Conclusions from Illicit Financial Flows Conference- October 23rd, 2013

ASAPUK in partnership with University of Notre Dame, Action Aid, CGD, The Rules and UEL.

Martin Kirk - The Rules- ‘Can and should we tell a story of a system of Poverty creation?’

Is Poverty creation a useful and accurate frame to use to talk about IFFs?

Yes:

- puts IFFs into context of broader systems and norms- it is not an isolated phenomenon
- The language we use to describe them is important- it encourages people to do more
- Helps deconstruct deeply held beliefs, i.e. that it is only the result of local corruption
- Talks about causes

No:

- its a challenge to people- poverty is natural
- the idea of IFFs causing poverty is a challenge to the belief of job creation
- Still raises the question of what do we do?

Who should tell this story of poverty creation through IFFs?

- expertise
- people who are affected
- economists
- lawyers
- Influential people
- social psychologists
- educators- start educating people at a young age
- human rights experts
- consumer representatives
- shareholder activists
- media

Toby Quantrill - ‘Shifting the narrative on tax’

The workshop discussed the problem of maintaining the momentum and keeping the ‘political space’ open post G8/G20 and the danger of the public and policy makers accepting the rhetoric that the problem has been ‘solved’ by the relatively minor shifts in terms of transparency from tax havens and behaviour changes from businesses.

A ‘framing’ for the problem was presented, based on an idea developed by the OECD and the European council in the late 90’s for the concept of ‘harmful tax practices’ whereby states would be held responsible for the impact that their tax regimes have on the tax base of others
Some modifications to the thinking developed by OECD and the EC were necessary to apply this in a development context, including the need to look at ‘vertical’ impact as well as ‘horizontal’ eg effects on countries that may not be competing to provide the same services, but are still vulnerable to the impact for instance of a change in the home state tax treatment of income generated in a developing country. There is also a need to include all harmful practices, whether intended or not.

Overall the discussions concluded that:

• The risk identified, of losing the momentum is real

• It is unclear whether the ‘harmful tax practices’ idea is a new ‘framing’ of the problem or a policy response.

• It may work as a policy response but would not necessarily work as a ‘framing’. Need an additional ‘step’ in terms or articulating the problem differently before moving to the policy response – need to keep people ‘angry’ and to connect tax with wider concerns, including at the domestic level

• The opportunity this idea presents to tackle the negative impact of tax ‘competition’ would be welcome

• There was approval for the focus on the responsibility of government but some concern that the responsibility of business was not emphasised in this concept

• Any framing/policy response on these lines would need to be complementary to continued emphasis on transparency – without strong information, useful analysis of impact would be impossible

• The capacity of developing countries to assess the impact of their regimes on others may be limited, so would need to consider how far that responsibility could be placed on them

• Although the concept could shift primary responsibility to individual states for the impact of their tax regimes on others, it would still require a level of global consensus and cooperation so does not remove the challenges of shifting the global tax ‘ecosystem’

**Alice Lépissier - CGD- ‘An illicit flows target for post-2015**

As the expiration date for the Millennium Development Goals (MDGs) is fast approaching, this workshop discussed the efforts to have an illicit flows target for the post-2015 agenda. There is a growing recognition that taxation is central to development finance, and that illicit flows hamper effective taxation for development.

• We have a “whack-a-mole” problem with IFFs: as one loophole closes, another one opens as new avenues for profit shifting and illicit circulation of money are available. The conflation of cross-country differences in tax and capital-circulation regulations which create opportunities for regulatory arbitrage; of the increased pace of finance and communications in the last decades; and of a veil of opacity and secrecy means that we live in a system which is designed to move (illicit) money very efficiently. Illicit financial flows are a global problem. This suggests we need a political solution and we need to address the international governance deficit.
We placed this discussion in historical context by looking at the shortcomings of the likely predecessor of an illicit flows target: MDG8. MDG8 was supposed to forge a global partnership and “develop an open, rules-based, predictable, non-discriminatory trading and financial system”. We observed that little progress was made on this – and that MDG8 was considered in large part a “weak target”.

In turn, we considered the tentative target suggested by the High Level Panel of Eminent Persons (HLP): “12e. Reduce illicit flows and tax evasion and increase stolen-asset recovery by $x”. The HLP report includes a footnote: “Targets require further technical work to find appropriate indicators.” This is the understatement of the year: this footnote could contain a thesis. The challenge now is to agree on meaningful, time-bound targets which have enough bite and which invest in broader systemic change.

We unpacked what “$x” would mean in practice. This formulation implies that (a) it is technically possible to have estimates of each of the three components and further, (2) that there will be political agreement on those estimates. We noted that there is not likely to be agreement on estimates for the first two components (illicit flows and tax evasion), not least because the two main multilateral actors (World Bank and IMF) use different methodologies to estimate trade mispricing. We also noted that the proceeds of illicit flows are inherently interconnected and that it is difficult to sort them into discrete units. Finally, we noted that if there is going to be political agreement on estimates, these will likely have to be produced by a multilateral (as opposed to an independent NGO) in order to secure buy-in from a variety of stakeholders.

In addition, a too narrow focus on quantitative targets risks obscuring the fundamentals: the challenge is not just to reduce the supply of illicit flows, but to reduce the conditions which make the supply of illicit flows possible. This suggests we need targets which include policy commitments on how we could go about curtailing IFFs. We discussed a variety of targets, based on multilateral instruments for automatic exchange of tax information; corporate transparency measures such as public central registries of beneficial ownership and country-by-country reporting (workshop members also pointed to the more ambitious target of project-by-project reporting); requesting that development finance not be channelled through secrecy jurisdictions; and providing timely assistance to Mutual Legal Assistance requests for asset recovery.

**What should we do now, given the politics around IFFs, we need momentum, but where should we push and what should we prioritize on the issue of IFF? - If we want change where do we focus?**

Thomas: Bank accounts- abolish secret bank accounts.

Toby: have a public hearing like with Starbucks and have another company as a target

Martin: we are lacking long term vision - its difficult to decide short term without a long term strategy- we need some kind of global corporation tax- work with public policy and government

Alice: transparency measures have a good birds/stones ratio: not only do they address specific pressing issues (e.g. lack of transparency in corporate ownership), but they allow to invest in broader systemic change by changing the rules of the game and levelling the playing field. There is no good economic argument for not knowing who you are doing business with. Many financial markets are information markets: better and more information allow players to hedge risk. More transparency is a positive-sum game with many spill-over benefits including more robust macroeconomic conditions. We should continue making the case for public central registries so that countries deliver on the commitments on beneficial ownership made at the G8/G20, and to capitalise on the UK’s momentum in making registries available to the public.
About ASAP  
[www.academicsstand.org](http://www.academicsstand.org)

Academics Stand Against Poverty (ASAP) is an international professional association focused on helping poverty researchers and teachers enhance their positive impact on severe poverty. It does so by promoting collaboration among poverty-focused academics, effective outreach to policy makers and broader public audiences, and by helping academics turn their expertise into impact through specific intervention projects.

ASAP has chapters in the United States, India, the United Kingdom, Canada, Germany and Australia, with hundreds of members working and studying in universities, research centers and NGOs worldwide.

ASAP’s activities are guided by a nine-member Board of Directors comprised of academics working in seven countries and chaired by Thomas Pogge, Leitner Professor of Philosophy and International Affairs at Yale University. ASAP’s 17-member Advisory Board includes some of the world’s most prominent researchers of poverty and global justice issues.

ASAP’s principal focus is on poor people in the less developed countries, because that is where poverty tends to be most concentrated and severe, and where resources for tackling poverty tend to be scarcer. However, ASAP’s ultimate concern is for people, not for countries, and so it includes within its sphere of activity poor people in affluent countries as well.

ASAP has a range of efforts underway in each of the core mission areas of Impact, Outreach, and Collaboration, including 'Know your rights India project', Illicit Financial Flows project and most recently The Australian Political Party Poverty Audit. For more information about the work of ASAP please have a look at our website.

The UK chapter of ASAP is focusing on the Illicit Financial Flows project from the UK perspective including focusing on the role of the city of London. It is also continuing the work of Meera Tiwari and looking at of poverty through the North/South divide. ASAP UK aims to develop closer relationships between students, academics, policy professionals and industry experts. If you would like to get more involved in ASAPUK either through contributing to an existing project or setting up your own project, please contact Catarina Tully at cat@fromoverhere.co.uk or Meera Tiwari at m.tiwari@uel.ac.uk.