

## Session 1

# Organisations' and Regional Commissions' work on IFF policy

UNDA Project “Measuring and Curbing Illicit Financial Flows”

Inter-regional workshop

Day 1 - 20 September 2023



# Outline

- Organisations and Regional Commissions mandates and roles on formulating policies to track and curb IFFs
- Experiences and results
  - Africa
  - Asia
  - Arab region

# Policy work on IFFs in Africa

## ECA's work on IFFs is tracked back from:

- ECA's early mandate as the Secretariat of HLP on IFFs ( 2011)
- Adoption of HLP's recommendations and African common position on including curtailing IFFs in the SDGs ( 2015)
- Two main strands of ECA's work on IFFs in Africa: Policy/institutional architecture ( EGR1-2020-21), and measurement ( in partnership with UNCTAD- DAs)
- Policy efforts are based on the fact that IFFs erode institutions, economic governance, and the rule of law; hence weakens policy environment.

## Key policy and institution related recommendations from EGR1:

- Developing national strategies to combat IFFs
- Strengthening legal frameworks
- Improving operational frameworks
- Investing in capacity building
- Ensuring regional and international cooperation.

# Policy work on IFFs Africa

## ECA's work on policies guided by EGR1 recommendations:

- Recommendations endorsed by African governments,
- Recommendations being implemented and disseminated in collaboration with relevant regional institutions, including AUC, ATAF, TJNA and Pan African Conference on IFFs,
- Ongoing partnership ( ECA-ATAF) to enhance capacity of tax administrations and institutional coordination in the governance of tax expenditures in Africa contributes to improving policies for curbing IFFs
- Although implementation still lags behind, EGR1 recommendations are now informing various policy efforts on the continent: ( e.g. TJNA policy tracker tools being currently developed )
- Most importantly, these efforts offer opportunities for cooperation in the development and implementation of policy tools under OP3 of the DA15
- Tools to be developed under DA15 should be aligned with key EGR1 recommendations to improve policy coherence and institutional architecture in Africa



# IFFs in the Arab region

## Our work covers:

\$ 8.6 bn.

Lost annually



Tax Abuse

\$ 50 bn.

Lost between 1980 and 2020



Tax Competition

15-30%

Non-oil / oil GDP



Tax Gap

60%

Lost revenue potential



Tax Incentives

69%

Repatriated as passive income



Double (non) Taxation

\$2.3 bn.



Unexploited Tax Revenue Potential

\$9 bn.



Tax expenditures

\$60-77 bn.



Trade-based IFFs



# Tax - FDI nexus in the Arab region

- Call for **rationalization of tax incentives**
- Unexploited FDI potential better realized by **improving institutional quality** and human capital
- Do not **limit the application of minimum ETR to big MNCs** but extend it to all MNCs, independently from the GloBE proposal.
- Consider the **opportunity cost arising from losing tax sovereignty and the right to enact DST - consider Article 12B United Nations Model Double Tax Convention to tax ADS.**

- **Arab economies may consider advocating for:**

- Lower threshold to determine in scope MNCs subject to amount A (Pillar 1), country nexus threshold for market jurisdictions, profitability ratio to determine MNCs routine profits;
- Higher reallocation percentage of residual profits;
- Reconsidering the binding dispute settlement mechanism
- International **tax cooperation framework through a UN intergovernmental process**

(Res. A/C.2/77/L.11/Rev.1)

E/ESCWA/CL3.SEP/2022/Policy Brief.2

ARAB POLICY CHOICES AND FINANCING OPPORTUNITIES  
IN A NEW WORLD TAX ORDER



# Policy work on IFFs in Asia (I)



## Mandates

- No direct mandates on tracking IFF, but mandates relating to commercial IFFs.
- 2019 ESCAP Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development requested the secretariat to “continue its support, through research and capacity-building activities, to member States, particularly countries with special needs, in addressing cross-border and common domestic tax challenges.”
- 2017 High-level Dialogue on Financing for Development in Asia and the Pacific “emphasized the need for a strong collective response to base erosion and profit shifting and the risk of harmful regional tax competition.”

# Policy work on IFFs in Asia (II)

## Some activities:

- 2014 – 2017: 4 consecutive High-level Dialogues on Financing for Development in Asia and the Pacific, with deliberations on regional tax policies and tax cooperation as a major element in the agenda
- 2022: Regional workshop on Taxation of the digital economy in Asia and the Pacific - latest options and policy considerations and 2-day training course (jointly with external partner) for Bangladesh National Board of Revenue on taxing the digital economy.
- 2022: Regional workshop on The digitalization of tax administrations in Asia and the Pacific and one-on-one technical and capacity support to Bhutan in their effort to digitalize tax administration.
- •Ongoing: Technical and capacity support to Pakistan on selected tools to digitalize their tax administration and 2nd phase training for Bangladesh on taxing the digital economy
- 2017-2022 Working papers on trade mis invoicing and integration of mirror statistics analysis in ESCAP's online trade intelligence and negotiation advisor, TINA (<https://tina.trade> )



# Policy work on IFFs in Asia (III)



## Future possibilities

- Further technical and capacity support to Asia-Pacific countries on tax treatment of the digital economy, with a focus on cost-benefit analysis of the OECD/G20 two pillar solution to tax base erosion and profit shifting.
- Further technical and capacity support to Asia-Pacific countries on e-invoicing and track and trace systems in digitalized tax administration
- Further technical and capacity support to Asia-Pacific countries on specific tools for the digitalization of tax administrations, such as e-invoicing and track and trace systems, which could be applied to address illicit financial flows.