

FOCUS SESSION 10: TAX EVASION AND ILLICIT FINANCIAL FLOWS

15 April 2014

Objective:

- **Increase political commitment to supporting developing countries' participation in global initiatives that promote financial transparency and intergovernmental information sharing in combatting international tax avoidance and illicit flows.** Highlight the importance of development cooperation in dealing with emerging priorities on illicit financial flows: tax info exchange, EITI/mandatory reporting, cooperation in Anti-Money Laundering/asset recovery investigations, beneficial ownership.
- **Promote action to scale up development cooperation to support Anti-Money Laundering, asset recovery, tax info exchange and counter transfer-pricing abuse.** Identify opportunities to scale up transfer-pricing advisory assistance, including the "Tax Inspectors Without Borders" initiative to strengthen developing countries' capacities to combat tax avoidance and profit shifting.

Participants:

Moderator: **Mr. Henry Bonsu**, International Broadcaster

Dr. Anthony Mothae Maruping, Commissioner for Economic Affairs, African Union Commission

Ms. Grace Perez-Navarro, Deputy Director Centre for Tax Policy and Administration, OECD

Mr. Cheikh Niang, Head of Delegation, Ambassador of Senegal to Washington, Senegal

Mr. Frédéric Bontems, Director for Development, Ministry of Foreign Affairs, France

Mr. Pekka Haavisto, Minister for International Development, Finland

Mr. Savior Mwambwa, Policy and Advocacy Manager, Tax Justice Network Africa

Mr. Lucien Marie Noel Bembamba, Minister of Economics and Finance of Burkina Faso

Key issues discussed:

- **Illicit Financial Flows (IFF) have become a matter of major concern because of their scale and their negative impact on development and governance in both developed and developing countries.** Estimates about their size are hard to get by and contested, but everybody agrees on their massive size. Tax avoidance, Tax evasion, corruption, tax havens, secrecy jurisdictions and criminal flows are multiple holes in the international financial system that needs to be plugged. Combatting tax avoidance and IFFs is a complex and multi-faceted challenge. It is highly technical and highly political. It requires strong political leadership both at the level of the country of origin and of the country of destination of the flows.
- **Combatting tax avoidance and IFFs requires a holistic and coordinated response from a wide range of stakeholders, including governments (tax administrations and law enforcement agencies in particular), the private sector, and civil society organisations.** Efforts must be on many fronts: tax transparency, exchange of information for tax purposes, greater inter-agency co-operation to improve criminal investigations, more attention to investigate illicit funds that may belong to citizens of developing countries that may be hidden in developed countries. Efforts to recover stolen assets need to be strengthened, but more important and efficient would be to prevent these flows from leaving their point of origin in the first place. These must be completed by measures to strengthen the judiciary and law enforcement agencies to pursue and sanction tax perpetrators and financial crimes.
- **To face this growing challenge, development partners must scale up their financial and technical assistance to support tax administrations and law enforcement agencies in**

developing countries. In addition developing countries need support to engage in global initiatives that promote financial transparency, such as the Global Forum on Tax Transparency and exchange of information and the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. Meeting those transparency requirements of the Global Forum can improve the capacity of tax administrations.

- **Tax Inspectors Without Borders (TIWB) has been identified as a potential innovative approach to address international tax avoidance and build tax audit capacity.** France and Senegal declared their intention to collaborate in a TIWB pilot project. In response to concrete demands by developing countries for building tax audit capacity this initiative results in the transfer of tax audit knowledge and skills to tax administrations in developing countries as well as increased tax revenue. Developing countries can complement these global and bilateral initiatives with national measures to increase their tax collection and tackle their IFF, including by revising their tax incentives, mining codes and custom codes as well as joining transparency initiatives such as the EITI and the Global Forum.
- **The components and risk of exposure to IFF varies from country to country. In view of scarce resources donor efforts must therefore be efficiently targeted on the basis of proper risk assessments and taking into account the country context.** The natural resource sector is particularly at risk and presents a major source of IFF in developing countries. Increasing the transparency of payments and revenue management has been identified as a means to mitigate the risk of IFF. Capacity building for contract negotiation was also identified as a major priority.

Main conclusions and next steps:

- **Tax avoidance and IFF have a negative impact on domestic revenue mobilisation, as well as on development, governance, and security.** This issue must therefore be taken into account in the **post-2015 development agenda**. Participants recognised that there is need to incorporate targets on financial transparency and accountability and to increase the share of aid going to tax administration support.
- **The G20 and OECD have undertaken several ground-breaking initiatives with regards to tax base erosion and profit shifting (BEPS) and automatic exchange of information standard.** The G20 must now strengthen their initiatives to take into account the concerns and interests of developing countries and ensure these are reflected in the shaping of the international tax debate.

Related Links:

- **Progress report of the High-level Panel on Illicit Financial Flows from Africa (UNECA)**
http://www.uneca.org/sites/default/files/uploaded-documents/COM/com2014/com2014-hlp_panel_on_illicit_financial_flows_from_africa-english.pdf
- **Tax inspectors without borders:**
<http://www.oecd.org/ctp/tax-global/tiwb-background.pdf>

Organisers:



Supported by: Norway, Finland, UK/DfID, Tax Justice Network - Africa, Senegal

Contact: Dylan GELARD, dylan.gelard@diplomatie.gouv.fr / Tax Inspectors Without Borders - tax.inspectors@oecd.org.