Long Session Report

Session Title: Robbing the Poor: How to Stop Illicit Financial Flows from Developing Countries
Date & Time: Friday, 2 December 2016, 04:30 pm
Report prepared by: Joerg Wisner, Senior Project Manager, GIZ

Session coordinated by: Fabian Klemme, Officer responsible for Implementation, GIZ

Moderated by: Tom Keatinge, Director, Centre for Financial Crime and Security Studies, Royal United Services Institute (RUSI)

Experts:

- Ms. Cornelia Richter, Managing Director, GIZ, German Cooperation
- Mr. Marcio F. Verdi, Executive Secretary, CIAT, Inter-American Center for Tax Administration
- Ms. Dorcas Agik Odhong Oduor, Deputy Director, Public Prosecution, Kenya
- Mr. Jose Carlos Ugay Sanchez Moreno, Chair, Transparency International

What were the aims of the session and corruption risks?

This workshop aimed at presenting and discussing measures and solutions to stop Illicit Financial Flows (IFFs). It took into account the national, regional and international perspective as well as possibilities for development cooperation. Representatives from Germany, Kenya, the Inter-American
Center for Tax Administration and Transparency International discussed opportunities and challenges regarding beneficial ownership transparency, financial investigations, anti-money laundering, international cooperation in criminal and tax matters and the recovery of stolen assets.

Summary of panellists’ contributions & discussion points (please be as detailed as possible)

Cornelia Richter stressed that illicit financial flows pose challenges to developing and developed states alike. Their effects, however, are especially devastating for developing countries, which are less resilient towards crime, corruption and terror. Especially, illicit financial flows and tax evasion significantly impact on their ability to mobilise domestic resources. The urgency to take action has been re-emphasised by the revelations of the Panama Papers in early 2016. There are several essential measures that need to go hand in hand to effectively and sustainably combat illicit financial flows: enhancing law enforcement capacities, implementing international standards in tax matters, fighting corruption and transnational organised crime as well as strengthening good governance and peace and security as a whole. Moreover, policy coherence and cooperation of all relevant stakeholders at the national and international level are keys to success. GIZ is an experienced and reliable partner to tackle illicit financial flows and stands ready to lend support. However we have to be patient as reforms will take time and it is a difficult task.

Looking at Latin America Marcio Verdi underlined how bank secrecy still is an important obstacle for effective tax collection. This has to be removed. Moreover, Financial Intelligence Units are important actors as their work goes beyond the pure financial date. Beneficial ownership transparency needs to be improved to identify the natural persons behind companies and trusts. Moreover the human capacities of relevant civil servants need to be improved and tax administrators need to be sensitized for criminal behaviour e.g. though targeted trainings. The car wash case in Brazil proved again the significant role that tax administrators play in revealing criminal activities at is was them who sparked the investigations.

Dorcas Agik Odhong Oduor highlighted several dynamics that hinder the successful fight against illicit financial flows in Kenya, such as the lack of public awareness of scope and impact of the problem, the absence of witness protection mechanisms, and the informal, under-controlled and cash-based economy. Moreover there is a significant lack of proper legislation and the laws in place are poorly implemented. Moreover, there is no effective cooperation between relevant stakeholders on the national level, let alone across borders. Mutual legal assistance did especially work where informal contacts had been built beforehand. What we need to do: 1. Create Awareness, 2. Enhance national and international cooperation, 3. Improve legislation and enforce laws in place, 4. Enhance transparency within the international Financial System and 5. Implement international instruments on the national level.

Elena Panfilova stressed that IFFs impact on societies not only in developing,
but in all countries. She underlined that the lack of implementation of international standards as well as of the enforcement of domestic laws hinders progress in the fight against IFFs. Countries need to abide by their international pledges such as the G8 that already agreed on the fight against corruption in 2006, while not much has changed until today. Peer pressure, as in the framework of the UNCAC, helps. FATF as well as FIUs and tax authorities are important stakeholders for the fight against corruption. However, in the past proceeds of corruption have to often been treated as proceeds of a noble crime. That is why we need the same standards of enforcement for all crimes.

Main outcomes of session (include the highlights and interesting questions from the floor)

A number of projects and initiatives were showcased during the session:

(1) GIZ Global Project “Combating illicit financial flows”
This stand-alone project explores new approaches: it cooperates with several federal ministries and partner governments as well as regional and international networks and organisations. The support rendered focuses on strengthening capacities in the areas of financial investigation, anti-money laundering and international cooperation in criminal matters. For instance, in cooperation with OECD and the Asian Development Bank (ADB) the project launched a Law Enforcement Practitioners Network within the ADB/OECD Anti-Corruption initiative for Asia-Pacific. The Network aims at enhancing the members’ capacity to implement anti-corruption policies and laws as well as to enforce cases of corruption and other illicit financial flows at the national level and in cooperation with other jurisdictions. Peer-learning and strengthening regional cooperation are at the heart of the network.

(2) The Inter-American Center of Tax Administrations (CIAT) supports the efforts of national governments by promoting the evolution, social acceptance and institutional strengthening of tax administrations, encouraging international cooperation and the exchange of experiences and best practices. CIAT is a non-profit international public organization that provides specialized technical assistance for the modernization and strengthening of tax administrations. Firmly committed to achieving measurable results, the values that CIAT promote are integrity, transparency and ethics in an effort to prevent and combat all forms of tax fraud, evasion and avoidance and to facilitate voluntary compliance.

(3) The Office of the Director of Public Prosecutions (ODPP) is the National Prosecuting Authority in Kenya which has been mandated by the Constitution to prosecute all criminal cases in the country. The DPP may also be required, on a need basis to present a report to Parliament on a matter of national or public interest. The ODPP has presence in all the 47 counties in Kenya with its head-quarters in the City of Nairobi.

(4) GIZ and CIAT: “Fighting Tax Evasion in Latin America and the Caribbean through CIAT” The Project is intended to mobilize the Latin American and Caribbean countries’ own resources by means of effective, appropriate and
socially balanced tax systems. This is the main aspect to be taken into consideration in order to count on additional funds for social inclusion and fighting poverty. Project objective: The tax administrations of Latin America and the Caribbean use the CIAT services and products adapted to the region for improving tax compliance and combatting tax fraud.

(5) With specific regard to Illicit Financial Flows, Transparency International is focusing on middle men and gate keepers. The necessity to support countries in setting up beneficial ownership registries was underlined. Moreover, following the money is key to success. That is why we need to build the capacities of national law enforcement agencies as well as civil society in this regard.

Key recommendations and concrete follow-up actions

Effective international cooperation is key: Mutual legal assistance and the exchange of tax information have to be improved. The needs of developing countries have to be carefully considered in the process. Also, multi-stakeholders alliances have to be built and utilized – within countries and across borders. Moreover, we need a systematic approach, breaking up the silos of anti-corruption, law enforcement and tax administration to achieve better joint results. We have to create champions and establish best practices and have to speak about them. Also, peer pressure has proven to be very effective in sparking change. Lastly, a functioning and enforced legal framework and true government commitment are of the essence. We need good laws and international agreements, effective enforcement and cooperation as well as sincere political will to achieve change.

We value your assessment following the outputs of the session, if you need to, please get feedback from the session coordinator or the moderator for this component.

What can be done to create opportunities for scaling up the solutions discussed in the session? And by whom?
• Strengthen networking and global partnerships of anticorruption and counter crime stakeholders.
• Implementation of international standards in all countries is of the essence.
• Cross-border bilateral and multilateral cooperation and coordination, exchange of information have to be improved.
• Transparency has to be made mandatory by laws and these laws have to be enforced.
• We need to build the necessary capacities in the areas of anti-corruption, law enforcement, anti-money-laundering and good financial governance. With a view to developing countries bilateral donors as well as regional and international organisations can render support.
• We need more publicity for best practice in fighting corruption and more effective and efficient use of technology.
• Sanctions have to be implemented more strictly.

Key Insights for the future of the anti-corruption agenda
(including Game Changing ideas/ suggestions/ actions from the session)

See above.

Rapporteur’s name and date submitted
Jörg Wisner

Remember! This Long Report needs to be emailed to reports@17iacc.org by 15th December. Thanks!