Short 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; German Cooperation

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
- Ms. Elena A. Panfilova, Vice Chair, Transparency International

Moderated by: Tom Keatinge, Director, Centre for Financial Crime and Security Studies, Royal United Services Institute (RUSI)
Session coordinated by: Fabian Klemme, Officer Responsible for Implementation, GIZ, German Cooperation

Main issues raised in kick off remarks. What’s the focus of the session?

The continuous worldwide increase in cross-border illicit financial flows (IFFs) is extremely alarming. The urgency to take action has been re-emphasised by the revelations of the Panama Papers as well as the Bahama leaks. The movement of IFFs, whether related to corruption, tax evasion, terrorism or organized crime, concerns – and harms – both, developing and developed countries alike. However, the effects of IFFs are especially devastating for the developing world. International NGOs estimate that 1 trillion US$ illegally flows out of developing and emerging economies per year. The most immediate impact of IFFs
is a reduction in domestically available expenditure and investment, resulting in nothing less but fewer hospitals, schools, and roads. The unhindered movement of illicit financial flows is a driver of crime, corruption and tax evasion. It aggravates injustice and impunity and leads to instability and poverty.

Cornelia Richter highlighted that interinstitutional cooperation, within countries and across borders, is a major concern. Here GIZ stands ready to lend support

Looking at Latin America Marcio Verdi underlined how bank secrecy still is an important obstacle for effective tax collection. This has to be removed.

Dorcas highlighted several dynamics that hinder the successful fight against illicit financial flows in Kenya, such as the lack of witness protection mechanisms, the cash economy and the lack of awareness.

Elena Panfilova stressed how 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.

What initiatives have been showcased? Briefly describe the Game Changing strategies/ ideas (if applicable)

(1) Project: Combating illicit financial flows, project within the fund for cross-cutting political cooperation (GIZ)

Context
International efforts to promote sustainable development are increasingly being undermined by illicit financial flows (IFFs). IFFs are financial flows whose origin and/or transfer is illegal, for example due to tax evasion, fraud in international trade, corruption or other criminal activities such as drug, arms or human trafficking.

Objective
The conditions needed to combat IFFs to and from developing countries and emerging economies across sectors, national borders and regions are improved.

(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.
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 combating tax fraud.

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.

Briefly describe the highlights including the thematically interesting questions and ideas that were generated from the discussion or from the floor, and session quotes.

GIZ: To effectively curtail illicit financial flows we need to specifically reinforce capacities in the areas of financial investigation, anti-money-laundering, tax administration and mutual legal assistance. Moreover, policy coherence and cooperation of the relevant stakeholders at the national and international level are keys to success. The urgency to take action has been re-emphasised by the revelations of the Panama Papers in early 2016. GIZ stands ready to support its partners in their endeavours to tackle illicit financial flows.

CIAT: Tax evasion effects the whole society, not only the poor. In Latin America many countries are facing fiscal debs, while at the same time it is difficult to implement fiscal reforms. The average tax evasion rate in Latin America is at 30%. Lowest tax evasion rate you have in Chile: 15%. Other countries have more than 40% tax evasion. Most importantly, we cannot accept bank secrecy, that still exists in a lot of Latin American countries. We need full access to financial data and tax information like credit cards. Also, the capacities of human resources have to be improved. There is a need to create mechanisms to establish carriers, good income and reliable working conditions within tax administrations. Currently, we are living a special moment with the BEPS-process and regarding the automatic exchange of information.

Kenya: Kenya suffers from massive tax evasion and criminal activities. There is a lack data as well as of the awareness of the scope and consequences of illicit financial flows. At the same time, the government does not have enough capacity to tackle the problem. Structures are weak. The financial system in Kenya is fragile and the cash economy wide spread and uncontrollable. There is hardly any cooperation between the relevant institutions. There is a strong need to create awareness, enforce the laws in place and enhance transparency.

TI: One of the major problems: There are more and more initiatives and commitments
but they are not put to action. Already in 2006 G8 agreed in St. Petersburg to enhance their efforts to tackle corruption, but since then little changed. However, there is hope: The FATF and national financial intelligence units and tax authorities are doing a great job. However, a lot of countries need support. Also, we need strong coalitions of civil society, business and governments.

What are the key recommendations, follow-up Actions (200 words narrative form)

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.

Key Insights that could be included in the IACC Declaration

See above

Rapporteur’s name and date submitted

Jörg Wisner 04/12/2016

Remember! This Short Report needs to be emailed to reports@17iacc.org within 2 hours after the session and will be uploaded instantly to the IACC website. Thanks.