

# Illicit Financial Flows: Building a Southern Narrative and Agenda

## Outcome Document

October 23, 2017

“It starts with us”

### **Context**

The issue of illicit financial flows (IFFs) is as political and as it is technical. In this regard, as a continued initiative, a day-long South-South strategy meeting was organised by the Financial Transparency Coalition’s Southern Regions Program to encourage conversations on the issue among different civil society groups from the Global South. The meeting focused on addressing the issue of illicit financial flows (IFFs), its definition, vehicles and its corrosive impact on developing countries as they lose crucial domestic revenue, linking IFFs with gender, inequality, extractives and the international financial system, mapping geo-political positions of regional institutions and bodies and coming up with a shared strategy for the Global South in the fight against IFFs.

### **‘If it looks bad, it probably is’**

With every country, the debate around IFFs takes a national spin. Governments often tend to focus on IFFs resulting from financial crime and corruption but this widely accepted definition of corruption is narrow. A common struggle that civil society groups face is towards advocating on the technical aspects of IFFs. Despite legal institutions treating the issue of IFFs differently, juridical processes have largely not received the much needed attention from the civil society due to lack of capacity. While the concerns around ‘how do we define illicit’ in the IFF definition remained central to this discussion, Southern voices echoed that there can be no single agreed upon set definition of IFFs but rather a working one that is regionally contextualised. Civil society from the Global South argued that there is a critical need to shift the politics of language around the definition of IFFs with more literature emerging from the Global South that can champion this cause. The High Level Mbeki Panel Report on ‘Illicit Financial Flows from Africa’ was able to precisely draw the much needed attention to the linkages between legal and illegal.

*“We can walk and chew gum at the same time.” – Semkae Kilonzo, Policy Forum*

The use of complex tax avoidance structures requires plugging the loopholes in the law to bridge the gaps between tax avoidance and evasion practices. To create a sustainable financial system that works for everyone, people’s perspective is central to the fight against the phenomena of IFFs. Effective



channels of advocacy have to look into strengthening relations with parliamentarians, tax administrators, multilateral institutions and regional bodies to prevent deregulation. As the facilitators of IFFs, more scrutiny has to be shifted to the role of banks, financial intermediaries, investment treaties, tax havens and the current international financial architecture.

### **Burning Questions and Challenges**

Whilst, there is no single thread alone tying the impact of IFFs on human rights, there is a need for clarity on policy asks on national, regional and global levels.

Nationally, tax holidays and breaks are given to multinational corporations (MNCs) in the hope to attract foreign direct investment (FDI), but these incentives are often arbitrary and undemocratic, and are given without a system of checks and balances. This enables erosion of crucial revenue from developing countries as a result of closed door deals. This in turn has led to developing country governments reducing public expenditure on social protection services. Consequently, to compensate for revenue lost to tax breaks, governments especially in developing country are increasingly depending more on indirect taxes levied on consumption. These developments have had severe impacts on the livelihoods of women, marginalised and poor communities. For example, the imposition of regressive taxes on feminine products and reduction of corporate income taxes have disproportionately pushed the burden of paying taxes on women as opposed to MNCs, an issue that transcends national boundaries. In this regard, regular review and rationalizing of tax breaks offered to multi-national corporations and big businesses, gender responsive budgeting along with social auditing of current policies need to be mainstreamed as a practice. Pushing for more direct taxes like property and inheritance tax will lower the growing income and wealth inequality gap. Specific monitoring processes and due diligence measures should be installed to prevent abuse of power merely because of loopholes in legal framework by MNCs. The lack of availability of data and information with respect to extractive companies in developing countries is a challenge in regulating corporate behaviour. To reduce this susceptibility to corruption and abusive transfer pricing methods employed by MNCs, more developing countries should adopt and commit to international standards like the Extractive Industries Transparency Initiative (EITI) and public country-by-country reporting by MNCs. Other measures involve amending unfair and restrictive tax treaties where developing countries end up relinquishing their sovereign rights, instituting asset recovery mechanisms and linking human rights with regional cooperation on tax matters.

Regionally, the Economic Commission for Africa (ECA) has been a decisive platform for the African continent in driving political will towards curbing IFFs. However, the problematic membership of institutions ensures little room for negotiations. Since, most Caribbean countries are considered to be tax havens, this poses to be a conflict for Latin American CSOs in positioning their messaging. There has been a lack of pressure from Asian countries and a genuine lack of solidarity around the issue of IFFs. In such a scenario, emblematic national cases can champion and bolster the movement from within.

The current narrative around tax avoidance and profit shifting is being driven by Organisation for Economic Cooperation and Development (OECD) and G20 led initiatives and therefore, the international financial architecture remains skewed against developing countries. Most developing countries do not



have the capacity to inform or make the rules for themselves. With no intergovernmental democratic tax body in sight, there is a need for multiple robust alternatives for developing countries.

### **Emerging Southern Strategies: Regional Perspectives**

The expanding social movement against IFFs needs to broaden the current constituency and targeted groups using multi-pronged strategies of technical and political mobilisation. This implies the need to tie up with National Human Rights Commission, Women’s Rights Commission, forging alliances on commerce with trade networks, Stop the Bleeding Campaign in Africa, revenue authorities, oversight institutions, trade unions, labour, media and independent tribunals. Civil society networks must audit regional tax treaty networks to gather more insight. Further, the movement should ally itself with champions within various governments, state authorities and financial institutions in the spirit of transparency. National level research from developing countries along with participatory budgeting should feed into campaigning. Through consolidated submissions and evidence, civil society should continue to work towards highlighting the severity of IFFs. Growing evidence points towards the shift from traditional tax havens like the Switzerland to international financial centres in Asia like Hong Kong and Singapore. There is also a pressing need to look out for the use of emerging tax havens in autocratic and conflict-ridden jurisdictions like Crimea.

As immediate next steps, civil society groups should use key platforms and spaces like the, Argentinian Presidency of G20 and Financial Action Task Force (FATF), African Union’s year of tackling corruption, track regional anti-money laundering groups, advocate with regional bodies like African Tax Administration Forum (ATAF), Economic Commission for Africa, Inter-American Center for Tax Administrations (CIAT), Economic Commission for Latin America and Caribbean (ECLAC), Union of South American Nations (UNASUR), Consejo de Ministros de Hacienda o Finanzas Centroamerica, Panama y Republica Dominicana (COSEFIN) and Economic and Social Commission for Asia Pacific (ESCAP), national financial intelligence units and anti-corruption institutions to advocate towards curbing and eliminating illicit financial flows so that we could establish a sustainable financial system that works for everyone.

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Organisation’s Name	Region
Action For Economic Reforms	Asia
Asian People’s Movement on Debt and Development	Asia
Cambodians for Resource Revenue Transparency	Asia
Center for Economic and Social Rights, Tax Justice	Latin America

Centro Estrategico de Integracion Financiera	Latin America
Centro de Integridade Publica	Africa
Centre for Budget and Governance Accountability	Asia
Centre for Policy Dialogue	Asia
DECIDAMOS	Latin America
ESPOL Jublio	Latin America
Focus on the Global South	Asia
Forum Civil	Africa
ICEFI	Latin America
Instituto Justica Fiscal	Latin America
Jindal Global University	Asia
Latin American Network on Debt and Development	Latin America
National Taxpayers Association	Africa
Participation Center	Asia
Perkumpulan Prakarsa	Asia
Policy Forum	Africa
Public Services International Brazil	Latin America
SEATINI	Africa
Tax Justice Network Africa	Africa
Third World Network Africa	Africa