MEETING ASIA-PACIFIC'S FINANCING NEEDS: ASKS FROM ASIA-PACIFIC CIVIL SOCIETY

Context

The issue of illicit financial flows (IFFs) is one of the biggest development challenges in present times, causing an everlasting and disproportionate impact on the realisation of human rights in developing countries. They can be identified as funds generated through a range of activities including tax evasion, misappropriation of state assets, laundering proceeds of crime, corruption and tax abuse by multinational corporations (MNCs) and the elite by exploiting loopholes of domestic and international tax laws, bilateral or multilateral tax treaties, trade and investment agreements. The Addis Ababa Action Agenda commits 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. (…) and reduce opportunities for tax avoidance", whereas the target 16.4 of the Sustainable Development Goals (SDGs) is limiting in its scope with a focus on "reducing illicit financial and arm flows and retrieving stolen assets". Indicator 16.4.1 under this target categorised as tier III faces several conceptual, technical and methodological challenges.

In 2015, the High Level Panel Report by the African Union Commission (AUC) and the United Nations Economic Commission for Africa (ECA) on 'Illicit Financial Flows from Africa' recognised the perils of corporate tax avoidance practices on African countries. The report not only gave a wider definition of IFFs but also detailed political commitments for African countries to curb IFFs. Asia's development experience too has been marred with stark income and wealth inequality, where the top 1 per cent of the population in countries like India, Indonesia, Russia and Thailand own more than half of the total wealth pool of the country[1]. Experiences from the Global South reveal an urgency of shifting the politics of language over the definition of IFFs, so as to adequately capture the concerns and priorities of developing countries. Further, the current methods to measure IFFs are not conducive for developing countries due to the lack of data and requires innovative means of data collection methods.

Tax Related Indicators and Methods under SDG Target 16.4

At present, there is only one indicator that has been proposed under target 16.4. It uses the proportion of legal persons and arrangements for which beneficial ownership is publicly available. The proposed indicator does not clarify if it includes all legal entities like companies, limited liability partnerships, trusts, foundations, cooperative societies, associations. It is clear that a single indicator to map IFFs is riddled with challenges and coming up with a mix of robust list of indicators has seen considerable support from Southern civil society. The second expert meeting on the Statistical Measurement of Illicit Financial Flows argued that IFFs are a "monetary measure of:

- International transfers of illicitly earned capital
- Legal capital transferred internationally for illicit purposes
- Legal capital transferred illicitly"

Three provisional indicators were discussed at the meeting:

- Using country-by-country reports of multinational corporations to measure misaligned profit from where the profits are declared to where the real economic activity takes place.

[1] UNESCAP (2017). Taxing for shared prosperity. Policy brief no. 46.

- Undeclared offshore assets to address tax evasion using aggregate data from the CRS framework requiring financial institutions to exchange information in order to confirm the citizenship of accountholders with resident countries.
- An exposure to the risk of IFFs indicator, combining opacity of partner jurisdictions with scale measures of bilateral economic and financial relationships.

Under this target, it is crucial to note that national indicators could be significantly different from global ones. For example, national indicators on tax evasion could bridge a huge gap for developing countries in closing avenues for tax avoidance and abuse as well. In 1976, an Inter-American Centre for Tax Administrators (CIAT) working group broke down major avenues for tax evasion with respect to the activities employed by trans-national companies[2]. Some of these indicators identified sectors and instruments that could be used for both tax evasion and avoidance:

- Shell companies and trusts used as instruments to disguise ownership or control or connection.
- Highly inventive industries which make use of the huge margin between the value of their goods and the cost of production and of volume of research and development expenditure.
- "Permanent loss makers" suggests uncommercial trading and a common control relationship with suppliers and/ or customers.

Measuring buoyancy and fairness in the tax system are pre-requisites for developing national indicators on tax evasion. This exercise should further include disaggregate gender based and inequality- based data at a national level to evaluate the impact of loss of tax revenue due to illicit financial flows and conducting a value-chain analysis for understanding tax-motivated illicit financial flows.

Though, Asia-Pacific countries are late to this conversation, there is growing momentum on this front which needs to be consolidated. In this vein, we urge ESCAP to:

- Adopt a progressive and well-rounded definition of illicit financial flows that also reflects the abusive impact of tax avoidance on human rights in the context of developing countries.
- Commission research on the loss of tax revenue through illicit financial flows by taking into account the disproportionate impact on the marginalised in developing and emerging economies in the Asia-Pacific region.
- Partner with custodian agencies like UNCTAD and UNODC to prepare a coordinated strategy on measuring SDG indicator 16.4.1 for Asia-Pacific countries.
- Build mechanisms for Southern civil society actors, experts and academia to input in such regional processes and initiatives and to ensure exchange of best practices on matters of illicit financial flows and tax.
- Take concrete steps towards reviving the proposal for establishing an Asia-Pacific Forum on Tax under the aegis of ESCAP in an effort to reform international financial architecture and synergise regional tax cooperation.

Endorsed by:

Asia Dalit Rights Forum, India
Asian People's Movement on Debt and Development, Philippines
Centre for Budget and Governance Accountability, India
Centre for Policy Dialogue, Bangladesh
Christian Aid
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[2] International tax evasion indicators (1977). 5 *Intertax*, Issue 2, pp. 58

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