inclusion of corporate tax avoidance within the broader ambit of IFFs has thus been made within the UN so the corresponding SDG target indicator needs to reflect this.

Tax havens are central to tax evasion and tax avoidance. The same corruptive approach they facilitate means that wealthy individuals and companies can take advantage of secrecy and practices to not pay their fair share of tax and potentially engage in criminal activity. The role of tax havens has become clearer through media exposes such as the Panama Papers and Paradise Papers.

We have been too reliant on such leaks to ascertain details of tax haven activity because such places thrive on opacity. But we know that footloose companies can take advantage of the inducements offered by tax havens – from low or zero tax rates to secrecy – to arrange their structures and tax practices that can reduce tax liabilities by significant sums. Tax haven regimes also drag down other countries to compete in their race to the bottom – where ultimately all governments lose, and governments must look to other taxes to raise the money they need for schools and hospitals.

- By its very nature, estimating the precise scale of tax avoidance is difficult. But some key propositions are now broadly accepted by a range of experts and governments:
- the impact of international corporate tax avoidance is significant – and is likely to remain so even with the implementation of new international tax rules.
- developing countries lose a greater proportion of their total tax revenues to corporate tax avoidance.
- developing countries – partly through the process and design of recent international tax reforms – are not gaining as much benefit from improvements as other countries.
- new tax rules can have a positive impact, but their combined effect is likely to be lower than governments hoped.
- increased transparency is a key way to identify and tackle tax avoidance
- increased transparency is also one way to help address low ‘tax morale’ and engender a more informed public debate about how taxes should be raised more widely.
- but substantive new tax rules at national and international levels will be needed.

The scale of international corporate tax avoidance is significant both in absolute terms and as a proportion of the total amount of estimated illicit financial flows. Estimates vary but global corporate tax avoidance is likely to cost governments around the world of about \$500 billion every year according to the IMF. The impact in developing countries of tax avoidance due to investments routed through tax havens alone is likely to cost developing countries \$100 billion every year according to UNCTAD.

Despite recent changes agreed to international tax rules, the scale of corporate tax avoidance may not change significantly.

Firstly, the changes are essentially patches to a system which has systemic drawbacks enabling multinational companies to manipulate intra-group financial flows for tax advantage – albeit within parameters.

Secondly, the BEPS project has not tackled all aspects of the international tax system. For example, despite being the subject of the first action, there is no specific agreement on changes to make on the digital economy. The lack of agreement in this area suggests limits to the current framework. Other aspects of the global economy relevant to developing countries such as agriculture were also not tackled.

Thirdly, there is some latitude afforded to signatories of the BEPS process which allows companies to game the global system – alongside national tax rates, incentives and related policies.

Fourthly, those countries which have not signed up to BEPS can facilitate international tax avoidance – thus far without much apparent hindrance.

Lastly, one aspect of BEPS requires sharing of tax-related information between countries; unfortunately – as in the case in other international processes – many developed countries have been unwilling to share data with developing countries. This inequality of information exacerbates the pre-existing inequality of impact of corporate tax avoidance on developing countries.

One virtually cost-free and almost effortless way to understand more about where tax avoidance is likely to be happening, and to deter it in the first place would be to require the publication of this tax-relevant data. Indeed, many campaigners have been calling for just such public country by country reporting for a number of years. Large multinationals already have to provide a report detailing their revenue, profit, tax and related data to tax authority in their country where their parent company is located. This country by country report can then be shared with other tax authorities in countries where the company operates if the countries concerned have agreed to exchange this information.

But since many large multinational companies are headquartered in rich countries – very few of which have agreed to share data with developing countries – many governments who are likely to be losing out from tax avoidance are none the wiser. Making such reports public would address this inequality of data, and also help others – journalists, civil society, unions, other companies perhaps – analyze the data and hold governments and companies to account more effectively for taxes paid or not, and whether the tax rules are working effectively. Companies confident of their tax practices will also be able to demonstrate their veracity and contribute to a wider public debate about tax policy.

Currently, the specific evidence of tax avoidance in developed and developing countries tends to be somewhat anecdotal, patchy and contested. In some cases, formal processes have shone a light on tax avoidance or evasion, such as the cases of alleged state aid by the European Commission. Through the work of journalists, NGOs and others some other cases of apparent tax avoidance have been highlighted, including ones showing direct impacts in developing countries. These have tended to highlight either specific loopholes used by companies, or the general manipulation of broader international tax principles to effectively shift profits from higher tax countries where business was done or value created, to lower tax countries where the company's actual business operation is minimal or even non-existent. Interestingly, some of these examples have led to the companies in question changing their tax practices and voluntarily becoming much more transparent about their tax behaviour.

We should also remember that corporate tax avoidance has real impacts beyond specific estimates of foregone government revenue. That foregone revenue is 'won' by companies who should be paying it – companies whose effective tax rates is in many cases lower than most citizens in most countries, and 'lost' by those for whom tax rates are increased in an attempt to balance government budgets. So rather than being part of a progressive tax system, corporate tax avoidance increases economic inequality.

Given the scale of corporate tax avoidance, it is thought that the net impact of corporate income tax on economic inequality as represented by the Gini coefficient is zero when in theory corporate tax should contribute to lower the pre-existing Gini in a given country. This is in addition to the general trends of the last ten years or more which have seen statutory corporate tax rates fall; in recent years corporate profits have risen particularly quickly. In contrast, in many countries average incomes have grown only slowly or in very small actual increments whilst some taxes have risen. This has led to growing economic inequality, witnessed within many countries, and also to an extent between countries. Since the majority of the world's poor are women, many working in the informal sector and with highly disproportionate unpaid work too, this general economic trend is likely to have increased gender inequality.

Whilst public policy debates concerning increased support to women in the labour market directly or indirectly – for example through free or subsidized childcare – is often couched in terms of unaffordable costs, the same concerns do not appear to apply to many corporate tax incentives, despite both their large cost and lack of need. Developing country governments have a particularly opportunity to tackle wasteful tax incentives given their prevalence. Similarly, rather than seeing the lowering of statutory corporate tax rates as a necessary way to reduce tax avoidance, governments should cooperate more to identify what a minimum corporate tax rate should be, perhaps also considering what a minimum effective corporate tax rate should be. Such measures might be more simple and holistic responses to corporate tax avoidance.

Recent years have seen many governments seized of the need to tackle corporate tax avoidance. The scale of the challenge has been widely recognized. However, the process and outcomes to date have failed to significantly dent the scale and opportunity for corporate tax avoidance. Working together, governments can agree significant new measures to help assure their own tax bases. Firstly, developing countries should participate in decision-making process on an equal basis, rather than having to be rule takers as is the case with BEPS. Secondly, transparency of multinational companies' tax practices and payments would deter and detect tax avoidance, and inform discussion of new rules needed. More substantive policies are also needed including a minimum corporate tax rate, sanctions against tax havens and much more assiduous use of tax incentives. Such measures will reduce the opportunities for corporate tax avoidance and help governments raise the money needed to implement the SDGs, overcoming poverty and tackling extreme inequality.





# TAX AND ILLICIT FINANCIAL FLOWS FROM DEVELOPING COUNTRIES

–STATE OF PLAY, CHALLENGES AND SOLUTIONS–



## **Introduction:**

Measuring illicit financial flows (IFFs) is complicated by the fact that these flows are strongly attracted to secrecy jurisdictions, tax havens and other types of financial opacity. Exact measurements are hard to pin down. However, researchers have come up with solid evidence that can help us to estimate the scale of the problem.

The amount of private wealth held in tax havens: In a recent academic review, Alstadsæter, Johannesen and Zucman have estimated that an amount corresponding to 10 per cent of global gross domestic product (GDP) is held in tax havens.<sup>23</sup> This global estimate is conservative, and masks great variations between countries and regions – for the Gulf countries and certain Latin American countries, for example, the estimate is as high as 60 per cent of GDP. However, it is important to note that not all private wealth held in tax havens is linked to illegal tax evasion. Previously, Zucman has estimated the tax loss to governments due to private wealth in tax havens at around US€200 billion per year.<sup>24</sup>

Lost tax income due to international corporate tax avoidance: Whereas tax evasion is illegal by definition, tax avoidance refers to activities that are often technically speaking legal, even though they may circumvent the spirit of the law. Researchers Cobham and Jansky have estimated the loss of tax income due to international corporate tax avoidance at around US\$500 billion per year.<sup>25</sup> The United Nations Conference on Trade and Development (UNCTAD) has estimated that one type of international corporate tax avoidance alone is costing developing countries US\$70–120 billion every year.<sup>26</sup> It should also be noted that developing countries are likely more vulnerable to corporate tax avoidance than developed countries, in part due to their heavy reliance on corporate taxation as a source of public income.<sup>27</sup>

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## DEFINING ILLICIT FINANCIAL FLOWS

The question of whether to include international corporate tax avoidance in the definition of IFFs has become a very hotly debated political issue. Developing countries have traditionally argued for including tax avoidance in the definition, whereas countries that are members of the Organization for Economic Co-operation and Development (OECD) have argued for limiting the IFF definition to flows that are linked to illegal activities. This resistance is linked to a desire to keep the international decision-making on taxation of multinational corporations within the OECD and G20, as opposed to the United Nations (UN) (see below under ‘Global standards – rule takers and rule makers’).

However, as highlighted above, international corporate tax avoidance makes up a large part of the tax loss for governments globally and should be a priority issue for the UN to address. Excluding tax avoidance from the IFF definition would risk undermining the prospect of obtaining a truly global response to this global challenge. It would also put strong limitations on the scope of Sustainable Development Goal (SDG) target 16.4, which aims to significantly reduce IFFs.<sup>28</sup> If combating international corporate tax avoidance was included in the global implementation of the SDGs, this would potentially mobilize large amounts of new and additional domestic resources in developing countries. Therefore, there are important reasons for keeping tax avoidance as a part of the UN definition of IFFs.

### RECOMMENDATION

*International corporate tax avoidance should be included in the UN definition of IFFs, as it will be expressed in the indicators to SDG target 16.4.*

## GLOBAL STANDARDS

### RULE TAKERS AND RULE MAKERS

For the last 50 years, the OECD has been the central decision-maker when it comes to international standards for taxing multinational corporations. When the latest review of the international standards for taxing multinational corporations was carried out, more than 100 developing countries were excluded from the negotiations, which included OECD countries, G20 countries and a smaller group of invited countries.<sup>29</sup> The result of the review was the package on Base Erosion and Profit Shifting (BEPS) – a decision running to almost 2,000 pages – which was adopted in 2015.<sup>30</sup> Once the package was adopted, the OECD established a body known as the Inclusive Framework. Through this, all countries – including developing countries – were invited to join in the implementation of the agreed standards ‘on an equal footing’, as well as invited to participate in any additional decision-making within the framework of the already agreed BEPS package.<sup>31</sup>

However, since the vast majority of the world’s developing countries were not able to participate in the negotiation of the BEPS package, they were not able to ensure that the outcome reflected their needs and interests. The BEPS package has also been criticized for being flawed and ineffective in tackling international corporate tax avoidance in developed countries.<sup>32</sup>

The approach taken with the BEPS package mirrors other recent OECD standard-setting processes. For example, the international standard on automatic exchange of information between tax administrations was also negotiated through a process that excluded 100 developing countries. An implementation body, in this case the Global Forum on Transparency and Exchange of Information, invited all countries to join and follow the decisions that had been made.<sup>33</sup>

## THE DEMAND FOR AN INTERGOVERNMENTAL UN TAX BODY

During the 2015 Addis Ababa Summit on Financing for Development, the G77 and China demanded a change in the way standards on international tax matters were set. They called for the establishment of an intergovernmental tax body under the UN, where all countries can participate on an equal footing.<sup>34</sup> However, this proposal was rejected by OECD member countries. Instead of establishing an intergovernmental body, the outcome of the summit – the Addis Ababa Action Agenda (AAAA) – called for more resources for an existing UN expert body on tax. However, the AAAA also included the following commitments:

*“We commit to scaling up international tax cooperation”, and “We stress that efforts in international tax cooperation should be universal in approach and scope and should fully take into account the different needs and capacities of all countries, in particular least developed countries, landlocked developing countries, small island developing States and African countries.”<sup>35</sup>*

Since the Addis Ababa summit, and based on the commitment to scale up international tax cooperation, the G77 and China has continued to call for an intergovernmental tax body to be established under the auspices of the UN.<sup>36</sup> However, this proposal is still facing resistance from OECD member states. In recent years, the issue has been discussed in meetings taking place under the UN’s Economic and Social Council (ECOSOC). Some experts have also discussed the option of tabling a resolution and the UN General Assembly (UNGA), where decisions can be made through majority voting.

Meanwhile, the nature of international tax cooperation has continued to evolve. Until recently, it was seen as a voluntary option for developing countries to join the international standards adopted by OECD and G20 countries. However, in December 2016, the European Union published its first joint blacklist of so-called non-cooperative jurisdictions – also known as the ‘Tax Haven Blacklist’<sup>37</sup>. With the list came the threat of different types of sanctions towards blacklisted countries.

Some of the most central criteria in the blacklisting process centered around whether or not a country had committed to following the OECD/G20 standards.<sup>37</sup> This resulted in countries such as Mongolia, which by no measure could be considered a ‘tax haven’ – ending up on the EU’s blacklist for not committing to following the OECD/G20 standards.<sup>38</sup> (Mongolia has since committed to following the standards,<sup>39</sup> and has been removed from the list).<sup>40</sup> Therefore, despite the fact that the vast majority of the world’s developing countries have not been part of setting the international OECD/G20 standards, it is now highly questionable whether it can really be considered voluntary for them to follow the standards.

## RECOMMENDATION

*Governments need to set up an intergovernmental UN tax commission with universal membership and sufficient resources to ensure international cooperation in tax matters, tackle tax avoidance and evasion. Ultimately, this intergovernmental process should result in the adoption of a Convention on Transparency and International Cooperation in Tax Matters.*

## FIRST MOVERS – SOME IMMEDIATE STEPS GOVERNMENTS CAN TAKE ON THEIR OWN

Ultimately, international tax avoidance and evasion are global problems that will require global solutions. However, there are specific steps that governments can take to reduce the risks. For corporate tax avoidance, governments can incentivize good corporate citizenship through transparency measures. Through so-called public country by country reporting, governments can require that multinational corporations publish the high-level figures showing their business activities and corporate tax payments for each country where they operate, and thus increase the reputational risks of large-scale corporate tax avoidance. This type of requirement has already been introduced for multinational banks in the EU.<sup>41</sup>

## RECOMMENDATION

*In order to discourage international corporate tax avoidance, governments should introduce public country by country reporting by multinational corporations. This would require the corporations to disclose the business activities they have, and the amount of taxes they pay, in each country where they operate.*

As regards tax evasion by corporations and wealthy individuals, as a first step, governments could make it more difficult to conceal ownership of financial resources and other assets. By introducing public registers showing the ‘real’ (beneficial) owners of companies, trusts and similar legal instruments, governments can prevent shell companies and anonymous trusts that can be used to launder money or avoid declaring assets to the tax authorities. In spring 2018, the EU introduced public registers of beneficial owners for all companies in the EU.<sup>42</sup>

## RECOMMENDATION

*In order to limit the possibilities for international tax evasion, governments should introduce public registers of the real (beneficial) owners of companies, trusts and similar legal instruments.*







# BIOGRAPHIES



**Mounir Tabet** is currently the Acting Executive Secretary of ESCWA. He was appointed as the Deputy Executive Secretary for Programme at UNESCWA in September 2018. Mr. Tabet brings extensive experience in development and political affairs with the UN. He has worked closely on issues of public policy, globalization and international trade, macro-economics, competitiveness, management, leadership and knowledge management. Prior to his appointment at ESCWA, he was Country Director for the United Nations Development Program (UNDP) in Iraq, where he focused primarily on the stabilization of recently liberated areas, security sector reform, community reconciliation, anti-corruption and sustainable development including livelihoods, job creation as well as Agenda 2030 the Sustainable Development Goals. Prior to his assignment in Iraq, Mr. Tabet served as Resident Coordinator of the United Nations System and Resident Representative of UNDP in Tunisia, as well as various positions with the UN in Egypt, New York and Saudi Arabia. Mr. Tabet holds a Master Degree in Public Administration from Harvard University.



**Mahmoud Mohieldin** is the World Bank Group Senior Vice President for the 2030 Development Agenda, United Nations Relations, and Partnerships. Before joining the World Bank, Mr. Mohieldin was the Minister of Investment of the Arab Republic of Egypt from 2004 until 2010. He also served on several boards of directors, including the Central Bank of Egypt and the banking and corporate sector. He was a member of the Commission on Growth and Development and selected a Young Global Leader of the World Economic Forum. Mr. Mohieldin is a professor of economics and finance at Cairo University, an honorary professor at Durham University and a member of the Advisory Board of the Durham Business School. He also held leading positions in national and regional research centers and think tanks. He has authored numerous publications and articles in leading journals in the fields of international finance, economics, and development in English and Arabic. He received his Doctorate in Economics from the University of Warwick, M.Sc. in Economic and Social Policy Analysis from the University of York, and B.Sc. in Economics, first in the order of merit, from Cairo University.



**Mukhisa Kituyi** is the Secretary-General of UNCTAD. Dr. Kituyi has an extensive background as an elected official, an academic, and a holder of high government office. He also has wide-ranging experience in trade negotiations, and in African and broader international economics and diplomacy. Mr. Kituyi studied political science and international relations at the University of Nairobi and at Makerere University. He

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**Mohamed Maait** is the Minister of Finance of the Arab Republic of Egypt. Prior to his appointment as Minister, he held the position Vice Minister of Finance for Public Treasury Affairs and Head of the Economic Justice Unit. In addition, he served as First Deputy Minister of Finance, Deputy to the Minister of Finance for Pension and Social Insurance and First Deputy Minister of Health & Population. Over his career of 33 years, he held many positions including Vice Chairman of the Egyptian Financial Supervisory Authority, Chairman of the Egyptian Governmental Actuarial Department (EGAD), Vice Chairman of the National Organization for Social Insurance, and Senior Advisor to the Minister of Finance. He was also appointed as the Executive Director of the Egyptian Insurance Institute. He also worked as a senior lecturer and has more than 30 years of teaching and researching experience. Dr. Maait holds a BSc degree in Insurance and Mathematics from Cairo University and an MPhil in Insurance from Cairo University, he also got a Diploma, an MSc in Actuarial Science, and a PhD degree in Actuarial Science from City University.



**Ali Hassan Khalil** is the Minister of Finance in Lebanon since 2014. He served as the Minister of Public Health and as the Minister of Agriculture in Lebanon. He was elected as a Member of the Lebanese Parliament several times and chaired several parliamentary committees including the Finance and Budget Committee, the National Defense Committee, and the Justice and Administration Committee. In addition to his career as a diplomat, Mr. Khalil holds a Bachelor Degree in Law from the Lebanese University. He is an Appeal Lawyer. Mr. Khalil has been the President of the Lebanese Youth Union and the President of the Alumni of the Faculty of Law, Administrative and Political Sciences for more than 20 years.



**Counselor Ahmed Said Khalil** is the Vice President of the Court of Cassation and the Chairman of the Board of Trustees of the Egyptian Money Laundering and Terrorist Financing Combating Unit. Throughout his career, Mr. Khalil has contributed to the drafting of many laws and legislations related to combatting money laundering and terrorist financing. To achieve local coordination in these fields, within the broader realm of combatting corruption and the recovery of stolen assets, Mr. Khalil serves as a member in several high-level national committees including, the National Council for Payments chaired by the President of the Arab Republic of Egypt, the National Coordinating Committee for Combatting Corruption, the National Coordination Committee for Recovery of Stolen Funds and Assets. Mr. Khalil also

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**Mohamed Fathi Ahmed Edrees** is the Ambassador and Permanent Representative of the Arab Republic of Egypt to the United Nations in New York. Prior to that, Mr. Edrees was the Assistant Foreign Minister in charge of African Affairs. He served as the Egyptian Ambassador to Ethiopia and Permanent Representative to the African Union and to the United Nations Economic Commission for Africa. Ambassador Edrees was appointed as Minister Plenipotentiary to the United Nations in New York, and Deputy Assistant Minister for Arab Affairs. Prior to his diplomatic service, Mr. Edrees was a resident doctor with the Ministry of Health of the Arab Republic of Egypt. Mr. Edrees holds a Master of Arts in Political Science from the University of London and a Bachelor of Science in medicine and surgery from Cairo University.



**Lamia Moubayed Bissat** heads the Institut des Finances Basil Fuleihan. Ms. Moubayed has more than 20 years multidisciplinary experience within national and international institutions. She teaches public management at the Institute of Political Studies of the Université Saint Joseph, Beirut. She has been nominated by the United Nations Secretary-General to serve on the Committee of Experts in Public Administration (CEPA) for a four-year term beginning January 2018. She is also a member of the board of the International Association of Schools and Institutes of Administration (IASIA). Ms. Bissat is a founding member of the MENAPAR network of Researchers in public administration. She authored and contributed to more than 41 publications including reports, manuals and citizen guides and founded the semi-peer reviewed journal “Assadissa”-Journal of Public Finance and State Building. Ms. Moubayed was awarded many honors including the highest French distinction of “Légion d’Honneur” (2015) and the prestigious “Chevalier de l’Ordre National du Mérite” (2004) for her significant contributions to the development of cooperation ties between France, Lebanon and the MENA region.



**Amr Nour** is the Director of the United Nations Regional Commissions’ Office in New York. He is responsible for providing strategic policy advice on a broad array of economic and social development issues on the global agenda with a bearing on the work undertaken by the Regional Commissions. Before assuming his current functions, Mr. Nour worked as a research and evaluation officer at the United Nations. Prior to joining the UN, Mr. Nour worked as a delegate to the Security Council and diplomat advising the Government of Egypt on foreign policy, political economy of energy, trade-related issues and negotiations, as well as the sustainable development agenda. Mr. Nour carries a Masters in Public Administration from Syracuse University, a Masters in Political Science from the University of Sorbonne. He also carries post-graduate certificates in international law and Middle-Eastern studies.



**Marwan S. Barakat** is the Group Chief Economist and Head of Research at Bank Audi s.a.l. He headed the Research Department of the Bank since the mid-1990s. Dr. Barakat holds BBA and MBA degrees from the American University of Beirut and a PhD Degree in Economics from the University of Leeds in the United Kingdom. He is a lecturer at the Lebanese American University and the American University of Beirut.



**Hisham Taha** joined the United Nations as the Strategic Policy Advisor to the Under-Secretary General of the United Nations and currently serves as Economic Advisor for UNESCWA leading the Financing for Development Office. Mr. Taha is a career diplomat with 25 years of experience in international economic relations, trade disciplines and development policy. Prior to joining the United Nations, Mr. Taha was

the Economic Advisor to the Foreign Minister of Egypt, Coordinator of the Arab and African Groups and lead multilateral economic and trade negotiator at the World Trade Organization, UNCTAD and other major UN conferences and summits. He was appointed as the Secretary of the EU-Egypt Ministerial Association Council and served as the Special Assistant to the Under Secretary in charge of the United Nations and Specialized Agencies. Mr. Taha led the Economic, Trade and Investment Sections at both the Permanent Missions of Egypt to the United Nations (Geneva) and the European Union and NATO (Brussels). He holds postgraduate degrees in economics, political economy and international trade law.



**Angelic Salha** joined the UNESCWA as a Researcher in the Financing for Development Office in 2016. Ms. Salha holds a Bachelor's degree of Science in Mathematics and a postgraduate degree in Business Administration with emphasis in Finance. With extensive experience in Economic research, Ms. Salha is a contributing author to several

UNESCWA reports, including the first edition of "The State of Financing Development in the Arab Region" and the first UNESCWA report tackling "Illicit Financial Flows in the Arab Region". Prior to joining the United Nations, Ms. Salha co-authored "The Bias in the Long Run Relation between the Prices of Brent and WTI crude oils" published by the International Journal of Energy Economics and Policy. She held positions at Haigazian University, the USAID office in Haigazian University, and the Capital Finance Company.



**Stefano Prato** is the Managing Director of the Society for International Development (SID) and the Editor of SID's Quarterly Journal "Development". He is the coordinator of the Civil Society Financing for Development Group and member of the Editing Team of the annual

Spotlight Report on Sustainable Development. He served as one of the Advisors to the UN Secretary General's High-Level Panel of Eminent Personalities for the Post-2015 Development Agenda. He is also the co-coordinator of the global Nutrition Civil Society Group and member of the Editorial Board of the Right to Food Watch. He is an active participant of the Civil Society Mechanism (CSM) of the Committee on World Food Security and co-facilitates the CSM Working Groups on Nutrition, Sustainable Agriculture & Livestock and SDGs. His most recent areas of interest address the democratization of global economic governance, the architecture of governance, the corporate capture of food, agriculture and nutrition, and the political economies of inequalities, particularly in the African context. Before joining SID, he was actively engaged in several Italian development cooperation NGOs as well as social development volunteer-based organizations.



**Tove Maria Ryding** is the Senior Policy Analyst and Advocacy Manager for Tax Justice at the European Network on Debt and Development (Eurodad), and member of the coordinating committees of the Financial Transparency Coalition (FTC) and the Global Alliance for Tax Justice (GATJ). She co-authored several reports on issues related to

international tax avoidance and evasion, including 'Tax Games - the Race to the Bottom' (2017) and 'Survival of the Richest' (2016). Tove is one of two elected representatives for Tax Justice Europe in the coordinating committee of the Global Alliance for Tax Justice, as well as a member of the coordinating committee of the Financial Transparency Coalition. Before joining Eurodad, Tove worked with Greenpeace International as coordinator for climate policy. She's also been chair of the Danish 92 Group for 5 years and head of the Danish NGO Forests of the World.



**Jessy Trad** is the Head of the Business and Economy News Department at the national television channel MTV Lebanon where she produces and presents the Business segment that she created. Ms. Trade is also known for her financial reports on raising awareness and fighting corruption. As a professional in the Financial media field with over 10 years of experience, Jessy is also highly skilled in financial Research and Analysis in addition to Business Development combined to Media production. Ms. Trade is a university Lecturer at Saint Joseph University (USJ) since 2013 and holds consultative and media advisory positions to Lebanese and Arab institutions where she provides business and financial strategies in addition to Strategic Media planning. Ms. Trade has been a moderator and speaker in several Conferences and Forums in the MENA region.



**Sarah-Jayne Clifton** is the Director of Jubilee Debt Campaign, working to end poverty caused by unjust debt through education, research and campaigning. She has extensive experience in economic justice campaigning, policy and advocacy at the UK and international level, as well as coalition- and alliance-building. Sarah joined Jubilee Debt Campaign in November 2013. Prior to that she worked for 8 years as part of Friends of the Earth International (FoEI). She coordinated FoEI's Climate Justice & Energy programme, including the network's activities around the UN climate negotiations, served on FoEI's Executive Committee, and before that worked as a campaigner on corporate accountability and trade for Friends of the Earth England, Wales and Northern Ireland. In this capacity, she led on the Corporate Responsibility (CORE) coalition's successful campaign on corporate reporting and duties for company directors, which secured changes to UK company law. Sarah has a BA Hons degree in geography from the University of Oxford, and an MSc in International Politics from the School of Oriental and African Studies in London.



**Nassib Ghobril** is the Chief Economist and Head of the Economic Research and Analysis Department at Byblos Bank. Mr. Ghobril is a member of the World Economic Association, the Research & Studies Committee at the Association of Banks in Lebanon, and a founding board member of the Institute of Directors, as well as a member of the Advisory Board of the Lebanese American University's School of Business, and board member of the Levant Institute for Strategic Affairs. He is a board member of several civic and charitable organizations. He is the recipient of the World Lebanese League's award for "Best Economist in Lebanon and the Diaspora for 2009", Data Invest & Consult's award for "Best Sovereign Risk Analyst of 2010", Data Invest & Consult's award for "Most Innovative Research in 2012", and the "2013 Excellence in Economic Research Award". Mr. Ghobril holds a Bachelor of Arts in Political Studies & Economics, an MA in International Relations and a Master in International Management.



**Samir Hammoud** is the Chairman of the Banking Control Commission of Lebanon. He is also a member of the Capital Market Authority (CMA) and the Special Investigation Committee (SIC) at the Central Bank of Lebanon. From 1974 to 2015, Mr. Hammoud held several banking positions at several banks in Lebanon and the Arab region, namely Rif Bank, Bank of Beirut & Arab Countries, Commercial Bank of Kuwait-Kuwait, BankMed. He also acted as Chairman/G. Manager of Future TV. Mr. Hammoud published a number of studies and articles in Lebanese newspapers and magazines related monetary, financial and banking situation and issued a book in 1993 entitled "Credit Analysis". He has a long academic career where he taught in Haigazian, AUB, LAU and USJ for 14 years. He holds a BBA from Haigazian College, an MBA from American University of Beirut, and a B.A. in Law from the Lebanese University. Mr. Hammoud was appointed by the Council of Ministers as Committee member for restructuring Bank Euromed. He was a member in Association of Banks in Lebanon / Banking Studies Committee. Mr. Hammoud is currently a member of B.O.D of Al Riyadi Club, a member of Board of Trustees of Makassed Islamic Philanthropic Association, and President of Hammoud Association in Lebanon.



**Ms. Naoko UEDA** took up her duties as Deputy Director at the OECD's Development Centre in 2016. As one of two Deputy Directors, Ms. Ueda supports the Director in establishing the strategic directions and implementing the Programme of Work of the Development Centre, ensuring that the Centre's analysis and advice remain at the forefront of policy thinking and produce results. As a member of the OECD senior management team, Ms. Ueda works towards the achievement of the Strategic Orientations of the Secretary-General. Ms. UEDA is responsible to provide leadership to strengthen the Centre's engagement and impact with Asia, as well as in several thematic areas such as social cohesion, gender, production transformation, and assisting developing countries in their efforts to achieve the SDGs.



**Ms. Roula Majdalani** is the Acting Deputy Executive Secretary of UNESCWA. She joined ESCWA in 1989 and has served there as a Human Settlements Officer, a First Economic Affairs Officer on water resources, Chief of the Technical Cooperation Section and Director of the Sustainable Development Policies Division. Ms. Majdalani holds a Master's Degree in Urban and Regional Planning from Syracuse University and worked with Dar Al-Handasah Consultants (London).



**DR. IBRAHIM ABDEL GELIL** has more than 40 years of professional experience both at the national, regional, and international levels in the fields of energy and environment with a particular emphasis on policy formulation and analysis, strategic planning and program development and management. He is the Senior Adviser to Arab Forum for Environment and Development (AFED), Adjunct professor of Environment at the Arabian Gulf University (AGU) in Bahrain. He was also the CEO of the Egyptian Environmental Affairs Agency (EEAA), and Chairman of the Egyptian Organization for Energy Planning (OEP). Dr. Abdel Gelil authored and co-authored around 70 publications on energy and environment. He was the co-author of the annual series of AFED reports on the State Arab Environment (2008-2018).



**Stefan Brunnhuber** is a professor at the European Academy of Science and Arts, World Academy of Science Sustainability & Psychology. He holds over 12 international guest professorships in Medicine, Finance and Sustainability. Mr. Brunnhuber was the Vice-chairman of the European Institute of Medicine for over 10 years and Medical Director and Chief Medical Officer in Germany (Saxony). He is a Senator (elected in 2015) of the European Academy of Science and Arts and a member of several international working groups including the Club of Rome, European Academy of Science and Arts. He is a founding member of Alma Mater European. Mr. Brunnhuber has over 300 publications. He is a renowned international lecturer and co-author of the Club of Rome report (Money and Sustainability 2014) and one of the bestselling textbooks in Germany of the last 25 years and author of 'The Art of Financial Transformation'. Mr. Brunnhuber received the following awards: "International Scientist of the Year 2003"; "Living Science Award 2004"; "International Peace Prize 2004"; and Scientific Advisor to the EU-Commission.



**Jan Kregel** is the Director of Research and Master's Program in Economic Theory and Policy at the Levy Economics Institute and heads the Institute's Monetary Policy and Financial Structure program. He is also a professor of development finance at Tallinn University of Technology. In 2009, Kregel served as Rapporteur of the President of the UN General Assembly's Commission on Reform of the International Financial System. He previously directed the Policy Analysis and Development Branch of the UN Financing for Development Office and was deputy secretary of the UN Committee of Experts on International Cooperation in Tax Matters. His major works include a series of books on economic theory, among them, Rate of Profit, Distribution and Growth: Two Views (1971); The Theory of Economic Growth (1972); Theory of Capital (1976); and Origini e sviluppo dei mercati finanziari (1996). In 2011, Kregel was elected to the Accademia Nazionale dei Lincei, the oldest honorific scientific organization in the world. He received his Ph.D. from Rutgers University under the chairmanship of Paul Davidson. He is a life fellow of the Royal Economic Society (UK) and an elected member of the Società Italiana degli Economisti. In 2010, he was awarded the prestigious Veblen–Commons Award by the Association for Evolutionary Economics.



**Manuel F. Montes** is the Permanent Observer and Senior Advisor on Finance and Development at the South Centre. He was previously the Chief of Development Strategies and Policy Analysis in the UN's Financing for Development Office, UNDESA; UNDP Regional Programme Coordinator, Asia Pacific Trade and Investment Initiative. He was also the Programme Officer for International Economic Policy at the Ford Foundation (1999-2005); Senior Fellow and Coordinator for Economics Studies at the East-West Centre in Honolulu (1989-1999); and Associate Professor of Economics at the University of The Philippines (1981-1989). At the UN, he served as the Secretary of the UN Committee of Experts for Cooperation in International Tax Matters. He is a founding member of the Independent Commission to Reform International Corporate Taxation. He holds a PhD in Economics from Stanford University and is a visiting scholar at the Institute for Developing Economies in Tokyo, United Nations University/World Institute for Development Research in Helsinki.



**Bhumika Muchhala** is a policy researcher, analyst, and advocate with twenty years of experience in global economic governance, international political economy and sustainable development. Her focus has been on the perspectives and priorities of developing countries in international organizations as well as that of marginalized communities in developing countries. For the past 10 years, she was a senior policy analyst for Third World Network (TWN), where she advised G77 developing country negotiators in the UN, including the Sustainable Development Goals (SDGs), Financing for Development, Rio+20 Conference, and the UN Economic and Social Council. Previously, she was based in Washington, D.C., where she coordinated the IMF Program at the Bank Information Centre, the Asia Program of the Woodrow Wilson International Center for Scholars, and the Women's Rights program at Global Rights. Bhumika is currently a consultant with the Right to Development division in the Office of the High Commissioner for Human Rights (OHCHR). Ms. Muchhala holds a Masters in Development Economics from the London School of Economics, a Bachelor of Arts in Comparative Literature and a Bachelor of Science in Political Science from Carnegie Mellon University.



**Christopher Clague** is the Managing Editor for The Economist Intelligence Unit's thought leadership division in Asia. He is an expert in international trade and trade policy and has also advised clients throughout the Asian region on the strategic implications of megatrends and political risk. He was a consultant in The EIU's Tokyo office and was the project leader and editor for the EIU/Nikkei BP publication *The World to 2050* (available in Japanese only). Prior to joining the EIU, he was a senior consultant and Director of China Operations for a boutique consulting firm that worked with governments and MNCs on issues related to international trade, investment, and commodities. Chris holds an MSc in Asian Politics from the London School of Oriental and African Studies (SOAS) and a certificate in International Trade Law and Economics from the World Trade Institute's summer academy. He provides regular commentary on trade and the Japanese economy to international media.



**Dima Jamali** is a Professor in the Olayan School of Business, American University of Beirut and currently the National Representative for Global Compact Network Lebanon (GCNL) advancing the Sustainable Development Goals (SDGs). She has a PhD in Social Policy and Administration, from the University of Kent at Canterbury, UK. She is the author and editor of four books and over 80 high level international publications, focusing on different aspects of sustainability and sustainable development and Corporate Social Responsibility (CSR) in developing countries in general and in the Middle East specifically. Ms. Jamali is the winner of the 2016 National Council for Scientific Research Excellence Award, the 2015 Aspen Institute Faculty Pioneer Award, dubbed by the Financial Times as "the Oscars of the Business School World" for pioneering faculty who are at the cutting edge of teaching and scholarship in their field. She is also winner of the Shield of Excellence for the Arab Region and designated as Personality of the Year for CSR by the Arab Organization for Social Responsibility in 2015. She is also the winner of the 2010 Shoman Prize for best young Arab researcher and the winner of the AUB Teaching Excellence Award in 2006, which recognizes outstanding educators from across the AUB campus.





**Aida Opoku-Mensah** is the Special Advisor to ECA Executive Secretary on Special Initiatives and Sustainable Development Goals (SDGs) and Agenda 2030. Ms. Mensah coordinates activities on Illicit Financial Flows (IFF) and managing the High-Level Panel on Migration in ECA. Ms. Mensah was previously the Director of ICT, Science and Technology Division at ECA. In this docket, she managed ECA's

programme on harnessing Information, Science and Technology for Africa's Development. As Director, she implemented initiatives such as UNECA's African Information Society Initiative (AISII), a continental digital agenda supporting African countries to develop and implement national ICT for Development (ICT4D) policies and strategies. She also implemented Technology in Government in Africa Awards (TIGA) to encourage African Governments' use of technology for development and was one of the co-architects of the Innovation Prize for Africa (IPA) – an initiative to encourage African innovators and inventors to enhance their roles in the African development process.



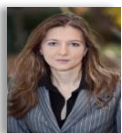
**Amr Farouk Moussa** is the Head of the Technical Office at the Anti-Money Laundering and Combatting Financing Terrorism Unit in Egypt. He served as the Head of the Appeal Authority and has over 21 years of experience in Supreme State Security Prosecution. Prior to that, he served as an Assistant Attorney at Cairo Central Prosecution Office

and General of Giza court. Mr. Moussa is a lecturer and trainer in the field of combating money laundering at different universities and agencies. In addition to that, Mr. Farouk has extensive research and practical investigative experience in this field. He contributed to the preparation of several legislations and the provision of legal assistance to Anti-Money Laundering Unit. In addition, he contributed to the amending the Anti-Money Laundering Laws of Egypt. He holds a Bachelor of Law from Cairo University.



**Enrico Bisogno** is leading the Data Development and Dissemination Unit at the United Nations Office on Drugs and Crime (UNODC), Vienna. He is responsible for developing and implementing UNODC programme on crime and drugs statistics, including activities related to indicators for Sustainable Development Goals. Mr. Bisogno led the

finalization of the International Classification of Crime for Statistical Purposes and led capacity-building activities to support countries in the field of crime and criminal justice statistics. In his previous work experiences, with the National Statistical Office of Italy (ISTAT) and at the UN Economic Commission for Europe (UNECE), he developed extensive experience in many areas of social statistics, including gender statistics, migration statistics, population census and statistics related to the monitoring of the Millennium Development Goals. Mr. Bisogno is an Italian national and holds a PhD in Demography from the University of Rome and a Master in Statistics and Demography from the University of Padua (Italy).



**Vanda Felbab-Brown** is a senior fellow in the Center for 21st Century Security and Intelligence in the Foreign Policy program at Brookings. She is an expert on international and internal conflicts and nontraditional security threats, including insurgency, terrorism, organized crime, urban violence, and illicit economies. Her fieldwork

and research covered, among others, Afghanistan, South Asia, Burma, Indonesia, the Andean region, Mexico, Morocco, Somalia, and Eastern and Western Africa. Dr.

Felbab-Brown is the author of five books and published numerous academic and policy articles, reports, op-eds, and blogs. A frequent commentator in U.S. and international media, Dr. Felbab-Brown regularly provides U.S. congressional testimony on these issues. She has also been the recipient of numerous awards in recognition of her scholarly and policy contributions. Dr. Felbab-Brown received her Ph.D. in political science from MIT and B.A. in government from Harvard University.



**Kinda Hattar** works with Transparency International (TI) since 2012 as the Regional Advisor for MENA. Ms. Hattar provides relevant expertise, capacity building content and related information to support different regional efforts in fighting corruption, liaising with local, regional and global stakeholders. She provides political and content analysis of the corruption scene in the MENA region, and advises on the different ways to fight corruption and ensure good governance and transparency in theory and practice according to TI principles and practices. Ms. Hattar joined TI from UNDP working on Enhancing Capacity of the Ministry for Political Development and Political Parties in Jordan. She also worked with youth, women and people with disabilities as the Governance Project Manager with British Council. She has worked as a Programme Coordinator and Trainer at the National Centre for Human Rights after which she has worked as Community Services Officer with Care International in refugees' camps on the Jordanian-Iraqi borders. Ms. Hattar holds a Masters in International Human Rights Law from Nottingham University -UK and BA in Communication and Journalism from Yarmouk University- Jordan.



**Arkan El-Seblani** is an international development practitioner with extensive experience in supporting democratic governance reforms, with a focus on anti-corruption and the rule of law. He holds a Bachelor of Law from the Lebanese University and a Master of Law from the George Washington University. Mr. El- Seblani has 15 years of progressively responsible experience in the UN, in private practice in Lebanon and USA, and in the Public Prosecution Office of the State of Qatar. He is currently leading UNDP's regional anti-corruption initiative in the Arab states.



**Zahra Bazzi** is the Programs Manager at the Arab NGO Network for Development (ANND) since November 2011. Her work mainly entails research coordination and project management focused on development, governance and human rights policies. She is engaged in networking and cooperation with national and global civil society organizations and other development actors. She worked previously as Program Associate at the UNDP-Program on Governance in the Arab Region (UNDP-POGAR) and UNDP project on Anti-Corruption and Integrity in Arab Countries (UNDP-ACIAC) from 2007 till 2011. She holds a master's Degree in International Trade Law from Beirut Arab University and a BA in Law from the Lebanese University.



**Alex Cobham** is the Chief Executive of the Tax Justice Network and a visiting fellow at King's College, London. His work focuses on illicit financial flows, effective taxation for development, and inequality. He has been a researcher at Oxford University, Christian Aid, Save the Children, and has been consulted widely, including by the Economic Commission for Africa, DFID, and the World Bank. Mr. Cobham was a research fellow at the Center for Global Development in Europe (CGD). He was previously at

Christian Aid, and before that he was a researcher at Queen Elizabeth House (the Department of International Development at Oxford University), and a junior economics fellow at St Anne's College, Oxford University. Mr. Cobham authored a range of academic papers, policy reports, and book chapters, including some of the first estimates of the costs of illicit financial flows for developing countries. He is a member of the advisory group to the global consultation on inequalities within the post-2015 development framework. His work includes a proposal, with Andy Sumner, for a new policy measure of inequality, the 'Palma'.



**Manal Abdel Samad Najd** is the Head of the VAT Legislation and Tax Policies Department at the Ministry of Finance (MoF) of the Republic of Lebanon and one of the pioneer members of the VAT Implementation Team at the MoF. Besides her extensive experience in taxation, Dr. Najd is a lecturer and trainer at the American University of Beirut, Saint-Joseph University and Institute of Finance in Beirut and is a Certified Public Accountant. She is the author of several papers and articles addressing public finance and taxation. Dr. Najd holds a PhD degree in Law with honor distinction from Paris I University- Pantheon, Sorbonne, and an MBA from the American University of Beirut, a Maîtrise of Accounting and Finance and Business Administration and Marketing from the Lebanese University. Dr. Najd is a member of several tax-related committees, including the National Committee for MLI, OECD-BEPS Project, the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, the Objection Committee on VAT, and is a member of the Lebanese Association for Information Systems (LAIS).



**Richard Murphy** is a chartered accountant who after a career as a partner in practice became a founder of the Tax Justice Network in 2003. As a technical adviser to that group, he created country-by-country reporting, which is now in use for tax reporting around the world. He was engaged in negotiating the OECD's Base Erosion and Profits Shifting programme on behalf of civil society organisations. He has also promoted the study of the tax gap as a way of appraising risk in the economy, and this is the focus of much of his recent work. Now a Professor of Practice in International Political Economy at City, University of London, his ideas have been used by many UK politicians, including David Cameron, Caroline Lucas, Vince Cable and Jeremy Corbyn. Richard was rated the ninth most influential person in worldwide tax by International Tax Review in 2017.



**Wolfgang Obenland** has been the programme coordinator for the Global Policy Forum since 2010. Earlier, since 2004, he has been a founding member of GPF Europe and worked with GPF in various capacities as a freelancer. He is a member in the coordinating committee of the Netzwerk Steuergerechtigkeit Deutschland (Tax Justice Germany) and a member of the Reflection Group on the 2030 Agenda for Sustainable Development. Mr. Obenland coordinates a coalition of NGOs, trade unions and initiatives producing the annual report "Germany and the global Sustainable Development Agenda" ([www.2030report.de](http://www.2030report.de)). Among his fields of expertise are global tax, financial, and governance issues, alternative models of wellbeing and development, the discussions around humanitarian interventions and R2P, as well as the role of transnational corporations in global policy making. Previously, Wolfgang Obenland has been a co-organizer of the independent media and arts

festival “plattform:[no budget]” in Tübingen for several years. Also, he was a partner in and co-founder of the company Zählwerk, specializing in data analysis, web applications and design. He studied political science and general rhetorical sciences at Trier, Tübingen and Uppsala University.



**Oliver Pearce** has worked in development for over 10 years, starting at Christian Aid where he began as a Policy Analyst researching issues from climate change to governance. Oliver spent over 6 years working in Christian Aid's Middle East team, working with civil society organizations in the region to improve their policy research and advocacy, specializing on economic and social rights issues including tax. He managed a multi-country programme and was involved in a number of emergency response programmes. During his time at Christian Aid, Oliver also acted as Chief Development Economist, helping shape the organisation's overall policy priorities. He joined Oxfam in February 2016 as Policy Manager for tax and inequalities issues, currently focusing on the link between tax havens and development. Oliver helps lead Oxfam's international work on tax as part of a campaign challenging economic inequality. He serves on the board of the European Network for Debt and Development (Eurodad) and on the Steering Group for the Independent Commission for the Reform of International Corporate Tax (ICRICT).



## ENDNOTES

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- <sup>1</sup> The Civil Society FfD Group, Statement to Expert Discussion (1).
- <sup>2</sup> United Nations Conference on Trade and Development
- <sup>3</sup> Vanda Felbab-Brown, *Shooting Up: Counterinsurgency and the War on Drugs* (Washington, D.C.: Brookings Institution Press, 2010).
- <sup>4</sup> Calculated by Jubilee Debt Campaign from IMF and World Bank data for 126 governments.
- <sup>5</sup> Data collated by Jubilee Debt Campaign from IMF and World Bank assessments
- <sup>6</sup> Data collated by Jubilee Debt Campaign from IMF and World Bank assessments
- <sup>7</sup> <https://jubileedebt.org.uk/blog/global-south-debt-crisis-worsens-as-interest-rates-rise-and-currencies-fall>
- <sup>8</sup> Calculated by Jubilee Debt Campaign from World Bank, World Development Indicators database.
- <sup>9</sup> Calculated by Jubilee Debt Campaign from World Bank, World Development Indicators database.
- <sup>10</sup> Calculated by Jubilee Debt Campaign from World Bank, World Development Indicators database.
- <sup>11</sup> <https://www.imf.org/external/np/pp/eng/2014/090214.pdf>
- <sup>12</sup> See <https://undocs.org/A/68/L.57/Rev.1> and <https://undocs.org/A/69/L.84>
- <sup>13</sup> The AAA at II.A. (Domestic Public Resources) paragraph 23 reads: We will redouble efforts to substantially reduce illicit financial flows by 2030, with a view to eventually eliminating them, including by combating tax evasion and corruption through strengthened national regulation and increased international cooperation. We will also reduce opportunities for tax avoidance and consider inserting anti-abuse clauses in all tax treaties. We will enhance disclosure practices and transparency in both source and destination countries, including by seeking to ensure transparency in all financial transactions between Governments and companies to relevant tax authorities. We will make sure that all companies, including multinationals, pay taxes to the Governments of countries where economic activity occurs, and value is created, in accordance with national and international laws and policies.”
- <sup>14</sup> United Nations, New York, May 1951 EI-1-9-86----- ST/ECNIO 3 May 1951
- <sup>15</sup> Theorie der wirtschaftlichen Entwicklung (Theory of Economic Development) 1912, Duncker & Humblot Berlin, Germany
- <sup>16</sup> Levy Economics Institute, Working Paper NO. 833, February 2015 “Emerging Markets and the International Financial Architecture”
- <sup>17</sup> [socialistsanddemocrats.eu/sites/default/files/Special report on tax gap 1 trillion euro\\_130109.pdf](http://socialistsanddemocrats.eu/sites/default/files/Special%20report%20on%20tax%20gap%201%20trillion%20euro_130109.pdf)
- <sup>18</sup> <https://www.taxjustice.net/wp-content/uploads/2014/04/Cost-of-Tax-Abuse-TJN-2011.pdf>
- <sup>19</sup> [www.oecd.org](http://www.oecd.org)
- <sup>20</sup> PWC, ‘Global Economic Crime Survey 2016: Adjusting the Lens on Economic Crime – Preparation Brings Opportunity Back into Focus’, 2016, p. 41.
- <sup>21</sup> FATF, ‘Money Laundering Through the Physical Transportation of Cash’, October 2015, p. 3.
- <sup>22</sup> [www.oecd.org](http://www.oecd.org)
- <sup>23</sup> Annette Alstadsæter, Niels Johannesen and Gabriel Zucman, ‘Who owns the wealth in tax havens? Macro evidence and implications for global inequality’, Journal of Public Economics, February 2018, <http://gabriel-zucman.eu/files/AJZ2018.pdf>.
- <sup>24</sup> Gabriel Zucman, ‘Hidden Wealth of Nations’, University of Chicago Press, September 2015, <http://gabriel-zucman.eu/hidden-wealth/>.
- <sup>25</sup> Alex Cobham and Petr Jansky, ‘Global distribution of revenue loss from tax avoidance’, UNU-WIDER, Working Paper 2017/55, March 2017, <https://www.wider.unu.edu/sites/default/files/wp2017-55.pdf>.
- <sup>26</sup> UNCTAD, ‘World Investment Report 2015: Reforming international investment governance’, June 2015, [http://unctad.org/en/PublicationsLibrary/wir2015\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf), p. 201.
- <sup>27</sup> See for example UNCTAD (2015) or Ernesto Crivelli, Ruud De Mooij and Michael Keen, ‘Base Erosion, Profit Shifting and Developing Countries’, IMF Working Paper WP/15/118, 2015, <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Base-Erosion-Profit-Shifting-and-Developing-Countries-42973>.
- <sup>28</sup> Target 16.4 states: “By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime”, United Nations General Assembly, ‘Transforming our world: the 2030 Agenda for Sustainable Development’, Resolution 70/1, adopted by the General Assembly on 25 September 2015, <https://sustainabledevelopment.un.org/post2015/transformingourworld>

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- <sup>29</sup> See, for example, OECD, 'Mobilising domestic resources through tackling base erosion and profit shifting', November 2015, <https://www.slideshare.net/OECDtax/beps-5th-plenary-meeting-of-the-task-force-on-tax-and-development>; and OECD, 'Mobilising domestic resources through tackling base erosion and profit shifting', Third International Conference on Financing for Development, Side event on base erosion and profit shifting (BEPS), Opening Remarks by Angel Gurría, Secretary-General, OECD, 14 July 2015, <http://www.oecd.org/tax/mobilising-domestic-resources-through-tackling-base-erosion-and-profit-shifting.htm>.
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