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Countering all forms of "Black Money": an international perspective

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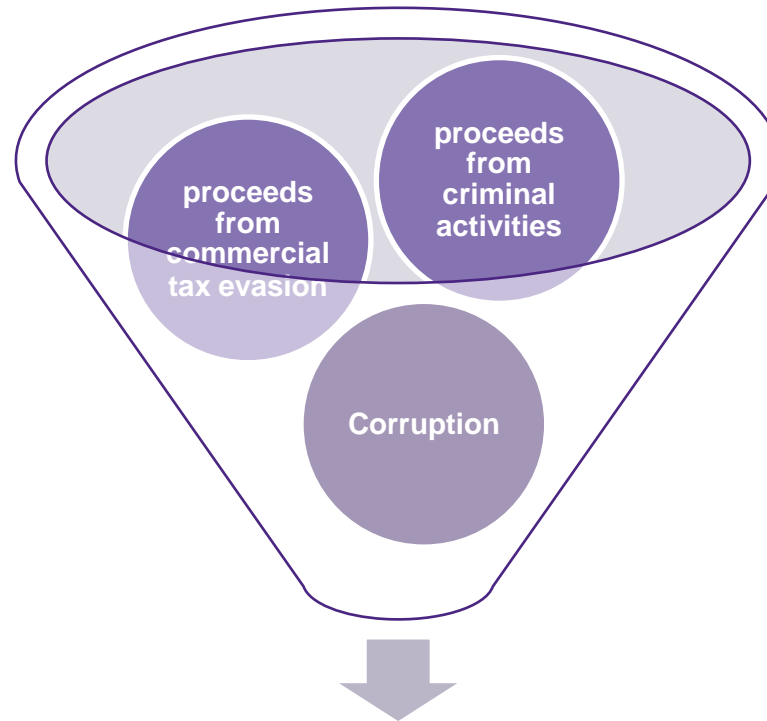
Agenda

- Illicit financial flows (IFFs) – what do we mean?
- Size of the problem
- IFFs in the context of developing economies
- Global mandate
- Drivers and enablers
- Consequences
- Policy toolkit
- The tax and good governance project

Illicit financial flows – What do we mean?

- **Global Financial Integrity (GFI):** “money that is illegally earned, transferred, or utilised. Somewhere at its origin, movement, or use, the money broke laws and hence it is considered illicit.”
- **United Nations Development Programme (UNDP):** “include, but are not limited to, cross-border transfers of the proceeds of tax evasion, corruption, trade in contraband goods, and criminal activities such as drug trafficking and counterfeiting.”
- **Organisation for Economic Co-operation and Development (OECD):** ““(…) they are generated by methods, practices and crimes aiming to transfer financial capital out of a country in contravention of national or international laws. (...) In practice illicit financial flows range from something as simple as a private individual transfer into private accounts abroad without having paid taxes, to highly complex schemes involving criminal networks that set up multi-layered multi-jurisdictional structures to hide ownership.”

Illicit financial flows – what do we mean?



Illicit financial flows

Illicit financial flows – what do we mean?

Illicit financial flows

Commercial activities

Abusive TP

Trade mispricing

Misinvoicing of services and intangibles

Unequal contracts

over-invoicing

under-invoicing

Criminal activities

Trafficking of people, drugs and arms, smuggling, etc.

Fraud in the financial market

Money laundering

Stock market manipulation etc.

Corruption and abuse of entrusted authorities

Size of the problem

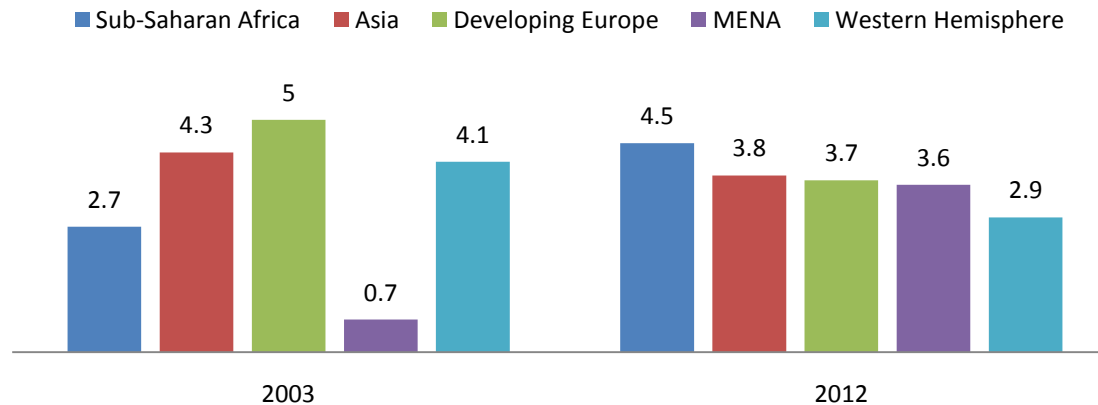
GFI:

- 2004 – 2013: developing countries lost about **US\$7.8 trillion** in illicit financial outflows.
- Increase at **6.5 per cent per annum.**
- Only in 2013, the illicit outflows from developing countries were estimated to be reach **US\$1.1 trillion.**



The challenge facing developing economies in countering IFFs

IFFs & GDP

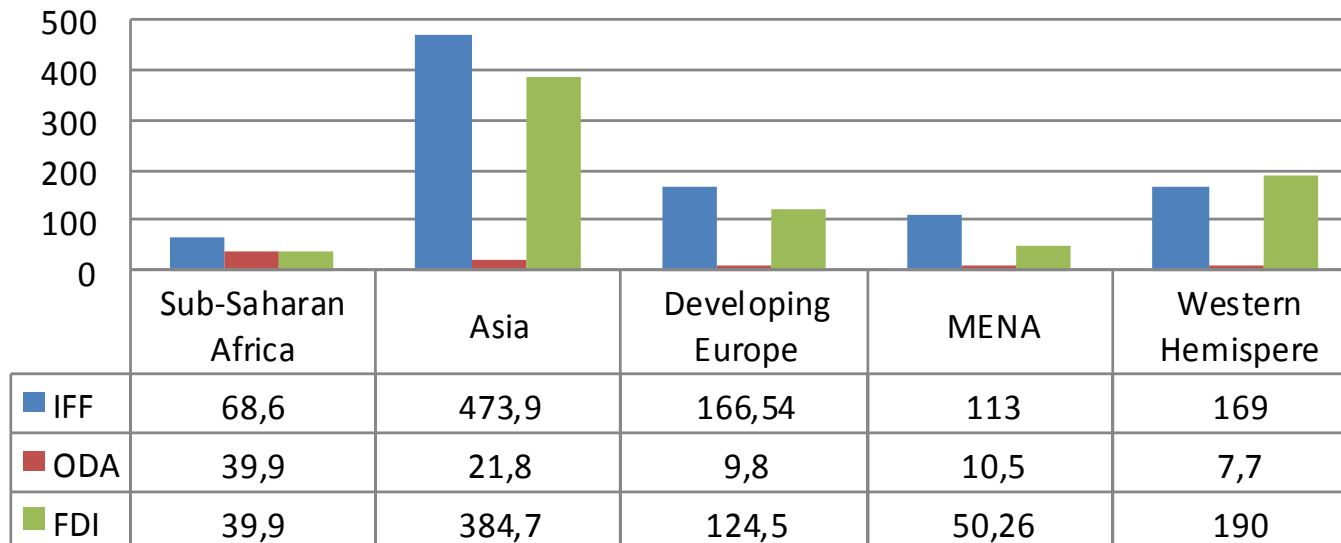


- 2003-2012: the total IFFs from Sub-Saharan Africa almost **doubled**.
- As a percentage of GDP, Sub-Saharan Africa suffered **the biggest loss** of illicit capital (6.1% of GDP annually)

Source: Dev Kar and Joseph Spanjers, IFFs from Developing Countries: 2003 – 2012, Global Financial Integrity, December 2014.

The challenge facing developing economies in countering IFFs

**Developing countries as net creditors?
IFFs to Official Development Aid and to Foreign Direct
Investments, 2012
(in billions of US dollars)**



Source: Dev Kar and Joseph Spanjers, IFFs from Developing Countries: 2003 – 2012, Global Financial Integrity, December 2014.

Addis Ababa Action Agenda of the Third International Conference on Financing for Development

- “23. We will redouble efforts to substantially reduce illicit financial flows by 2030, with a view to eventually eliminating them, including by combating tax evasion and corruption through strengthened national regulation and increased international cooperation.”

2030 Agenda for Sustainable Development

- “16.4 By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime.”

Also on the agendas of the G20, OECD, ...

IFFs: enablers and drivers

Poor governance mirrored in:

- Political instability;
- Financial secrecy jurisdiction and / or tax havens;
- Wrongly-designed tax incentives;
- Poor-negotiated or outdated double tax treaties;
- Corruption;
- Weak institutions;
- Inadequate regulatory framework;
- Onerous administrative burden;
- Failure to complain with international standards

IFFs: consequences

IFFs

Money laundering

- Increasing financial liquidity risk
- Draining hard currency reserves

Corruption

- Increasing financial liquidity risk

Tax evasion

- Reduced tax revenues and collection

Other financial crimes

- Undermining trade
- Depleting investments
- Base erosion and profit shifting

Monetary destabilisation
Weakening governance
Deteriorated sectors growth
Undermined integrity of government

In search of policy toolkit...

Policy Tool	What is about?
Inter-agency cooperation	<ul style="list-style-type: none">• Effective and efficient tracing money based on expertise and experience of different agencies.
Automatic exchange of information	<ul style="list-style-type: none">• Providing tax information which allows a more efficient collection of tax data.
Beneficial ownership registers	<ul style="list-style-type: none">• Providing tax information about beneficial owner that allows the authorities to “follow the money” in financial investigations involving suspect accounts/assets held by corporate vehicles.

In search of policy toolkit...

Policy Tool	What is about?
CbC Reporting	<ul style="list-style-type: none">• Unilateral implementation of CbC Reporting standard as a source of information about companies' operations.
Strengthened AML frameworks	<ul style="list-style-type: none">• Consolidating and codifying predicate offenses for a money laundering which creates a defense against money laundering.

Tax & Good Governance project

- Promotion of **policy coherence** in fight against illicit financial flows,
- Providing a **neutral and independent platform** for dialogue between tax administration, financial intelligence units and law enforcement agencies,
- **Opening a dialogue** between business and different government units,
- **Research** on best practices necessary to detect and investigate illicit financial flows,
- Research on **deficiencies in legal frameworks** which are barriers to effective fight against illicit financial flows,
- **Training** of tax administration, financial intelligence units and law enforcement agencies and business.

1. What do we mean by Illicit financial flows (IFFs) and black money? What do we know about the size of these flows around the world and in India, and what social and economic impact do they have?

2. What are the linkages between Money Laundering, Bribery, Tax Evasion and other illegal activities ?

3. What are the conditions in which IFFs flourish ?

4. What do governments, including the Indian government, need to do to counter these illegal activities?