CONCEPT NOTE

Scene-Setter

One of the marked lessons drawn from the Millennium Development era was that sustainable development required broad systemic responses to the enablers and disablers of growth and development. The 2030 Agenda for Sustainable Development (2030 Agenda) was hence disposed to tackle the factors that advanced and redressed sustainable development. Political commitment of the highest order was placed to advance the enablers of development financing and control its disablers. These two contrasting dimensions were canvassed through the Addis Ababa Action Agenda (Addis Agenda) adopted at the Third International Conference on Financing for Development held in Addis Ababa between 13-16 July 2015.

The United Nations Secretary General laid down three broad objectives as part of the United Nations Strategy (2018-2021) to Finance the 2030 Agenda. The strategy recognizes the need to align global economic and financial policies with the 2030 Agenda. Equally, it emphasizes on the need for sustainable financing strategies, enhanced institutional governance and international collaboration to raise domestic resource mobilization capacities. To this end, the strategy places emphasis on illicit financial flows (IFFs) as a major disabler to sustainable development and highlights the actions to be taken to combat money laundering, tax evasion and the need to adopt enhanced forms of compliance and international collaboration.

Today, IFFs account for substantial financing leakages in developing countries causing severe drainage to domestic resource mobilization efforts, weak tax systems and low levels of investment in critical social infrastructure. IFFs continue to undermine the rule of law, stifle trade, worsen macroeconomic conditions, facilitated in part by tax evasion and tax havens, the proliferation of base erosion and profit shifting practices as well as entrenched trade-based money laundering. All of which deprive countries of the needed resources that could have otherwise been harnessed to pursue the Sustainable Development Goals (SDGs) and improve their perception-based governance and corruption standings.

In this vein, the Addis Agenda calls for redoubling efforts to substantially reduce IFFs, with a view to eliminating them by 2030. Commitment to combat IFFs was further emphasized in the SDGs (target 16.4). Against this backdrop, international institutions were called upon to publish estimates of the volume and composition of IFFs. The growing literature on the volume of these flows illustrates the magnitude of damages being caused to developing countries and their financing for development propensities.

According to the Washington-based Global Financial Integrity, the developing world lost $7.8 trillion in IFFs between 2004 and 2013. Illicit financial outflows are said to be increasing nearly twice as fast as global gross domestic product. The Organization of Economic Cooperation and Development (OECD) estimated the negative impacts of IFFs and established that for every US$1 granted to developing countries in official development assistance (ODA), US$3 in turn leave these countries in the form of IFFs.

The United Nations Economic and Social Commission for Western Asia (UNESCWA) on its part conducted a study of IFFs and found that Arab economies fall prey to $60.3-$77.5 billion per year in damages due to illicit financial flows associated with four conduits of trade misinvoicing. Since 2014, these flows have outstripped the combined growth of ODA and foreign direct investment coming into the region. The African continent is also said to have witnessed US$73 billion in annual net illicit financial outflows, whereas in the case of Latin America and the Caribbean IFFs amounted to US$103 billion by 2013. Notwithstanding the methodologies employed, the implications are dire and point to the fact that, it is neither possible to adequately raise domestic resources nor achieve the 2030 Agenda if no concerted action is taken to enhance domestic resource mobilization capacities by combatting IFFs.

Scope

Three years following the adoption of the 2030 and Addis Agenda's, the world continues to witness discernible progress across all levels of implementation. Despite the perceived momentum, there is growing concern that progress is not happening at the pace required to achieve the SDGs. In the outcome document of the 2018 ECOSOC Forum on Financing for Development follow-up (ECOSOC forum), Member States expressed concern over the challenges imposed by weak global economic and financial recovery whose fruits, in effect, have not been shared evenly across countries and regions. The financing gap continues to rise unabated with trillions needed in terms of quality investments of all kinds. The cost of conflict and post-conflict reconstruction adds to the anguish and risks diverting attention away from the 2030 Agenda.

A race to the bottom to spur growth and counter underinvestment in critical social infrastructure is not only fueling beggar-thy-neighbor dispositions, but is also breeding harmful tax competition and fiscal incentives that erode the tax base and consequently potential tax revenue. Domestic resource mobilization efforts are, nonetheless being pursued to broaden the tax base (mostly through regressive redistribution), remove tax exemptions and rationalize inefficient fossil-fuel subsidies (both in terms of consumption and production patterns). However, the resources mobilized domestically may fall short of achieving the SDGs if the informal sector remains unintegrated in the formal economy and insulated from the overall planning and implementation of the SDG reform agenda.

The United Nations Secretary General hence articulated a medium-term vision (2018-2021) to reinvigorate efforts aimed to finance sustainable development. The strategy is prompted by the fact, that the challenges facing developing countries no longer include the usual suspects influencing economic frailty, rather this time around they involve a broader stream of factors, including rising global interest rates leading to a reversal of capital flows to the disadvantage of developing countries; increased debt distress; subdued trade growth and more critical the increasing intensity of illicit financial flows.

"Too often, the finish line for illicit financial flows are banks in [the developed countries]. The Panama Papers, the and the Bahama briefs offer a defining moment for the discussion on IFFs and the ecosystem in place that facilitates IFFs from both developed and developing countries. It's also vital to illustrate that IFFs have a disproportionate impact on the poorest countries in the World"[1]

To date however, there is neither a multilateral definition to assess for IFFs[2] nor an agreement over the methodology to scale their composition (proceeds of crime, stolen assets, goods trade misinvoicing, transfer mispricing, and undeclared offshore wealth).

Several methods have been employed to estimate IFFs components albeit, they do not provide a picture of the full scope and scale of IFFs. Institutional stakeholders therefore resort to different methodologies and select different elements to measure IFFs (figure-1), thereby frustrating the attempt to provide comparable global and regional assessments across both time and space. Data sources pose another constraint as they are generally not tested for robustness or validation. Under these conditions, measuring and tracking progress in combatting IFFs becomes difficult, if not impossible. The illicit nature of these flows frustrates further any attempt to systematically capture their true magnitude (both in intra and inter-regional settings).

Over the past decade, IFFs garnered greater attention in the international debate over development financing. This debate has been informed by valuable contributions from governments and international organizations. Equally so, the debate has been enriched by the work of the High-Level Panel on Illicit Financial Flows from Africa and the Economic Commission for Latin America and the Caribbean (ECLAC). The role of the civil society and non-profit organizations remain, nonetheless, instrumental in generating greater awareness of the need to combat IFFs on many levels of the development ladder.

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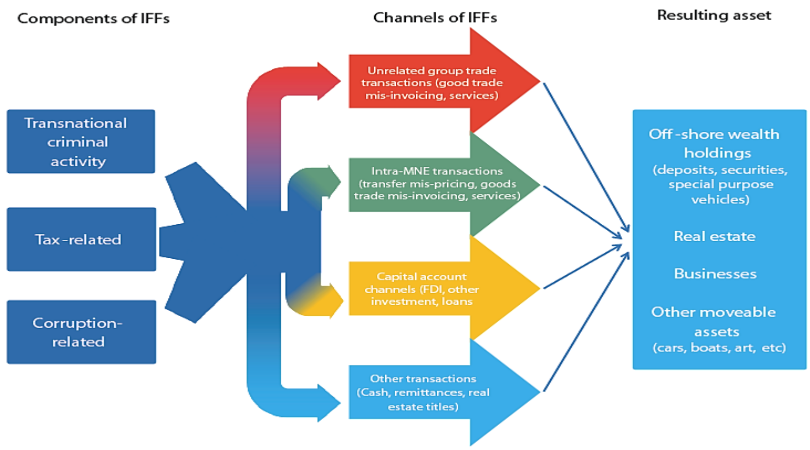
1 The Civil Society FfD Group, Statement to Expert Discussion (1).

2 There is emerging consensus that IFFs should include cross-border movement of illicit funds and assets undertaken in contravention to national laws and international conventions, including tax-related IFFs (tax evasion); trade-based IFFs and international trade fraud (including trade misinvoicing), criminal related IFFs activity (including money laundering, smuggling and trafficking in drugs, cultural objects, medicines, persons and natural resources) and the financing of organized crime and terrorism as well as corruption. There is disagreement, however, on whether tax avoidance, aggressive tax planning and optimization, treaty shopping and base erosion as well as transfer pricing should be considered within the ambit of IFFs as these flows often fall in a grey area between legality and illegality due to differences in legal standards. Recently, ECA has argued for example that aggressive tax planning and profit shifting practices should be considered as IFFs, whereas other institutions on the other hand do not share the same position. These asymmetries extend across the horizon among governments and within their domestic constituents.

Figure-1: Schematic representation of Illicit Financial Flows (by type, channel of delivery and asset displacement)



Source: United Nations Inter-Agency Task Force on Financing for Development

There is a persistent gap however between normative dispositions, political posturing and economic nuances on one hand and concerted multilateral action among all stakeholders on the other. This is reflected by the fact that to date, there is no multilateral definition for IFFs. Equally so, the scope of IFFs continue to elude consensus as its components have neither tested under country specific, regional and cross-sectional variations. There is currently no integral road map for mutually supportive action to combat IFFs and their components have been adopted at the regional and global levels. There are no comparable methodologies to qualify and quantify the different components of IFFs.

Conventional wisdom, or rather 'convenient wisdom', would have us treat different components of IFFs as non-comparable given that the aggregation of delivery channels and components may lead to double-counting. Yet, there is no wisdom in yielding to imperfections. Rather, by analyzing regional idiosyncrasies and how they influence IFF delivery channels, some solutions can be tailored to conjure regional modalities to curb IFFs. This endeavor requires recognizing how regional contexts influence the systemic factors (legal, fiscal, tax, cultural, security, political, governance, macro-economic) that continue to drive IFFs till this very day.

Objectives

Financing for development is neither happening at the pace nor magnitude that can turn conflicts, poverty, hunger, inequality and other socio-economic hardships into an issue of the past, let alone realize sustainable development.

As such, the recently launched UN Secretary General's Strategy for Financing the 2030 Agenda was devised with hindsight to leverage the convening power of the United Nations to bring together the relevant actors to accelerate the mobilization of finance for the 2030 Agenda, including addressing domestic resource mobilization and base erosion leakages that have been found to be correlated with tax avoidance and evasion. Trade, an engine for growth and financing, is witnessing a new wave of protectionism which may aggravate trade-based money laundering and misinvoicing. Private business is affected by the level of informality and IFFs, whereas private finance remains contingent on the rule of law and the state of governance. Technologies are influencing IFFs in as much as they are affected by the security risks associated with these flows.

The conduits of IFFs and their delivery channels are constantly evolving outpacing detection at every corner. The very forces influencing global interconnectivity in trade, finance, communications and transport are the very forces that continue to drive IFFs to remain ahead of the curve, both in sophistication and use of technology. From funding crime to the revelations in the Panama Papers and Bahama briefs, recent events have propelled awareness of illicit finance and the channels through which it flows.

In this context and taking cue from the UN Secretary General's Strategy for Financing the 2030 Agenda (2018-2021), ESCWA is organizing a conference on Financing for Development to converge regional agenda's and efforts towards taking measurable actions to combat Illicit Financial Flows. The conference aims to support the G77 and China's efforts in advancing action against IFFs in line with relevant international and regional mandates, including the 2030 and Addis Agenda's. The conference will provide a unique multi-stakeholder platform trigger the next frontier of research and the needed actions to combat IFFs. It aims to account for regional idiosyncrasies and influence policy actions to address the multi-dimensional factors involved in combatting IFFs from developing countries perspectives and to account for asymmetric needs, capacities and disparities in the level of development.

The conference will offer a multi-stakeholder venue to consider the following:

- Assess FfD Progress, emerging threats & opportunities;
- Disseminate and discuss recent findings, novel concepts and IFF measures;
- Deliberate and identify new channels and modes of IFF delivery and emerging challenges to combat IFFs;
- Establish qualifiable approaches to factor regional idiosyncrasies to enhance international collaborative action to curb IFFs (i.e. localizing and regionalizing counter measures);
- Ensure sustained regional/global action to combat IFFs as a means to finance and achieve sustainable development, building on complementarities that can be drawn from regional mechanisms and frameworks;
- Support the enforcement of the rule of law and the crackdown on corruption (adding new indices to reflect the progress made on SDG-16); enhance the effectiveness of taxation and revenue collection systems; enhance the gains from multilateral and preferential trade; and foster resilience against security threats (terrorist or conflict financing);
- Influence the on-going discussions over defining IFFs to possibly elaborate a political neutral working definition and methodology to quantify and qualify IFFs along with their components;
- Share perspectives and experiences over dampening the socio-economic, legal, governance and security effects arising from IFFs;
- Deliberate on the possible elements for an IFFs outcome document that factors regional idiosyncrasies and address regional-specific drivers and motivations of IFFs.

Expected Outcomes

The conference aims to garner consensus over a number of 'findings, principles and/or road map(s)' drawn from its discussions and the most recent research and best practices in the field of combatting IFFs. The conference aims to converge positions and benefit from discussions between decision-makers, practitioners, international experts, civil society and institutional stakeholders. The findings, actions and principles to be proposed would guide future work on IFFs, and are intended to maintain global, regional and national action to eliminate IFFs by 2030 and re-invigorate financing for development action on all fronts. The outcomes of the conference would be placed before the G77 and China to advance, where appropriate, in relevant multilateral fora.

Date & Venue

The conference is scheduled to be held on 28-29 November 2018 at the premises of the United Nations Economic and Social Commission for Western Asia in Beirut, Lebanon. Directions to UNESCWA can be found on the following hyperlink and QR code:

https://goo.gl/maps/oQ8ipR2KftP2.

Participants

The conference brings together high-level dignitaries and representatives from the G77 and China, alongside international civil society organizations and international experts, institutional stakeholders, regional commissions and academicians. One representative from each ESCWA Member State would be sponsored. Keynote speakers and participants' biographies will be made available on the conference website to establish a network of experts actively involved in advancing research and implementing policies aimed at curbing IFFs.

Documentation

The conference is supported by working papers and briefs prepared for each substantive session. Technical material and conference papers, substantive background documentation and the work programme as well as other related logistical information and organizational matters will be published on the event's designated page, on UNESCWA website. In addition, ESCWA intends to showcase its first editions of the 'State of Financing Development in the Arab region' report and its first regional assessment of 'Illicit Financial Flows in the Arab region'.

Please check website for updates on the following hyperlink and QR Code:

https://www.unescwa.org/events/financing-sustainable-development-curbing-illicit-financial-flows-0

Registration

An online webpage is dedicated for participants registration

All participants, sponsored speakers and guests are requested to register online through the following hyperlink:

http://reg.unog.ch/e/InternationalConferenceIFF.ESCWA

Participants must create an Indico account. Once an account has been created, participants will receive an electronic message to activate their account and proceed with their registration. Please report any registration difficulties to the organizers.

Mandates & References

- The Inter-governmentally agreed conclusions and recommendations of the 2018 FfD Forum (E/FFDF/2018/3);
- United Nations General Assembly Resolution (A/RES/72/207): "Promotion of international cooperation to combat illicit financial flows in order to foster sustainable development";
- United Nations General Assembly (A/72/418/Add.6): "Macroeconomic policy questions: promotion of international cooperation to combat illicit financial flows in order to foster sustainable development";
- United Nations General Assembly Resolution (A/RES/70/1): "Transforming our world: the 2030 Agenda for Sustainable Development";
- United Nation General Assembly Resolution (A/RES/69/313): "Addis Ababa Action Agenda of the Third International Conference on FfD";
- United Nations Convention against Corruption Resolution (7/1): "Strengthening mutual legal assistance for international cooperation and asset recovery";
- Open-ended Intergovernmental Working Group on Asset Recovery;
- The Platform for Collaboration on Tax to intensify collaboration and coordination on tax issues;
- The High-level Panel on Illicit Financial Flows from Africa;
- The 2018 Report of the Inter-Agency Task Force on Financing for Development;
- Report of the XXIX ESCWA Ministerial Session: "Implementation of the 2030 Agenda for Sustainable Development";
- Report of the XII Session of the Committee on Financing for Development- ESCWA.

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