



A Pan-Continental Southern Dialogue on

Illicit Financial Flows: Challenges and Opportunities for Southern Cooperation

Financial Transparency Coalition

November 21-22, 2018 | Nairobi, Kenya

Concept Note

Introduction

The Financial Transparency Coalition (FTC) is facilitating a Pan-Continental Southern-led Dialogue on illicit financial flows (IFFs) and financing development. The Dialogue aims to bring together regional platforms of tax administrators, global intergovernmental bodies and civil society organisations working on different aspects of illicit financial flows, financial secrecy, tax and development to discuss the role of regional cooperation in the Global South in mobilizing revenue for financing the Sustainable Development Goals (SDGs). In this regard, this meeting will act as a stepping stone towards informing global tax and development debates according to the differentiated realities of developing countries, addressing the lack of space for developing countries to design international tax norms, as well as proposals for advocacy and interventions at national, regional and global levels.

Background

The SDGs – the world’s 2030 development agenda – are oriented towards securing human rights for populations across the world and are a universal call to end poverty and ensure that people enjoy peace and prosperity. However, financing the SDGs remains a significant challenge, especially for developing countries. Though estimates regarding financing gaps vary greatly, projections for eradicating extreme poverty globally stand at \$66 billion annually; annual investment in infrastructure to sustainably alleviate poverty through growth and job creation stand between \$5 and \$7 trillion globally; and investment gaps stand at \$2.5 trillion a year.

The global financial system as well as the international tax system have historically been shaped by rich and developed countries and are geared towards serving their interests – whether it is through colonialism, neocolonialism, neoliberalism, unfair trade and tax treaties, or through setting up a complex web of offshore secrecy jurisdictions that aids financial secrecy. This is reflected in the membership of the closely interconnected international financial institutions that shape the norms of international financial, accounting and tax systems – bodies such as the G20, OECD but also lesser-known institutions such as the Financial Action Task Force, Bank of International Settlements, Financial Stability Board, Basel Committee of Banking Supervision, International Accounting Standards Board, International Organization of Securities Commissions etc. These are almost exclusively comprised of developed countries and are



headquartered in the Global North. This asymmetry leads to an erosion of developing countries' sovereignty as they adopt incoherent policies or are pushed into hasty and ill-considered policy reform due to geopolitical pressures and fear of ostracization.

This also enables key economic and political actors to exploit loopholes in international tax laws and avoid paying their fair share of taxes in jurisdictions where they create value, leading to the generation of illicit financial flows (IFFs), broadly understood as cross-border movement of funds that emerge from activities such as abusive tax practices by multinational corporations and elites. These are not victimless activities – IFFs and financial secrecy have significant implications for human rights. Illicit financial flows erode countries' tax bases, compelling governments to compensate for the loss of revenue by imposing regressive, indirect taxes on consumption, disproportionately impacting the poor and vulnerable. Regressive tax structures limit the redistribution that social programmes can achieve, as they end up being funded by the same people they set out to benefit. This also has adverse impacts on human rights for women and gender equality. Developing countries are left with insufficient resources to sustainably invest in institutional reform, capacity, coordination and the role of oversight and regulatory bodies is undermined.

Experiences from the Global South reveal the urgency of shifting the politics of language around the definition of IFFs, so as to adequately capture the concerns and priorities of developing countries. Developing countries and Southern multilateral bodies are challenging why a handful of developed countries are able to shape the norms and design of the international financial and tax system. A deliberate separation has occurred between the finance and development tracks within the intergovernmental processes of a number of norm-shaping institutions. This Dialogue will explore these issues in order to realise the following objectives.

- Create an ongoing Southern dialogue to enable a concrete discourse on the specificities of illicit financial flows and their subsequent impacts across the Global South vis-à-vis Agenda 2030.
- Share experiences of progress under the current proposals for regulation of international taxation and identify the principle obstacles and solutions related to tax base erosion in Southern countries.
- Move towards greater coordination and explore the potential for common solutions to the phenomenon of IFFs, while also identifying the challenges that are distinct in different regions of the South.
- Deepen South-South cooperation and engagement on international tax matters through norm-setting and decision-making bodies in order to influence the international financial system and the global tax agenda.



Agenda

November 21 (Day 1)

09:30 – 10:00 Welcome and Introductions

10:00 – 11:30 The Politics of Defining Illicit Financial Flows

Most intergovernmental bodies, multilateral processes and national governments treat IFFs as “illegal cross-border flows”, without acknowledging the abuse of international and national tax laws by MNCs and the global elite that results in a loss of revenue from developing countries crucial for their development. However, concerted government action against IFFs depends on the international recognition of illicit finance being corrosive to the immediate and progressive realisation of human rights. This session will explore the need for a robust definition for IFFs, the inclusion of practices employed by MNCs that lead to tax abuse when defining IFFs and the need to shift the geopolitics of agenda-shaping to the Global South.

11:30 – 11:45 Coffee / Tea

11:45 – 1:15 Effective National and Regional Interventions on Illicit Financial Flows in the Global South

The issue of IFFs is as political as it is technical, and takes a national and regional spin. Each developing region experiences different modalities of IFFs influenced by their context, and grapples with different priorities and concerns with respect to addressing IFFs. This session will take stock of interventions made on the lines of new research, implementation of transparency measures and preventive reforms in law, and noteworthy national cases that influenced the discourse on IFFs.

1:15 – 2:30 Lunch

2:30 – 3:45 Methodological Indicators on Illicit Financial Flows under Sustainable Development Goal 16

Though the FfD outcome document as well as Goal 16 of the SDGs mention the need to reduce illicit financial flows, FfD and SDGs adopt a narrow and restricted scope of the definition of an illicit financial flow which does not find its basis in consensus – threatening



collective action and progress on the issue. IFFs under the SDGs are categorized as a tier 3 indicator, as the indicator proposed is yet to be adopted internationally. This session will focus on discussing key indicators to identify IFFs under Goal 16.

3:45 – 4:00 **Coffee / Tea**

4:00 – 5:30 **Role of Cooperation in Curbing Illicit Financial Flows in the Global South**

Being a cross-border issue, the fight against IFFs requires a collective approach on behalf of countries, especially those in the Global South. This session will regionally map national governments as well as the role of regional multilateral stakeholders like institutions and civil society organisations in adopting progressive measures to curb IFFs. The session will also discuss the lessons learned and noted breakthroughs since these steps were forged and implemented.

November 22 (Day 2)

9:30 – 11:30 **Fault Lines in the Global Financial System: Exploring Alternative Solutions for the Global South**

Most developing countries are not members of bodies that shape norms for the international financial, accounting and tax systems. The differentiated realities of developing countries are therefore not reflected in informing the norms on international finance and tax. In the absence of a democratic international platform, developing countries are often included at the implementation stage after the norms have been designed. This session will analyse what such lack of representation means for developing countries, and what hasty implementation of norms that developing countries did not design means for sovereignty.

11:30 – 11:45 **Tea / Coffee**

11:45 – 1:15 **Breakout Panels**

Sensitising Policymaking: Assessing the Impact of IFFs on Gender and Rights

Developing countries are facing staggering structural inequalities, of which income, wealth and gender inequalities most urgently contravene the true realisation of human rights. IFFs further exacerbate these inequalities by impacting the ability of developing



countries to progressively and effectively mobilise domestic revenue; and compel governments to levy regressive, indirect taxes on consumption which disproportionately impact the poor, marginalised and women who end up paying for the social welfare schemes that are designed to benefit them. This session will draw in the impacts IFFs have on gender and the realisation of rights while arguing for gender responsive policymaking processes.

Financial Secrecy: The Role of Regulation, Protecting Whistleblowers and Citizenry

The opaque and shadowy world of tax havens – along with an efficient and organized network of enablers like audit firms, offshore service providers, bankers, lawyers, accountants and informal channels – plays the most significant role in oiling the wheels of the global industry of IFFs, as is evident by revelations like the Lux Leaks and Panama Papers. Even as financial transparency norms are being institutionalized across the world, this industry finds newer ways of catering to the rich. This session will analyse the role played by enablers of IFFs, discuss regulatory policies and the urgent need to unequivocally protect whistleblowers to facilitate the crucial role of citizenry in a democratic society.

1:15 – 2:30

Lunch

2:30 – 4:30

Plenary Session: Next Steps: Unifying Actions and Key Moments

The concluding session will hear from all participants regarding the ways in which national governments and multilateral institutions from the Global South could work in collaboration to address illicit financial flows in the Southern regions, as well as strategies that different stakeholders could adopt for furthering South-South cooperation. The process of deciding the indicators for the SDG target for illicit financial flow is a national process but one that needs international momentum and pressure, would benefit greatly from active Southern cooperation.

4:30 – 5:00

Closing Remarks