

Report of the 6th meeting of the ATI Consultative Group 3: Coherent and coordinated policies that foster DRM and combat tax-related illicit financial flows (IFFs)

Date: 21 June 2023, 12:00 – 16:00 (CET)
ATI General Assembly in Lusaka, Zambia (hybrid)

Agenda:

1. Presentation of the ATI study on “ATI partner countries’ perspectives on tackling tax-related illicit financial flows”
2. Discussion on the workplan 2023-2025 for ATI Consultative Group 3

The meeting of the ATI Consultative Group 3 was introduced and moderated by Ms. Valerie Schulte Nordholt, Co-Coordinator of the group and Policy Advisor at the Ministry of Foreign Affairs of the Netherlands. She highlighted the agenda and objectives of the meeting.

The first part of the meeting commenced with an insightful presentation of the study on the ATI partner countries’ perspectives on tackling tax-related illicit financial flows (IFFs) by Mr. Birhanu Tadesse Daba, a Senior Research Associate at International Bureau of Fiscal Documentation (IBFD). The comprehensive study conducted by IBFD aimed to foster knowledge sharing among ATI members and encourage peer-learning regarding both challenges and successes in combatting tax-related IFFs. Mr. Tadesse Daba underscored the negative impact of IFFs on DRM and outlined that the study embraces a broader definition of IFFs, encompassing practices such as tax avoidance. He also stressed that there is no consensus on a broader definition of the IFFs, which makes it very difficult to assess their regulatory framework. Given the complexity of the phenomenon, the research employed a comprehensive methodology, incorporating desk research, surveys, interviews, and literature review. The findings re-affirm the negative affect of IFFs on DRM and show that there is lack of a cohesive strategy and effective coordination within partner countries to tackle the issue. Challenges identified ranged from the lack of reliable data, insufficient legal frameworks against IFFs, limited awareness and capacity, and lack of interagency cooperation. The study’s primary recommendations advocate for a holistic approach, enhancing capacity-building initiatives and international cooperation efforts. The complete study is available [on the ATI website](#).

Following the presentation, Ms. Nordholt opened the floor for questions from the attendees. Mr. Elysee Nyuzwenimana, Tax Policy Specialist at the Ministry of Finance and Economic Planning of Rwanda, intervened by pointing out the challenges of trade mis-invoicing about trade mis-invoicing in customs and mining. His contribution to the discussion provided an opportunity to call upon a holistic approach for developing countries to tackle this issue of IFFs.

Ms. Nordholt continued with the second part of the agenda of the meeting, which concerned the future work plan of the ATI Consultative Group 3. Ms. Tais Chartouni Rodrigues, from the ATI Secretariat, presented the three workstreams in the current work plan of the group: monitoring of ATI commitment 3, combatting tax-related IFFs, and policy coherence for DRM. The latter encompasses several topics, including tax expenditures and tax incentives, taxation of Official Development Assistance, spillover analysis, among others. She presented the main outcomes of the group’s work in the past year and planned activities, in particular the series of ATI regional workshops on tax expenditures. She provided a spotlight on the previous regional workshops on tax expenditures, where the stakeholders involved - including representatives of Ministries of Finance, tax authorities and MPs - had the chance to discuss challenges

related to tax expenditures governance, estimation, reporting, monitoring and evaluation, and rationalisation. After the first series of workshops, follow-up technical meetings are planned to analyse the challenges in each region and to foster a fruitful exchange between ATI partner countries.

After the presentation by the ATI Secretariat, participants were invited to form smaller groups to deliberate on specific areas of work and potential collaboration for the years 2023-2025.

Several insights emerged from the group discussions, which were shared by representatives of each group. Mr. Joseph Sirengo, Chief Manager in the Strategy, Innovation and Risk Management Department at Kenya Revenue Authority, emphasised the recognition of ATI's contributions in the area of tax expenditures and underscored the need for additional assistance concerning cost-benefit analysis. Furthermore, he suggested that the ATI could assist countries to initiate bilateral exchange of information, especially with customs related services, to deal with the challenge of trade mis invoicing. Other participants stressed the importance of continuing the processes of monitoring and evaluation of tax expenditures in partner countries, emphasising the need to promote further engagement with legislators in this area. Other remarks concerned harmonising tax evasion and anti-money laundering regulations to build an effective framework for combating financial crime, strengthening inter-agency cooperation for enhancing exchange of information. Within the discussion, some representatives from partner countries also underlined the necessity to continue sharing experiences and lessons learnt from countries implementing reforms in the domain of tax expenditures and combatting IFFs.

Throughout the conversation, other challenges were mentioned by the different groups, among which cryptocurrencies, trade mis invoicing, taxation of extractive industries, and limited capacity of tax authorities to tackle IFFs. Given the changing technological landscape, cryptocurrency constitutes a challenge, due to their anonymity, cross-border transactions, lack of reporting, and generally unique features of cryptocurrencies that tend to facilitate tax evasion, hence urging technical assistance to tax authorities to address tax compliance issues. The space of discussion also touched upon the importance of monitoring and evaluating the results of the work on tax expenditures, measuring the number of partner countries' efforts in implementing specific recommendations and their respective impact.

Other topics of the discussion were related to access and effective use of data collected from exchange of information. In this regard, Mr. Peter Wiesel, from the ATI Secretariat, highlighted the need for a roadmap with ex-ante conditions for effectively processing and using the data received from exchange of information. Transparency, he continued, is very important through access to Country-by-Country reporting data, which remains limited in partner countries. Finally, the participants emphasised the importance of international organisations' engagement in capacity-building activities related to transfer pricing, as well as their support for evaluation of tax expenditures from a cost-benefit perspective.

Reflecting on the proposals, the Co-Coordinator of ATI Consultative Group 3, Ms. Valerie Schulte Nordholt and Ms. Anca-Maria Szigeti, emphasised the ongoing commitment to capacity-building and peer-learning initiatives in countering IFFs and improving transparency and effectiveness of tax expenditures. Ms. Tais Chartouni Rodrigues, in conclusion, concluded the meeting by summarising the main outcomes of the fruitful discussion that will guide the work of the ATI Consultative Group 3 for the incoming years, which will be reflected in the group's workplan available on the ATI website.