ADVANCING GOOD GOVERNANCE in International Development

Peace, Security, and Governance in Goal 16:

How Do We Tackle This?

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Breakout: Tackling Illicit Flows: What Are the Limits? What Are the Quick Wins?

The panel focused on illicit financial flows, their negative effects on developing countries, and their impact on governance and institutions. The session then examined the circumscribed but positive progress that governments, civil society, and the private sector have accomplished in this area. The panel explored the roles of different stakeholders, the particular challenges of the post-financial crisis era, as well as recent efforts to unveil tax evasion and avoidance, notably via the publication of the "Panama Papers." Contributors and presenters concluded that the ever-evolving nature of financial instruments presents a challenge to reformers and policymakers. Policymakers will have to address the systemic causes and effects of illicit financial flows and grapple with how they exacerbate obstacles to development.

Key Points from the Session

1. **Illicit financial flows have a broad meaning and apply in different contexts.** Typically, advocates and policymakers speak about targeting illicit flows in emerging markets where tax evasion is prominent. However, any debate on the topic of illicit flows must consider both the legal landscape as well as the customs and expectations surrounding financial transactions – to address not only illegal acts, but also those increasingly seen as 'immoral'. Adopting a broad-based definition will better inform the public of the cross-border, network-based nature of illegal flows, and allow reformers to focus their energies on both developed and developing countries.

2. **Though recent efforts to expose illicit financial flows (as embodied by the leaked "Panama Papers") have been significant, much more remains to be done.** The Panama Papers documented the vast scale of offshore activity designed to evade or avoid taxes. In exposing the scale of the problem, they exposed the involvement and complicity of financial hubs in the Global North. The London Anti-Corruption Summit of 2016 and its tripartite policy proposal to track profits and taxes on a country-by-country level; establish registered and beneficial ownership; and put in place the automatic exchange of financial information between jurisdictions, was a clear step forward. Further progress will require not only changing incentives, but also concrete and widespread reform measures like mandatory and transparent land ownership registration.

3. **In order for reformers to effect progress, the rules need to apply across the board.** Combating inequality requires more action on the part of governments in the Global North in relation to their own territory and that of their protectorates. It is common practice for richer nations to pay lip service to development concerns, but then fail to police the private sector within their own borders or comply with transparency measures. Shifting this status quo will require political pressure both domestically and internationally.

4. **Professional services firms have a part to play in the solution.** In a legal landscape where activity may be both perfectly legal and considered as "immoral," there is role to be played by professional service providers in managing clients' interests within the boundaries of the law and wider social expectations. Because firms represent only one link in any "value chain" of illicit financial activity, placing the blame entirely on their shoulders would be misguided. However, they are heavily incentivised to guard against the risk of being involved in improper transactions. Not only are firms responsible for complying with relevant laws on money laundering, but also have an interest in avoiding the reputational risk that would arise from assisting in aggressive tax

avoidance and non-transparent structures. Finding ways in which to enhance and formalise professional service firms' interest in reputation management may help to diminish the use of structures that aid illicit financial flows.

5. **Illicit financial flows do not solely affect national treasuries; they have implications for governance and development across regions.** Illicit financial flows do not only represent a financial loss to developing jurisdictions, but contribute to problems of violence and political instability where they originate, transit and are eventually invested or spent. Thus, efforts to address illicit financial flows should tackle the underlying activities (criminal networks, for example) and not simply the channels through which these flows are effected. A comprehensive approach is needed that: (i) addresses their underlying causes, with focused efforts at particular areas of flow; (ii) comprehensively addresses the systems that allow for illicit flows; and (iii) appropriately raises expectations and demands for moral, in addition to legal, activity.

Emerging Questions

1. Should efforts to address illicit financial flows focus on their underlying causes, the systems that allow illicit flows (including tax havens), or the wider discussion around inequality and the way in which the wealthiest companies and individuals in society manage their finances?

2. Is it misguided for reformers and governments in the Global North to focus on governance weaknesses in developing economies instead of the legislative and tax vehicles based in Northern jurisdictions which contribute to illicit financial flows?

3. In an increasingly complicated financial landscape, where is the story going next?

4. How can we effectively use a platform that uses anti-crime arguments instead of anti-wealth arguments so as to get the most traction amongst wealthy states?