

Resource Implications of Profit Shifting, Economic Fugitives and Illicit Financial Flows

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Scheme of Presentation

- Extent of resource deficits for development
- Magnitude of illicit financial flows, tax evasion and money laundering
- Prospects and challenges of digital economy and digital technology-enabled FinTech sector
- Agenda for international tax cooperation

Estimates of Infrastructure Investment Gaps (2016-2030) (% of GDP)

Region/Sector	Current Trends	Investment Need	Financing Gap	SDGs (Additional Need)
Sector				
Road	1.0	1.3	0.3	-
Electricity	1.0	1.1	0.1	0.2
Railways	0.4	0.4	0	-
Telecoms	0.3	0.3	0	-
Water	0.2	0.2	0	0.1
Airports	0.1	0.1	0	-
Ports	0.1	0.1	0	-
Region				
Asia	4.0	4.4	0.4	0.3
America	1.7	2.5	0.8	0.1
Europe	2.3	2.6	0.3	-
Africa	4.3	5.9	1.6	3.4
Oceania	3.5	3.8	0.3	-

Infrastructure Spending Needs in Low and Middle Income Countries between 2015 and 2030

Sector	Share of GDP (%)		US\$ Billions	
	Capital	Maintenance	Capital	Maintenance
Electricity	2.2	0.6	780	210
Transport	1.3	1.3	420	460
Water and Sanitation	0.55	0.75	200	70
Flood Protection	0.32	0.07	100	20
Irrigation	0.13		100	
Total	4.5	2.7	1550	760

Estimate of Illicit Financial Flows

Component/ Channel	Volume	Date of Estimates
Good Trade mis-invoicing	Africa: \$25-55 billion annually from 2005-2010	Africa:2000 -2010
	Latin America & Caribbean: \$50- 100 billion annually	Latin America & Caribbean: 2004-2013
Off-shore undeclared financial holdings	\$6.1 trillion in financial wealth in 2014	2015

Estimate of Illicit Financial Flows (Contd..)

	2010	2013	2014	2015	Average, 2006-2015
A. Total (outflows plus inflows)					
DOTS-based estimates	27.5	27.1	26.6	28.5	27.1
Comtrade-based estimates	21.3	20.8	19.7	21.6	20.8
B. Outflows					
DOTS-based estimates	13.3	11.2	10.9	11.9	12.4
Comtrade-based estimates	11.5	10.1	10.0	11.5	10.8
C. Inflows					
DOTS-based estimates	14.2	15.9	15.7	16.6	14.8
Comtrade-based estimates	9.9	10.6	9.7	10.2	10.0

Stolen Assets

- \$20–\$40 billion annually stolen from developing and transition jurisdictions (20–40 % of ODA).
- The Stolen Asset Recovery (StAR) Initiative by the World Bank and UNODC(2007).
- To date, only US\$5 billion in stolen assets have been recovered.

Incidence of Money Laundering and Corporate Tax Avoidance

- Estimated global money laundering transactions: 2 to 5% of global GDP, or roughly U.S.\$1-2 trillion annually.
- According to the United Nations Office on Drugs and Crime (UNODC), less than 1% of global illicit financial flows are currently seized by authorities.
- According to WealthInsight, global spending on AML compliance is set to grow to more than \$8 billion by 2017.
- Tax loss estimate of 0.07% of world gross product in 2015 (approx. \$50 billion) from profit shifting.
- Tax base change estimate of \$600 billion of corporate profit shifting in 2015.

Fraud Cases in India

Bank Group/Institution	2017-18		2018-19	
	No. of Frauds	Amount (INR Million)	No. of Frauds	Amount (INR Million)
Public sector banks	2885 (48.8)	382608.7 (92.9)	3766 (55.4)	645094.3 (90.2)
Private sector banks	1975 (33.4)	24782.5 (6.0)	2090 (30.7)	55151.4 (7.7)
Foreign banks	974 (16.5)	2560.9 (0.6)	762 (11.2)	9553.0 (1.3)
Financial Institutions	12 (0.2)	1647.0 (0.4)	28 (0.4)	5534.1 (0.8)
Small finance banks	65 (1.1)	61.9 (0.0)	115 (1.7)	75.2 (0.0)
Payment banks	3 (0.1)	9.0 (0.0)	39 (0.6)	21.1 (0.0)
Local area banks	2 (0.0)	0.4 (0.0)	1 (0.0)	0.2 (0.0)
Total	5916 (100)	411670.4 (100)	6801 (100)	715429.3 (100)

Fraud Cases in India by Operations

Area of Operation	2017-18		2018-19	
	No. of Frauds	Amount (INR Million)	No. of Frauds	Amount (INR Million)
Advances	2525 (42.7)	225583.2 (54.8)	3606 (53.0)	645481.7 (90.2)
Off-balance sheet	20 (0.3)	162876.7 (39.6)	33 (0.5)	55375.2 (7.7)
Foreign exchange transactions	9 (0.2)	14258.0 (3.5)	13 (0.2)	6953.8 (1.0)
Card/internet	2059 (34.8)	1095.6 (0.3)	1866 (27.4)	713.8 (0.1)
Deposits	697 (11.8)	4622.7 (1.1)	596 (8.8)	1483.1 (0.2)
Inter-branch accounts	6 (0.1)	11.9 (0.0)	3 (0.0)	1.1 (0.0)
Cash	218 (3.7)	403.4 (0.1)	274 (4.0)	555.4 (0.1)
Cheques/demand drafts, etc	207 (3.5)	341.2 (0.1)	189 (2.8)	336.6 (0.0)
Clearing accounts, etc	37 (0.6)	56.2 (0.0)	24 (0.4)	2088.1 (0.3)
Others	138 (2.3)	2421.5 (0.6)	197 (2.9)	2440.5 (0.3)
Total	5916 (100)	411670.4 (100)	6801 (100)	715429.3 (100)

FinTech: New Digital Economy Sector

- AI, ML, Big Data, IoT, DLT, Cloud Computing, API, etc.
- Total FinTech companies: 1600 in 2000; 3000 in 2010; 8800 in 2016.
- Total funding: \$5.5 billion in 2000; \$15.3 billion in 2010; \$100.2 billion in 2016.
- Total investment in FinTech in 2018: \$120 billion involving 260 deals
- Since 2014, 11,000 FinTech investments of \$380 billion.
- Total volume of new credit by FinTech & big tech firms in 2017 was more than \$500 billion, marking tenfold rise from 2014.
- InsurTech start-ups: \$1.7 billion in 2016.

Cyber Attacks in Banking & Finance	Date
Russian banks DDoS attacks	Late 2016
Bangladesh central bank heist	Early 2016
Belgian National Bank incident	Early 2016
Shanghai Composite Index manipulation (uncertain)	2015–2016
Russian banks theft	Late 2015
Russian currency manipulation	Early 2015
Metel malware attack on Russian banks	2015
Ukrainian Ministry of Finance data breach	Mid 2015
Warsaw Stock Exchange breach	Late 2014
Ukrainian bank data breach	Mid 2014
Carbanak malware attack	2013–2015
Dark Seoul South Korean attacks	Early 2013
JPMorgan data breach	2012–2015
Brazilian banks DDoS attacks	2012, 2014
Brazilian payment system attack	2012–2014
U.S. banks DDoS attacks	2012–2013
Shanghai Composite Index manipulation (uncertain)	Mid 2012
Lebanese Gauss virus infections	2011–2012
South Korean banks attack	Mid 2011
Nasdaq intrusion	Late 2010
Georgian website defacements	Mid 2008
Estonian DDoS attacks	Mid 2007

Issues for International Tax Cooperation

- Formulating development-oriented tax policies
- Allocation of taxing rights
- Tax certainty and transparency
- Robust information-sharing
- Enhancing public availability of data
- Preventing inherent tax arbitrage opportunities
- Rationalizing tax incentives
- Minimizing incidence of transfer mispricing

Participation in International Tax Cooperation Instruments, 2019

Instrument/ Institution	Total Membership/ Signatories	Middle- Income Countries	LDCs	SIDS
MCAA Common Reporting Standard (Finance Account Information)	103	30	1	22
MCAA Exchange of Country-by- Country Reports on MNE Activity	74	17	2	5
Mutual Assistance Convention	126	48	6	25
Automatic Exchange of Information Standard	108	33	1	25
Global Forum on Transparency and Exchange of Information for Tax Purposes	154	66	17	32
Multilateral Instruments (Implementation of Tax Treat measures for reducing BEPS)	85	27	2	7
Inclusive Framework on BEPS	125	47	10	24

Anti-Money Laundering/Combating the Financing of Terrorism

Addis Ababa Action Agenda (2015):

“To help to combat illicit flows, we invite the International Monetary Fund (IMF), the World Bank and the United Nations to assist both source and destination countries. We also invite appropriate international institutions and regional organizations to publish estimates of the volume and composition of illicit financial flows. We will identify, assess and act on money-laundering risks, including through effective implementation of the Financial Action Task Force standards on anti-money-laundering/counter-terrorism financing. At the same time, we will encourage information-sharing among financial institutions to mitigate the potential impact of the anti-money-laundering and combating the financing of terrorism standard on reducing access to financial services.”

FATF Recommendations

- Identify the risks, and develop policies and domestic coordination
- Pursue money laundering, terrorist financing and the financing of proliferation
- Apply preventive measures for the financial sector and other designated sectors
- Establish powers and responsibilities for the competent authorities (e.g., investigative, law enforcement and supervisory authorities) and other institutional measures
- Enhance the transparency and availability of beneficial ownership information of legal persons and arrangements
- Facilitate international cooperation

Role of Financial Intelligence Units

- FIUs can provide intelligence to local law enforcement or prosecutors by analyzing Suspicious Transactions (STRs).
- Most FIUs maintain a central database of all STRs, CTRs, cross-border currency reports, intelligence reports for ancillary intelligence.
- Expertise of FIUs in analyzing money laundering typologies and records.
- Networking among FIUs

Performance of FIU-India

- Over 13.3 million Cash Transaction Reports (CTRs); 14,36,340 Suspicious Transaction Reports (STRs), 3,53,795 Counterfeit Currency Reports (CCRs), 8,09,179 NPO Transaction Report (NTRs) and 93,95,342 Cross Border Wire Transfer Reports (CBWTRs) in 2017-18.
- 82,595 STRs (5.75% of total) are processed in 2017-18. In fact, reporting of STRs marked steady rise- from 4409 in 2008-09 to 14,36,340 in 2017-18.
- FIU-IND received 108 requests for information from foreign FIUs and 129 voluntary disclosures from foreign FIUs.
- FIU-IND sent 161 requests to foreign FIUs on behalf of domestic agencies.
- During 2014-17, the cumulative value of unaccounted income detected by CBDT and ED have increased by 4.4 times and almost 45 times.

Thank You