



NAMASTE

Welcome to the Session

**Asian Regional
Priorities and Programmes
on
Combating Illicit Financial Flows**

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Illicit Financial Flow (IFF)

- IFF involves cross-border transfer of the illegal money: proceeds of corruption, trade in contraband goods, criminal activities and tax evasion(GFI).



Three main areas of IFF

- The acts themselves are illegal (e.g., corruption, tax evasion); or
- The funds are the results of illegal acts (e.g., smuggling and trafficking in minerals, wildlife, drugs, and people); or
- The funds are used for illegal purposes (e.g., financing of organized crime).

Extent of IFF

- In recent years, considerable interest has arisen over the extent to which such flows may have a detrimental impact on development and governance in the developed, developing and least developed countries alike.

GFI estimates of IFF

- Global Financial Integrity (GFI), estimates that even developing countries are collectively losing as much as US\$1 trillion annually as IFF through corruption, trade in smuggled goods and criminal activities such as drug trafficking and counterfeiting.
- This is 10 times the amount they receive in foreign aid. Developing countries also annually lose US\$20-40 billion through corrupt acts such as bribery of public officials, which is the equivalent of 20-40 percent of official development assistance (ODA).

Foreign AID or Burden ?

**FOR EVERY \$1
DEVELOPING COUNTRIES
GAIN**

Other official flows	3¢
Charitable	3¢
Portfolio equity (stocks & shares)	6¢
Aid	10¢
Remittances from migrant workers	34¢
Foreign direct investment	44¢

Interest repayments on foreign debt 14¢

Profits taken out by foreign investors 42¢

Lending to rich countries 59¢

Illicit financial flows 93¢

**THEY
LOSE
MORE THAN \$2**

Source: oxfamsblog

Forms of Illicit Financing Flows

- **Transfer mispricing**
- **Round-tripping**
- **Hidden ownership**
- **Informal flows**
- **Capital flight**
- **Money laundering**
- **Tax havens**

Illicit Financial Flows from Developing Countries, by Region, 2004-2013 (in billions of U.S. \$)

Region	Total IFF	Average Share %
Sub-Saharan Africa	675.0	8.6
Asia	3,048.3	38.8
Developing Europe	1,998.9	25.5
MENA+AP	556.5	7.1
Western Hemisphere	1,569.3	20.0
Total	7,847.9	100

Sources: GFI,2016

Country	South Asian Ranking	Global Ranking	Average Illicit Financial Outflow (million US \$)	IFF as Percentage of GDP
China	1	1	139,228	4.9
India	2	4	51029	3.75333
Bangladesh	3	26	5588	5.25404
Sri-Lanka	4	53	1997	4.70886
Nepal	5	86	567	4.2559
Pakistan	6	109	192	0.11248
Afganistan	7	115	133	1.08417
Maldives	8	120	109	5.51958
Bhutan	9	132	40	2.45612

Illicit Financial Flow of Nepal

from 2007-2013 at constant 2010 million US \$

	Cumulative	Average
Illicit Financial Outflow	5,674	567
Hot Money Outflows	282	28
Trade misinvoicing	5,392	539

Impact of Illicit Financial Flows

- Challenge on Political and Economic security
- Hampering Domestic Resource Mobilization
- Low level of Investment and Capital Stock
- Impact on Governance System

The Problem

Track it!



Get it!®



Remedial Measures to IFF

- **Beneficial Ownership** : Governments should establish **public registries of verified beneficial** ownership information on all legal entities, and all banks should know the true beneficial owner(s) of any account opened in their financial institution.
- **Anti-Money Laundering**: Government authorities should adopt and fully implement all of the Financial Action Task Force's anti-money laundering recommendations; laws already in place should be strongly enforced.

Combating cont...

- **Country-by-Country Reporting**

Policy should make for MNCs to publicize their revenues, profits, losses, sales, taxes paid, subsidiaries, and staff levels on a country-by-country basis.

- **Tax Information Exchange**

All countries should actively participate in the worldwide movement towards the sharing tax information as endorsed by the OECD and the G20.

Contd....

- **Trade Misinvoicing** : Customs agencies should treat trade transactions involving a tax haven with the highest level of scrutiny. Governments should significantly boost their customs enforcement by equipping and training officers to better detect intentional misinvoicing of trade transactions, particularly through access to real-time world market pricing information at a detailed commodity level.

Contd....

- **Border Regulation**

For example : Open border between Nepal
India, in the time of blockad the issue of fake
currency,

Demonitization of Indian currency

Government initiatives to combat IFF

- Revenue evasion,
- Organized crime,
- Financing of terrorist activities,
- Offence under existing law on arms and ammunition,
- Offence under existing law on foreign exchange regulation,
- Offence under existing law against homicide, theft, fraud, forging of document, counterfeiting, abduction or hostage taking,
- Offence under existing law on narcotic drug control,
- **Offence under existing law on national park and wildlife conservation,**

Government initiatives to combat IFF

- Offence under existing law against human trafficking and transportation,
- Offence under existing law on cooperative institution,
- **Offence under existing law on forest**
- Offence under existing law **against corruption,**
- Offence under existing law on bank and financial institution,
- Offence under existing law on banking offences and penalty,
- Offence under existing law on ancient monument conservation,
- Offence under any other law or treaty which Nepal is a party to, as designated by the Government of Nepal through publishing a

Government initiatives to combat IFF

- Penalty for the offence committed **abroad**:
Notwithstanding anything contained in this Act, any act or offence mentioned in Section 3, 4, 4A, 4B of this Act committed abroad shall be dealt as an offence and may be liable to penalty as if they were committed in Nepal, provided that the act or offence are punishable offence in the foreign country where such offence were committed and such country has not imposed penalty for the offence.

Government initiatives to combat IFF

Commission for the Investigation of Abuse of Authority (CIAA),

- A top Constitutional Body, which serves as the watchdog against vice, such as the abuse of authority and the resultant chain of corruption which exists in the country :
- The fundamental directive prescribed is to probe cases related to abuse of authority by way of corruption and improper activities by public officials.
- The CIAA may take various actions including prosecuting the concerned public official and the associates in the court of law.

Government initiatives to combat IFF

Provisions for Coordination Committee and Financial Information Unit

- Coordination Committee constituted to coordinate inter-related entities and to provide necessary suggestions to the Government of Nepal with regard to the prevention of offence
- Secretary, Ministry of Finance – Coordinator
- Ministry of Law, Justice and Parliamentary System
- Ministry of Home
- Ministry of Foreign Affairs
- Office of Prime minister and council of Ministry
- Deputy Attorney General, office of the Attorney General
- Deputy Governor, Nepal Rastra (Central) Bank
- Inspector General of Police, Nepal Police

Policies and Program to Tackle IFF

- **International Level : OECD and G20**

They should have responsibility to build strong domestic and international framework to tackle the IFF coming in, (freeze, seize and return) IFF because : it's destination)

- **Regional Level SAARC, ASEAN**
- **Bilateral Treaties**

Policies and Program to Tackle IFF

- **National Level**
- Capacity Build up of tax and revenue authorities
- Anti-money laundering Act
- Nepal Asset (Money) Laundering Prevention Act, 2008
- Foreign Employment Act 2007 (In the process of Amendment) : Remittance should be sent through Banking Channel(Nepal-Hundi, India-Hawala)

Policies and Program contd...

- Civil Societies, NGOs

Advocacy, awareness for media, research institutions

Asian Peoples' Movement on Debt and Development (APMDD), *A regional alliance of peoples' movements, community organizations, coalitions, NGOs and networks*

Parliamentarian Efforts?

- Inter-Parliamentary Union at the Global level
- Global Parliamentarian Forum
 - *Monitoring and Evaluation of the Policy and Program*
- Asian Parliamentarian Forum
 - *Working for Migrant Workers Issues*
- National Parliamentarian Network Forum *on Development Evaluation Policy in Nepal*

Parliamentary Committee: IFF?

1. Agriculture and Water Resource Committee
2. State Management Committee
3. Industry, Commerce and Consumer Welfare Committee
4. Good governance and Monitoring Committee
5. Women, Children, Elderly citizen and Social Welfare Committee
6. International Relations and Labour Committee
7. Committee for Social Justice and Human Rights:
8. Committee on Environment Protection:
9. Legislative Committee
10. Development Committee
11. Public Account Committee
12. Finance Committee
13. Parliamentary Hearing Special Committee



Policy Recommendations

- Need of International Tax cooperation
Transactions involving tax haven jurisdictions like Hong Kong, Singapore, and UAE should be treated with the highest level of scrutiny by customs, tax, and law enforcement officials;
- The Government should require that all banks know the true, human, "beneficial" owner of any account opened in their financial institution

Policy Recommendations

- Government should significantly clean up and boost its customs enforcement, by training its officers to better detect intentional misinvoicing of trade transactions
- Anti-money laundering legislation, regulations should be strongly implemented

Policy Recommendation

- Increase coherence and coordinated action among the countries
- Political Commitment and leadership
- Strengthening national interagency coordinative mechanism
- More focus on consequences, should be concern in causes
- Methodology should be improved
- Need of country level research

Conclusion

- Although much effort and resources have been used to stem the illicit financial flows in the world, it is in increasing trend specially in case of developing world.
- The poorest developing countries including South Asian countries will continue to rely on tariff revenues as a major source of revenues given weak domestic taxation, and as long as such duties are levied, smuggling will continue.

The way forward

- Strong and independent (not with G20 and OECD) network among the developing countries should be established- sharing common experiences and tackle the problems
- Conducting joint research and case studies at individual country level

Thank You