

New Approaches to **Missing Links:**

## Financing Sustainable Development ~ **Illicit Financial Flows & Trade Misinvoicing**

### I- Background:

One of the most marked lessons drawn from the Millennium Development Decade was that sustainable development impelled broad systemic responses to the economic and governance related enablers and disablers of growth and domestic resource mobilization. The 2030 Agenda for Sustainable Development was therefore uniquely disposed to tackle, in congruence, two sets of contrasting factors that both advanced and redressed sustainable development. Political commitment of the highest order was placed to foster enablers and inhibit the disablers, all of which were canvassed into the new global Financing for Development (FfD) framework adopted by the Third International Conference on Financing for Development held in Addis Ababa, July 2015.

The emphasis on Illicit Financial Flows (IFFs) as a major disabler to sustainable development was well grounded in the Addis Ababa Action Agenda (Addis Agenda). The Addis Agenda called for the redoubling of efforts to substantially reduce illicit financial flows by 2030, with a view to eventually eliminating them, including by combating inter-alia tax evasion, safe havens and corruption through strengthened national regulations and international collaborative action.

Commitment to combat IFFs was further captured by the Sustainable Development Goals (SDG-16). The United Nations Inter-Agency Task Force (IATF) on its part recognized that illicit financial flows constitute a major disabler to finance sustainable development. Today, IFFs continue to account for substantial resource leakages in developing countries. These leakages occur through several channels of delivery that, directly and indirectly, affect a country's ability to raise, and mobilize its domestic resources.

Against this backdrop, the Addis Agenda called on international institutions to publish estimates of the volume and composition of illicit financial flows. Available empirical estimations for the Arab region, suggest that illicit financial flows may well have outstripped the combined values of official development assistance and foreign direct investments in the region. The issue therefore holds evident implications for the Arab region, particularly as it strives to capitalize on the new global FfD framework to achieve the 2030 Agenda for Sustainable Development.

As it stands, there is growing consensus that IFFs undermine the rule of law; challenge effective tax administration and revenue collection (e.g.: tax evasion.); distort trade figures and the gains from multilateral and preferential trade (e.g.: trade misinvoicing); worsen macroeconomic and security conditions (terrorist or conflict financing). Yet, to date, there is no multilaterally agreed upon definition<sup>1</sup> of IFFs or an agreed-on methodology for their measurement. Different institutional stakeholders resort to different methodologies and select different elements to measure IFFs, thereby frustrating the attempt to provide comparable global and regional assessments of IFFs across time and space.

<sup>1</sup> There is an emerging consensus that IFFs should include cross-border movement of illicit funds and assets undertaken in contravention to national laws and international conventions that relate to: tax evasion, international trade fraud (including misinvoicing), criminal activity (including money laundering, smuggling and trafficking in drugs, cultural objects, medicines, persons and natural resources), financing of organized crime and terrorism as well as corruption. There is disagreement, however, on whether tax avoidance (including aggressive tax planning and optimization, transfer pricing etc) should be considered within the ambit of IFFs as these flows may not necessarily be considered 'illicit' in nature, as they remain a legal arrangement used to lower a tax incidence and liabilities. The World Bank for example does not perceive aggressive tax planning and profit shifting practices as IFFs.

Measuring and tracking progress achieved to curb IFFs under these conditions becomes difficult, if not impossible. The illicit nature of these flows further frustrates attempts to systematically and accurately capture their magnitude, both in intra and inter-regional settings.

## II- Scope:

The United Nations Economic Commission for Western Asia (ESCWA) is organizing a focused expert group meeting to jump start discussions (both in the Arab region and across regions) among regional and international experts in an attempt to arrive at a common working definition/parameters and methodology to qualify and quantify IFFs and trade misinvoicing, or at the very least build the critical mass necessary to launch a process to this end. The meeting would provide a premise to identify the elements and components that make up the bulk of IFFs, particularly in the Arab region. It will delve to discuss the economic, legal and statistical aspects of IFFs in the Arab region with a view to determine the components, drivers and delivery channels that ought to receive priority when formulating coherent policy interventions at the regional levels.

The meeting would also provide an opportunity for experts to discuss and react to the preliminary findings of the first UNESCWA report on IFFs and trade misinvoicing in the Arab region. It would also provide a venue for participants' to provide views and suggestions regarding the preparation of an Arab Scorecard to monitor the implementation of Addis Agenda according to regional FfD priorities.

## III- Objectives:

The expert group meeting seeks to:

- (a) Exchange information on the importance of curbing illicit financial flows; regional and cross regional perspectives.
- (b) Definitional and methodological approaches employed to qualify and quantify IFFs and trade misinvoicing;
- (c) Discuss case studies and/or perspectives from other regions;
- (d) Review the findings of the report on Illicit Financial Flows and Trade Misinvoicing in the Arab region;
- (e) Recommendations, future steps and possible collaboration.

## IV- Participants:

The meeting will bring together international and regional experts dealing with illicit financial flows and trade misinvoicing. Representatives from international organizations, including the Washington based Global Financial Integrity, and academic institutions as well as officials from the UN Economic Commission for Africa are invited to provide both an institutional and multi-stakeholder perspective on IFFs and trade misinvoicing.

## V- Organization:

The expert group meeting is scheduled to take place during 8-9 May 2017 at the premises of the United Nations Economic Commission for Western Asia (ESCWA) - UN House, Riad el-Solh Square, Down Town Beirut. The meeting would be conducted in English.

## VI- Documentation:

The expert group meeting is supported by a working paper on "Illicit Financial Flows and Trade Misinvoicing". Relevant technical material and documentation related to the meeting would be placed on the designated web page on ESCWA web site (please check for updates on the following hyperlink):

<https://www.unescwa.org/events/new-approaches-finance-sustainable-development-curbing-illicit-financial-flows-and-trade>

## VII. Administrative Issues

Registered participants will receive the meeting agenda and a logistical information note detailing the meeting arrangements, suggested accommodation and other related matters. Sponsored participants will receive a daily subsistence allowance for up to three nights in Beirut, a terminal allowance to cover their ground transportation to and from the airport, as well as a roundtrip economy class ticket to Beirut issued on the least expensive route in accordance with United Nations Financial Rules and Regulations.

Participants are kindly advised to check with the Lebanese Embassy in their country of residence to ensure whether or not they require an entry visa to Lebanon and apply for a visa accordingly (kindly ensure the provision of a copy of the invitation letter received from ESCWA).

#### VIII. Contacts & Correspondances:

Correspondence and inquiries concerning the expert group meeting should be addressed to:

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