Development Economics Research Group
Working Paper Series
16-2022

Illicit Financial Flows - Illicit drug trafficking and tax evasion

Johnny Flentø
Leonardo Santos Simao

July 2022

University of Copenhagen
Faculty of Social Sciences
Department of Economics
www.econ.ku.dk/derg
#DERGDK

ISSN 2597-1018

Illicit Financial Flows

Illicit drug trafficking and tax evasion

Johnny Flentø and Leonardo S. Simao

Abstract: *The discourse about illicit financial flows (IFFs) repeatedly stresses promoting development and equality in the world, but the links between them are much more difficult to ascertain. As defined in relation to Sustainable Development Goal (SDG) 16, the concept of what is illicit rests on definitions of terror and crime, on which there is no universal agreement, and it contains too many and too different types of flows to be of operational use in policy formulation. Combined with the difficulties and weaknesses in estimating the aggregate volume of illicit flows, this broad umbrella definition of the term lends itself to the harbouring of various political agendas and instrumentalizations of the concept for other political ends.*

The discourse that illicit flows undermine development seems widely accepted, as long as one does not have to be specific. However, to address questions about the effects of anti-IFF initiatives and which anti-IFF initiatives actually work, we need much more sector-specific and granular analysis, as some researchers are already pursuing. In this paper we argue that there is large potential for stemming illicit flows if some drugs are legalized and the fencing of stolen money in tax havens and secrecy jurisdictions is effectively outlawed. Important and potentially strong initiatives which could change the tax landscape are under way. However, they are geared more towards corporations and less towards trusts and individuals, and they stop short of criminalizing the fencers of illicit money. In relation to inequality, the reforms will mainly assist governments in the rich countries, primarily OECD countries, to tax and redistribute income from very large and wealthy corporations. Taxation tools that could effectively redistribute income from the large tech giants and other multinational enterprises to the world's poor are not really on the table.

At the same time, the rich countries insist on globally outlawing many drugs that would make excellent cash crops for farmers in poor countries, primarily because they anticipate a public health problem at home. In curbing illicit flows with a development effect, legalizing cannabis should be high on the agenda.

Key words: Illicit Financial Flows, Tax Evasion, Drug Trafficking, Extractives, Tech Giants.

JEL Codes: F10, F18, F23, F51,H23, H26

Johnny Flentø: Development Economics Research Group (DERG), University of Copenhagen, Copenhagen, Denmark, email: johnny.flentoe@econ.ku.dk;

Leonardo Santos Simao, Former Minister of Health, Former Minister of Foreign Affairs & Cooperation, Government of Mozambique, Maputo, Mozambique.

1.0 Introduction

Illicit financial flows (IFFs) are interesting for a number of reasons. However, governments and actors in international trade and finance have different reasons for finding them interesting. Indeed the interests of different stakeholders may not even be reconcilable if the definitions of IFFs are at the operational level.

In the companion paper to this one, we argue that the term "illicit financial flows" as defined by the UN in relation to Sustainable Development Goal (SDG) 16 (UNODC and UNCTAD 2020) encompasses too many and too different types of things to be useful as a concept for developing policy responses to the challenge. As a general concept, IFFs have been useful in drawing political attention to the phenomenon and helping to raise the issue to political prominence. However, the motives and political agendas for what the concept should encompass vary greatly and there is a clear risk that governments will harbour other political agendas around the concept and discussion of IFFs in order to promote certain values and security concerns.

This very broad definition, which may have been necessary to secure international agreement on SDG 16, carries considerable risk. When IFFs mean different things to different stake holders the concept is easily instrumentalized to promote western definitions of terror and crime and combat-related flows. Development or equality criteria are strongly associated with the discourse against illicit flows. However, arguments about this link are primarily based on the implicit assumption that crime and terror, as defined by the West, always undermine development. Yet there is no universal agreement on the definitions of terror and crime; both concepts are social constructs and carry a political agenda. As Khan and Blankenburg (2013) argue, the development outcome is uncertain.

Estimates of the aggregate volume of IFFs also vary considerably. Different methods produce very different estimates and there is no accurate way of measuring the volume of illicit flows, even if the world could agree on an operational definition of what is illicit. This makes the concept even more prone to political instrumentalization. In much of the IFF discourse, the desire to have knowledge of the volume of illicit flows is motivated by concern about reduced development outcomes due to the flows. But how strong is this association? Will stopping illicit flows help poor countries? And what if illicit flows with pervasive distributive effects that hamper development are sometimes actually caused by the definition of illicit according to western norms and practice?

The UN definition is too broad to address questions about the effects of IFFs and which anti-IFF initiatives actually work. Only by applying much more sector-specific and granular analysis can we hope to develop policy tools that can effectively assess what kinds of crime hamper development and deal with the underlying crimes of IFFs. As we argue below in relation to two types of IFFs, it is not about detecting the financial flow and catching the individual perpetrators in the hope of achieving an overall reduction in the volume of IFFs. It is about destroying the business models of organized crime, which surprisingly are within the reach of certain governments if they have the political will and courage.

Two types of IFFs which the UN considers to be among the most important are those related to illicit drugs and tax evasion. They are both considered to be very important in terms of volume and to undermine development. In addition, they are both subject to substantial anti-IFF initiatives. Last but not least, both flows are associated with a narrative about "dirty money" and a small number of evil people dodging law enforcement and earning enormous amounts of money at the cost of many, especially the poor. Is this narrative accurate?

This paper is organized as follows. Section 2 looks at the basic concept of IFFs as defined by the UN. Section 3 turns to the IFFs related to illicit drug trafficking and reiterates the legal basis and rationale for anti-drug initiatives before looking at the possible effects on inequality. Section 4 considers tax evasion and discusses the nature and motivation for these flows in order to assess the possible effects of existing and planned initiatives to reduce the flows which contribute to inequality. Section 5 concludes.

2.0 The purpose of an illicit flow

The UN defines IFFs as: *"Financial flows that are illicit in origin, transfer or use, that reflect an exchange of value and that cross country borders"* (UNODC and UNCTAD 2020).

The first thing to note is that the financial flow itself is only rarely illegal or illicit. This situation – where the movement of finance is the fundamental crime – primarily arises when flows are to and from sanctioned jurisdictions or people. The vast majority of what we deem to be illicit flows are so because of how the money was earned or what it buys (tax evasion being a special case of trading in fraudulent mis-priced goods and services).

Illicit flows are generally only one part of a chain of events that constitute the problem. The finance which flows is either earned illegally or is destined to buy or finance illegal or illicit goods or activity (services). The UN has developed a conceptual framework of illicit flows (see the schematic diagram of illicit financial flows in UN Inter-agency Task Force on Financing for Development (2020)). The concept defines the totality of IFFs as consisting of components, channels and resulting assets.[1] The components are the actions that constitute a crime, while the channels are the vehicles used to move the proceeds of crime to a shielded place of storage, where they take the form of assets belonging to the perpetrator of the crime.

The increased attention to the parts of this chain which constitute the financial flow or, as the UN explains, the channel, is partly due to the vast increase in electronic money and ever cheaper and more efficient ways of surveying financial transactions and detecting abnormalities by algorithms, machine learning, etc. Furthermore, authorities can oblige financial institutions to deploy these tools and report or hinder transactions. There is nothing new in this basic approach. Law enforcement has long experience and practice of catching thieves and burglars when they attempt to sell stolen goods or money. It is, however, a very narrow approach to combatting crime, which cannot work alone. Attention

[1] The components can be traditional transnational crime or can be tax related or corruption related. The channels range from unrelated group trade (mis-invoicing) to intra-multinational enterprise (MNE) transactions, loans, cash remittances, etc. Resulting assets are offshore wealth holdings, real estate, businesses and moveable assets like yachts, art, cars, etc.

needs to be given to all parts of the illicit chain, including fencing, i.e. receiving, possessing and trading stolen goods, which is illegal almost everywhere. Particularly in relation to crimes where illicit goods or services are bartered, it can be difficult to detect a financial flow.[2] However, values of some sort will be stored.

What complicates matters further is that there is no favoured routing of financial flows related to specific criminal or illicit acts. In principle, all types of perpetrators can use all routes and fences. Although certain perpetrators may have preferred channels, such as mis-invoicing for tax-related illicit actions, all criminals have the full spectrum of flows or vehicles at their disposal in moving the proceeds of crime and illicit actions to secure storage.

This storage is often referred to in the business as "wealth protection facilities" and the providers of such facilities often do not inquire about where the finance comes from or how it is earned. Just like fences in traditional crime, it is better for wealth protection providers and their clients that such information is not recorded. However, the very fact that clients are doing business with wealth protection providers is a good indication of what is going on.[3]

3.0 Illicit drugs

Drug abuse and addiction is a public health problem in some parts of the world. This is fundamentally why some drugs are illegal. Financial flows from illegal drugs trade are not comparable to flows that represent foregone public revenue, as for example tax avoidance or corruption. The revenue and the business opportunities from illicit drug trafficking arise from the prohibition itself.[4] The benefit of stopping the IFFs that flow from drugs would be to restrict the drugs trade to legal drugs and thus reduce public health problems in some parts of the world, with the savings in human suffering and health care costs that would follow.

The international drug control system is likely the oldest consensus-based norm-setting multilateral system in the world. It predates the UN and even the League of Nations, but it was quickly adopted by and made a cornerstone of the UN systems. The mother of all drug control conventions is the Haag International Opium Convention of 1912, which was negotiated based on the principles of the Shanghai Conference of the Opium Commission (1909). Here the British government, also facing an increasing anti-opium lobby at home, miscalculated the strength of the US–China-led[5] initiatives, especially the position of Japan, which, despite being heavily involved in the trade, sided against the free trade bloc. Britain, France and the Netherlands, which made fortunes from the opium trade, finally agreed to

[2] i.e. a corrupt official securing well-paid jobs for relatives in exchange for government contracts.
[3] Good legal reasons do exist for protecting wealth in secrecy, including safety concerns related to kidnapping for ransom etc., and the right to privacy is secured in the constitutions of many nations. This does not provide defensible reasons for tax evasion.
[4] See Flentø and Simao (2022) on the economics of prohibition.
[5] US businessmen, particularly from the east coast, participated heavily in the opium trade in the 19th century, but growing anti-Chinese sentiment in California led to prohibition of opium and eventually the Chinese Exclusion Act in 1882.

outlaw the business.[6] The key objectives and principles of the Haag convention have been the foundation of mutual international agreement for a century. They made drug control norms global and influenced the behaviour of people across the world.

Today there are three main international drug control conventions: the Single Convention on Narcotic Drugs of 1961, as amended by the 1972 Protocol; the Convention on Psychotropic Substances of 1971; and the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988. Some consider drug control to have been an unmatched success in international cooperation and multilateralism. More than 180 countries are party to and have ratified the conventions.

In its report *A Century of International Drug Control*, the United Nations Office on Drugs and Crime (UNODC 2009) celebrates success, which it measures by comparing the percentage of the world's population that used drugs a century ago with the percentage doing the same today. By this measure, use has reduced from 1.5 percent to 0.25 percent, implying that approximately 100 million more people would be using illicit drugs today if no restrictions had been put in place. The report also mentions that today many more people succumb to alcohol and tobacco abuse than to illicit drugs. The language used to sell this approach is often that the multilateral system provides joint solutions to common problems. In 2009, UNODC described the drug control balance sheet as follows:

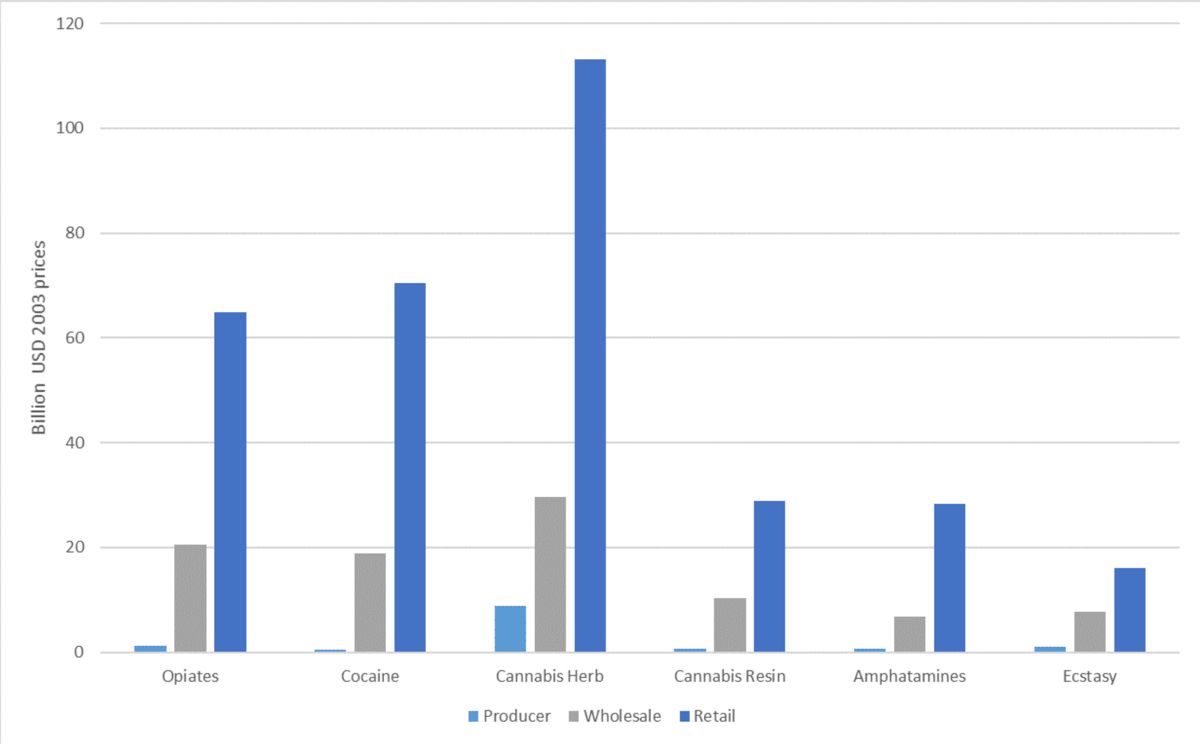
"*In sum, while the drug problem has been contained, the fundamental objective of the Conventions – restricting the use of psychoactive substances under international control to medical and scientific use – has not yet been achieved…… In addition, looking back over the last century, one can see that the control system and its application have had several unintended consequences.*" (UNODC 2009, p. 92)

It is from these unintended, but highly predictable, consequences that IFFs from drug trafficking arise. The creation of a black market, with a hundred-fold increase in prices from production to end user, is exactly what organized crime and even some governments are looking for.

Based on an industry-specific, granular model using top-down as well as bottom-up approaches (cultivated areas, purity in seizures and number of addicts/users), UNODC estimated that, in 2003, the illicit drugs market had an estimated retail price value of US$322 billion. Based on earlier estimates, it was considered that around 70 percent of this amount was available for money laundering and investment. The value of the illicit drugs market today is still believed to be around 0.8 percent of global gross domestic product (GDP), i.e. US$700 billion. The split of this value between different drugs is estimated to be approximately 20 and 22 percent for each opiate and cocaine and around 40 percent for cannabis, while the remaining 18 percent is spread across a number of minor markets.

Figure 1: Value of Illicit drugs

[6] See Flentø and Simao (2022) and Hanes and Sanello (2004) for more on the opium wars and treaties.



Source: Authors' computations based on UNODC (2005, 2019) and World Bank (2022)

Drug abuse is growing in poorer countries due to increases in income and growing youth populations, especially in Africa and Asia. However, an overwhelming 80 percent of illicit drugs are still consumed in North America and Europe. This means that what, according to the UN conventions on illicit drugs, allegedly is a common problem may not be so common after all, especially if one considers that by far the largest amount of illicit drugs is produced by poor farmers in poorer countries, outside the OECD.

Like many other conventions, those on drugs are about making cultural and social values global and influencing behaviour in foreign countries. Much of the drug control resources of the UN agencies and western countries have been devoted to combatting supply chains and production in foreign countries outside the OECD. The conventions oblige all countries to do this themselves. When they fail, UN agencies and/or rich western countries with public health problems due to drug abuse offer to assist. Restricting supply from abroad often takes priority over prevention and treatment at home because drugs finance wars and insurgencies, which is another reason to outlaw them. Insurgents are regarded as terror organizations or liberation movements, depending on who one asks. However, a common feature is that insurgents fight governments that are party to the drug conventions and thus are likely allies to influential western countries that suffer from addiction problems. Such alliances make it logical for powerful western countries to view illegal drug trafficking as part of their foreign security policy.

While the production of cocaine, particularly opium, is highly concentrated, cannabis can be and is grown almost everywhere. A whopping 80 percent of raw opium is now grown in

Afghanistan and most of the rest in Myanmar, while cocaine production is concentrated in just a handful of countries in South America.

While the conventions are comprehensive about countries' obligations in combatting drug trafficking, they are less solid in defining which drugs are illicit, and revised lists of narcotic drugs subject to international control are negotiated and issued (docs ST/CND/1/Add.1 and 2).[7]

The ongoing debate around cannabis, which is now legal for recreational use in many European countries and North American states, clearly shows that definitions of illegal drugs vary over time and space, as we also demonstrate in our companion paper (Flentø and Simao 2022). The best example here, though, may be alcohol. Some countries still ban alcohol altogether, while others have few or no restrictions. The world's most powerful nations have no intentions of banning alcohol, but they frequently tax it. There is thus no chance of a UN convention against the use of and trade in alcohol even though it kills more people than illegal drugs. The US prohibition of alcoholic beverages from 1920 to 1931 demonstrates quite solidly what prohibition of a commodity with low numeric demand elasticity can entail in terms of crime.

An obvious policy recommendation for reducing IFFs in the drugs trade is to legalize cannabis and tax it like alcohol. Such a policy would have some positive effects on financial flows. The finance flowing from the cannabis trade would no longer be illicit and therefore would be less likely to finance other crimes. It would raise revenue for abuse prevention and treatment. It would also reduce drug-related crime, as cannabis wholesale and retail is one of the core businesses of gang-related crime in western cities, while production is the business of drug lords and cartels in countries of origin. Exactly what would happen to farm gate prices would depend on how value chains develop in a legalized environment. However, cannabis is a labour-intensive crop that thrives in tropical and subtropical climates and the monopsony-like market faced by most farmers today vis-à-vis the drug cartels would gradually see more competition. Cannabis is of high value by weight and easy to store and move by air. Farmers in the Global South, including in Africa, would also have a good chance of competing against farmers in rich countries closer to where consumption takes place as long as the production of cannabis was not subsidized like other agricultural products.

In terms of development outcomes and redistribution in search of more equality, it seems clear that legalizing cannabis, and even opium and cocaine, would entail just that. In a legal market, profits would be less concentrated at the consuming end of the value chain and in the hands of a few. Poor farmers in developing countries would be able to obtain better prices by forming legal cooperatives and selling their produce in certified trade and value chains (like wine or coffee) which could also compete with the cheap and often much more harmful synthetic designer drugs.

[7] The International Drug Control Conventions Schedules of the Single Convention on Narcotic Drugs of 1961 as amended by the 1972 Protocol, as at 25 September 2013.

The UNODC numbers referred to above speak for themselves. In today's illegal market around 70 percent of the value of the drug market is available for laundering and reinvestment. This tallies with the reports of exponentially increasing profits the closer the drug gets to the end user, predominantly in the western hemisphere. If 70 percent of the value of the cannabis market (retail close to US$200 billion) was retained in the rich western countries which are home to most abusers, it is fair to assume that a significant part of this value could be moved back to producer countries in a legal market. Assuming that the price of cannabis would be half of its illegal price in a legal market, and using coffee as an indicator of a value chain similar to that of cannabis,[8] we find that it is fair to assume that around US$50 billion could be pushed back to poor countries as sustained income. This is an amount equal to a third of all official development assistance (ODA) from OECD countries. Furthermore, it would not be very difficult to do this and it would not require enormous efforts and resources of the world's governments. They would simply need to legalize cannabis and stop spending huge amounts on enforcing legislation related to its trafficking. The flows associated with it would no longer be illicit.

In the rich developed world, the public health problem, if any, which stems from cannabis abuse could be treated along the same lines as alcohol and tobacco. Taxes from consumption, along with savings on interventions against smugglers and producers in foreign countries, could finance public health interventions at home to deal with the problem of abuse at its root causes without penalizing poor farmers in foreign countries.

Legalization of opiates and cocaine is obviously more problematic. Policies with more emphasis on curbing demand rather than on criminalizing supply would certainly help. These could include provision of free or cheap drugs in controlled environments. As far as supply and the intentions of the drug control conventions of regulating behaviour in countries of origin are concerned, the central question is still: why should poor farmers in Afghanistan and Bolivia stop farming their most profitable cash crop because there is a public health problem due to abuse in the rich western world?

Stories of violence and the coercion of farmers into drug production have been countered by reports from both the UN and the US Drug Enforcement Administration of highly successful out-grower schemes, where drugs/warlords provide protection, farm inputs on credit and extension services that many governments and non-governmental organizations would be proud of in other crops (UNODC 2021). Farmers are most productive when they are motivated to produce. Because of the mark-ups that drug cartels have on their products, they can always pay better prices for opium poppy or coca than farmers can get from other crops, as farm gate price will matter little to the bottom line of drug lords' total business. This is why government- and UN-supported schemes, which try to persuade farmers to produce alternative crops have failed almost everywhere.

No-one knows this better than the Taliban in Afghanistan, which banned poppy growing and trade in opium when in government in the 1990s. When ousted by western forces in the

[8] Following Khanal et al. (2019), who investigate the value chain of coffee grown in Nepal and find that the producers' share of the consumer price was 64 percent.

early 2000s, the Taliban increasingly used opium to finance its own existence and insurgency against the western forces. According to US government sources, this made up around 60 percent of the Taliban's annual revenue. Output has grown exponentially throughout the 2000s, and in 2020 more than 80 percent of illegally traded raw opium, estimated at around 7,000 tons, came out of Afghanistan. The UNODC has calculated that the opium business generated between US$1.8 billion and US$2.7 billion in Afghanistan in 2021, about one-tenth of the country's GDP. Now back in government, the Taliban has again prohibited opium production precisely because of its potential as a currency for financing rebellion and insurgency, including by warlords in key rural areas. Enforcement will also be difficult for the Taliban and production can pick up in other countries in the region, not least Myanmar, as well as in Mexico.

Cocaine is a very different story from opium. Although coca cultivation and consumption is as ancient as opium (going back 4,000-5,000 years), coca was never a profitable trade commodity for any western nations. Production and use were widespread in and around the Andes, but coca was not a significant export commodity before the 20th century. It was the discovery by German scientists of alkaloid (white crystalline), and thus the possibility of manufacturing cocaine in the late 19th century, that paved the way for what is probably the world's most profitable drug trade. To begin with, cocaine was legal and appeared in western cities, especially in the USA, in many forms and uses, perhaps most famously in the commercial mixture with soft drinks, as in Coca Cola. However, an abuse and addiction problem gradually built up in the USA and by 1914 the prohibition lobby had managed to make it a forbidden drug.

Because coca is a dual-use crop, it cannot be banned altogether, although western governments, especially the USA, have tried different coca eradication strategies in Latin America. Cocaine producers can grow, harvest and transport the main ingredients legally (the leaves), and the drug only has to travel half the distance of opium to go from producer to its largest market. It moves across relatively porous borders in South America and, once in Mexico, the North American Free Trade Agreement (NAFTA) opens the gates to the US market. The drug cartels running it are often more powerful than governments in small Central American republics or Caribbean Island States, where the stuff is reloaded and trans-shipped from. Also, the European market is increasingly being supplied through small and poor African state hubs (such as Guinea Bissau).

However, like opium, the persistent success of the cocaine trade is related to the fact that it is entwined with war and violent conflict. It fuels several guerrilla movements and insurgencies and it provided an alibi for deep US intervention in Latin America, even when there were no left-wing insurgencies going on. For outlawed movements which appear on the terror lists of powerful governments or for such governments' covert operations against these movements, or any other covert operations that would not stand up to democratic oversight, drugs – not least cocaine – are one of the best currencies available.

While cocaine may take the lives and sanity of addicts in western countries, the body count in production and transit countries in South and Central America is due not to the drug itself but to prohibition, which fuels violent crime on a prodigious scale. That count may easily be as high as the number of addicts who die from the drug in the West. The illicit drug trade in Latin America, especially Central America, is also one of the main causes of migration towards the US borders, where children, with and without their families, try to cross in order to escape life as gangsters in countries like El Salvador, Honduras and Guatemala. No real cost–benefit analysis of legalizing the trade, where all lives have the same value and all the costs of failing societies in producer countries are counted, has ever been conducted.

The world's most powerful governments are determined that they will not pay the public health price of legalizing cocaine and opium at home and they insist on prohibition in the world at large. As it is impossible to strictly enforce prohibition by seizing the drugs, the next best option would be to seize the profits by detecting and stopping the illicit flows from this trade. However, this will only ever work if those who fence this money are put out of business. In this way, drug lords are like those who evade taxes – they seek to hide and protect their wealth. When up to 70 percent of the drug market value is available for laundering, it means that only around a third is re-circulated in the value chain. The remaining profits are primarily earned in western economies, from which they need to be laundered and sheltered.

4.0 Tax evasion

Tax avoidance is less complicated than the illicit drugs trade in terms of why the flow is illicit and who are the winners and losers from the flow. Tax evasion is a driver of inequality. According to the most recent numbers from Oxfam, the ten richest people in the world own more than the bottom 3.1 billion (Oxfam 2022). This, and other absurd numbers on the wealth of the world's elites, is not evidence of inevitable natural development. It is the result of power politics where the laws and rules of engagement in the global economy are structurally tilted to promote this inequality. Taxation is one of the main mechanisms for countering this trend by redistributing income. Contrary to the situation in some illicit drug trafficking, enforcement and more restrictive regimes for moving and fencing profits and assets created with the help of tax evasion would help. However, most of the world's penal codes define illicit drug trafficking as a much more serious crime than tax evasion.

The underlying business of tax evasion is either smuggling or profit shifting from legal businesses. When tax avoidance takes the form of smuggling, things can seem less clear, as traditional smuggling often entails other crimes, such as illegally entering a territory, resisting arrest and possibly possessing arms. Falsification of documents and similar offences are associated with another kind of smuggling, i.e. mis-invoicing in unrelated group trade. Such falsification is not necessary in relation to true profit shifting within multinationals. Intra-company or in-group trading can legally happen at the price the company decides to set, whether it is goods, services or even capital (loans) that are traded internally. However, this does not change the fact that tax avoidance is stealing from the state.

The nature of smuggling is moving goods secretly from authorities, but it can take quite different forms depending on whether smugglers rely on mis-invoicing and false customs declaration or they simply move the goods to places without customs authorities. Either way, smugglers move goods one way and the financial flows move elsewhere separately. However, this does not have to be in the same place or at the same time. It does not even have to be movement of money.

One of the more benign contraband markets where smuggling is widespread and not generally considered wrong is the border between Benin and Nigeria. Taking advantage of the congestion in the port of Lagos, and not least the tariff differentials between Nigeria and the CFA community of francophone countries, the port of Cotonou turns over more transit cargo than goods destined for its domestic market. However, goods are declared into Benin, which receives customs duties, and then smuggled into Nigeria by thousands of small traders over a porous border or with the help of corrupt customs officials. The contraflow from Nigeria is often fuel (gasoline or diesel), sold openly by small traders along the roads of Benin, which loses some tax revenue on fuel levies. Nobody knows and few care about the effects on Nigerian competitiveness, but the cross-border trade is a major source of corruption, also at a high political level. A direct assault on the perpetrators is futile and the authorities are working towards a West African customs union which will effectively legalize the flows and return the market to being decided by the competitiveness and efficiency of the ports in Lagos and Cotonou respectively.

This example is a reminder that regional economic integration reduces smuggling in many places where the flows, albeit illegal, are not really considered illicit by the population, although they would generate taxes if declared. This is exactly how the rich world has dealt with the most significant part of traditional smuggling. Legalizing the flows through regional economic integration has eliminated most smuggling for tax purposes inside the EU and NAFTA countries. Other regional blocs are following in South America (Mercosur), Africa (East African Community (EAC), Economic Community of West African States (ECOWAS), etc. and some day (African Free Trade Area) and Asia (South Asian Free Trade Area (SAFTA), Association of Southeast Asian Nations (ASEAN)/ASEAN Free Trade Area (AFTA)). Customs unions and other forms of tax harmonization will eventually destroy, or at least cripple, the business model for intra-regional smuggling.

However, intercontinental IFFs remain the most important in terms of volume, and a global free trade area is not coming any time soon. This means that the old-school type of smugglers will increasingly disappear and mis-invoicing will dominate as a way of smuggling. The reign of standardized container traffic in the world has helped this trend in recent decades, although scanning containers for anti-terror purposes has recently increased the risk for smugglers.

Estimates for trade mis-invoicing are high, with some studies reporting them to be as much as US$800 billion a year (GFI 2020). However, these numbers are also highly inaccurate. Firstly, as discussed by Brandt (2020 and not least by Johannesen and Pirttilä (2016), there are fundamental weaknesses in the methodology used by many of the institutions, notably Global Financial Integrity (GFI), which publish these numbers.[9] According to Johannesen and

[9] See Östensson (2018) on the weaknesses of these types of estimates.

Pirttilä (2016), the estimates rely on four highly problematic assumptions. These are: a 10 percent trade cost threshold; trade categorization differences in importing and exporting countries; that mispricing takes place in developing countries whereas values are truthfully reported in developed countries; and that all discrepancies in trade statistics are due to mispricing motivated by capital flight.

Secondly, what are reported are the so-called trading gaps, i.e. gaps between values reported by importing and exporting countries. These gaps are not the same as lost revenue to authorities, as only the nominal tax rates of the reported value gap are lost income to tax authorities. In some cases, mis-invoicing can dodge both direct taxes and indirect taxes such as customs tariffs, but the two are frequently at odds and offset each other to a certain extent. (Over-invoicing reduces company profit and thereby lowers corporate tax in the importing country but can entail a higher customs tariff). Thirdly, there are numerous motives other than tax evasion for mis-invoicing, such as laundering and moving values to safer and more tradable currencies.

However, tax evasion is one of the major IFFs and potentially a driver of inequality. According to estimates provided by Alstadsæter et al. (2007), which are widely regarded as conservative and reliable, assets equal to around 10 percent of the whole world's GDP are stashed away in tax havens and secrecy jurisdictions. More recent estimates by Henry (2012) are as high as 30 percent, but these are considered less solid. Lost tax revenue stashed away in tax heavens is stolen money that should be returned by the private company or individual who stole the money with the assistance of the jurisdiction that decided to help fence, hide and not tax the funds.

Some tax avoiders claim that they are only escaping abusive taxes by predator governments, thereby saving their business and jobs for people in the countries they steal from. This is a hollow argument. The "we are dirty because the game is dirty" type of arguments are sad excuses for not honouring the explicit and known fiscal contract between the company and the state where the investment is made.

However, in many poor countries, especially in Africa, compliance with formal tax regimes is low. Taxes are considered relatively high due to the existence of distortionary infrastructures and policies as well as corruption and weak institutions. Poor infrastructures and services, such as transportation, logistics, telecommunication, water, electricity, security and bribes, increase transaction costs and make businesses less competitive. Some companies thus argue that taxes are high, perhaps not nominally but in relation to what they finance, i.e. what companies get in exchange.

Inefficient institutions and policies increase the size of the informal economy, particularly among small and medium companies (Kouamé and Goyette 2018). This often makes tax authorities lean harder on larger, formal and often foreign companies, which complain of duplicated collection of some taxes by abusive and incompetent officials, motivated by aggressive collection targets set by governments in order to make up for informality in other areas of the economy and fill the gap increasingly left by donors reducing aid.[10] Taken together, these factors impact the profitability of the businesses and act as a strong incentive for tax avoidance by mis-invoicing, including profit shifting. However, while it may well be possible to establish the argument of abusive tax collection in some cases, the bottom line is that the fiscal and tax policy of a sovereign country is the business of that country's government. Non-compliance by large foreign companies cannot be excused by complaints about services and infrastructure, the conditions of which were known at the time of the investment.

In the case of tax evasion, much of the debate centres on how aggressive tax avoidance and planning have to be in order to be illicit. It is safe to assume that some will try, and consider it good practice, to exploit and bend the rules to the breaking point, as long as no rules are actually broken or, rather, as long as it cannot be proven that rules are actually broken. That is why defining the fault lines and reducing the grey areas between what is illicit and what is illegal (avoidance and evasion) will not be of much help in catching the perpetrators. As is the case with drug traffickers, there is an endless supply of companies, including lawyers, accountants and auditors, who will try their luck in such a profitable business. In many sectors, net profit rates are around a third of tax rates and it is futile to try to catch all perpetrators. Stronger enforcement, including better data, could help to some degree, but nothing short of changing the rules of the game will really matter.

Two areas, albeit with quite different characteristics, stand out in terms of volume. One is the long-standing opaqueness of tax matters and outright corruption associated with extractives industries. The other is related to the new kid on the block, the tech giants, and their fundamental global nature vis-à-vis tax collection systems which are national. Importantly, global public opinion seems to agree more about what is fair and what constitutes criminal behaviour for these two areas than it does for drug trafficking and terror.

4.1. The main areas of concern

The extractives industries are in a league of their own, although far from alone, in the tax evasion game. This is partly because extractives are different to manufacturing sectors such as the brewing and automotive industries where ownership is also concentrated and value chains cross many borders. For the extractive industries, there is an extra layer in the relationship between the company and the host government. These companies are dependent on licences to explore natural resources. Such concessions represent trading of what is usually a public good owned by the state. Thus, politicians and government officials sell this right to multinationals at a price that is almost always debatable. Firstly, the price of the concession paid by the multinational is often not established in a transparent procedure. However, most countries which are party to the extractive industries transparency initiative (EITI) have been required to do this in contracts from 2021. However, as the EITI states on its homepage:

[10] See Cruz, Ferreira, Flentø, and Tarp (forthcoming).

"By shedding light on the rules and terms that govern extractives projects, contract transparency can help curb corruption and empower citizens to assess whether they are getting a good deal for their resources. Publication of contracts gives visibility on how much revenue is expected to flow to national and subnational governments. This information can be crucial in contexts where precious revenues are impacted by market volatility and emerging energy transition policies." EITI (2022)

The key elements here are "empower[ing] citizens to assess" whether they are getting a good deal and the nature of the expected revenue and market volatility. Estimating future earnings on extractive projects is very complicated and, in practice, very few citizens in any country or their representatives can truly assess the value of these deals. Also, the investor often lacks knowledge and runs a risk with the investment, albeit often a very well-calculated one. All in all, this means that the concession may be mis-invoiced. This is very often the case in large concession deals when looked at in hindsight.

In deals with concessions, government representatives often sell something that is owned by the public in a market with few buyers – sometimes acting in cartel-like formations – who offer to invest in a country. The sale of the natural resource is thus not referred to as the sale of a national resource but as an investment by a multinational corporation. The price of the resource is the net present value of the tax revenue to follow, i.e. the future taxation of the multinational corporation, which can often negotiate tax deductions for its investments in part because such taxes frequently represent significant revenue for the government which is selling. Corruption and tax evasion can easily become terribly entwined from the very start of the dealings, or even before, as Addison and Roe (2018) show in relation to the pre-boom curse.

The true value of the concession can rarely be established by the owner of the resource. The price is normally established by first awarding an exploration concession to a company, which undertakes trials and exploratory extraction in order to establish and document the richness of the resource and sell the right to commercial exploration to another company. The explorer will pay capital gains taxes and the commercial extractor will pay royalty and excise taxes for the extraction of the resource. While, in principle, these transactions between the explorer and the commercial extraction company should follow the arms-length principle, this is often not the case (Addison and Roe 2018).

None of the parties has an interest in overstating the official value of the concession – doing so would raise taxes. The same is the case where corrupt officials and politicians representing the government which owns the resource may turn a blind eye to under-invoicing if they secure a commission in return. This way of doing business, along with the facts that there are few companies in the world with the technology and the necessary equipment and infrastructure to explore large mineral resources on a commercial scale and that the deals are almost always of very significant financial size, has proven to attract corrupt practices on a unique scale.

The OECD estimates that around 20 percent of all transnational bribes are linked to the extractive sector[11] (OECD 2014). As corrupt dealings in licences to exploit natural resources can be conceived as a first step in under-invoicing, which continues as tax evasion as exploration gets under way, they are often inseparable parts of the same business model, which ultimately rely on vehicles to move and fence the stolen money.

In a novel approach to detecting corruption in the extractives industries, Marcolongo and Zambiasi (2022), using data from 119 countries over the period 1990-2014 from the Offshore Leaks Database, show that within six months of awarding a licence the number of entities in tax havens increased by 11 percent on average. The increase was even higher if the licensing round occurred during an oil boom. The authors believe that shell companies may work as vehicles to channel corrupt money from the awards.

While "up-front" corruption money from the awards can certainly end up in tax havens, so too can the taxes evaded during the project period. A recent study by the International Monetary Fund which seeks to quantify tax avoidance risks in the extractive industries shows that a one percentage point increase in the domestic corporate tax rate has historically reduced sectoral profits by slightly over 3 percent (Beer and Devlin 2021). The authors only found weak evidence that transfer pricing rules contain tax minimization efforts, whereas interest limitation rules (e.g. thin capitalization or earnings-based rules) do reduce the observable extent of profit shifting.

For analytical purposes, it can be useful to look at avoidance of indirect versus direct taxes. Profit shifting is just one type of mis-invoicing with the aim of stealing from the state. While smugglers escape indirect taxes, profit shifters dodge direct ones by selling goods and services or lending money to themselves at artificial prices. This also points to the roadmap for the only way to effectively deal with the problem. Just as harmonizing tariffs will make the business of smuggling go away, harmonizing direct taxes will remove the main motive from profit shifting. This means narrowing the band of tax percentages levied, reducing the idiosyncrasies of various national tax codes and unifying reporting demands country by country.

The problems in taxing multilaterals in the extractives sector or other traditional businesses like construction and transport may be complex but are well acknowledged. These companies shift profit in the conventional sense from one place (the mine) to another (HQ domicile or offshore shell company) because there is a difference in taxation to be exploited. The big tech companies such as Google, Meta and Apple present a different and new challenge. How these companies operate in a virtual reality, without a physical presence, simply cannot not be fitted into the conventional logic of taxation where the aim is to tax the company where it earns its profits. The tech giants earn money everywhere every time someone switches a computer on,[12] but they only pay taxes in a few places where they choose to be present in the real world. These companies can shift profits very

[11] Followed by construction (15 percent) and transportation and storage (15 percent), which are sectors that also often deal in concessions (land rights and facilities like ports and airports as well as other licences to operate that exclude or limit competition).

[12] Sees an ad, uses a browser or has their personal information harvested etc.

flexibly by assigning intellectual property (IP) rights and income from myriad IPs to subsidiaries in places with low or no taxation. They are huge businesses with enormous profits to be taxed and can negotiate very sweet deals with individual governments which are in competition for their presence. The most well-known tax evasion techniques, known as "the double Irish and Dutch sandwich",[13] have been eliminated recently, but new arrangements are emerging. As Chris Sanchirico of the University of Pennsylvania suggests:

"Based on what we have been able to see in the past, there is no reason to think that (tax) planning hasn't already evolved several generations beyond the kind of classic Double Irish that is now officially coming to an end." (Helmore 2020)

International cooperation on this issue is progressing, albeit slowly. In principle, in 2021, the G20 and all OECD countries agreed a minimum corporate tax rate of 15 percent as part of the base erosion and profit shifting (BEPS) Pillar Two discussed below. However, to make this rate effective, other legislation regarding secrecy, including undisclosed beneficial ownership of companies and trusts, must be passed and enforced by all countries. This is still far away, and among the countries that are dragging their feet we find some of the stalwarts of the international conventions against drugs and defenders of the so-called international rule-based order. Tax havens under the British Crown and secrecy jurisdictions in certain American states are important harbours for illicit flows. The British Overseas Territories (BOTS) of the Virgin Islands and Cayman Islands alone harbour more than 600,000 companies.

The Tax Justice Network ranks corporate tax havens by their Corporate Tax Haven Index value, which is calculated by combining a jurisdiction's haven score and global scale weight. The most important ones are: 1. British Virgin Islands, 2. Cayman Islands, 3. Bermuda, 4. The Netherlands, 5. Switzerland, 6. Luxembourg, 7. Hong Kong , 8. Jersey, 9. Singapore, and 10. United Arab Emirates.

The Tax Justice Network found that OECD countries and their dependencies are responsible for facilitating 68 percent of observable tax losses through cross-border corporate tax abuse and cost the world around US$166 billion in lost corporate tax every year (Mansour 2021). The numbers also show that the UK and its overseas territories account for almost half of this.

4.2 Reforms under way

The OECD anti-BEPS initiative is gaining some momentum and support from an increasing number of countries. Over 130 countries in the so-called inclusive framework (IF) claim to intend implementing the reforms when ready. The BEPS initiative is divided into two pillars with different intermediate objectives. Pillar One is about taxing in the right place while Pillar Two is about taxing enough. These seem fine objectives, but when we home in on the

[13] Until 2020, Ireland and the Netherlands were preferred domiciles because of tax evasion techniques known as the double Irish and Dutch sandwich. This is basically about Irish taxes on royalties being very low and a loophole in Irish law which allowed the company to transfer its profits tax free to the offshore company.

scope of the initiatives (the taxation objects) it is much less certain that BEPS will help to reduce inequality in the world.

Firstly, BEPS is about corporations and only some, not all. Secondly, BEPS is very much about how rich developed countries can tax and share revenue from large multilateral corporations, particularly the tech giants.

Pillar One is about profit alignment and nexus and is basically concerned with aligning taxing rights more with local market engagements. This pillar was initially motivated by frustration among the rich countries, particularly OECD countries, around taxation of the big tech companies and is aimed at dealing with the tax challenges arising from the digitalization of the economy. Its applicability is only to groups with worldwide revenues of more than EUR20 billion and profits before tax of at least 10 percent. The scope of the reforms has however, been widened to other sectors, albeit with very noticeable exceptions, as KPMG informs:

"The scope of covered businesses has moved far from the original intention of highly digitalized business models. Extractives and regulated financial services are exempt, but other industries are generally in scope." (KPMG 2022)

Pillar Two is about implementing a global minimum tax rate of 15 percent for MNEs with a turnover of more than EUR750 million. It introduces new rules granting jurisdictions additional taxing rights, including top-up tax on a parent entity in respect of the income of subsidiaries that are taxed at less than a 15 percent minimum effective tax rate. Most parent companies are domiciled in rich countries, while some of their assets may be owned by other entities shielded in secrecy jurisdictions.

The next question about whether we can expect the BEPS initiatives to seriously limit illicit flows and help reduce inequality in the world relates to the treatment of different legal entities and secrecy of beneficial ownership.

In principle, a minimum global tax rate would reduce illicit tax avoidance significantly if it could be enforced. As enforcement would still be impossible in many tax havens and poor countries, the idea is that jurisdictions that house the parent companies can tax extra. This, however, requires that there is knowledge of who owns what and where, which is a tremendous challenge for tax authorities around the world. This is due to secrecy, i.e. non-disclosure and registering of beneficial ownership of companies and trusts in many jurisdictions.

Almost all jurisdictions have kept beneficial ownership registers for many years, although there are exceptions. However, generally, it is the nature of the records that is at the core of the debate. Beneficial ownership records can be decentralized by trust and company service providers (banks, lawyers, auditors) or the records can be held centrally. Secondly, central registers can be public or only able to be accessed by persons with a "legitimate interest", while unauthorized disclosure to third parties of beneficial owner information remains a criminal offence.

There is movement on some fronts in relation to some of the world's largest tax havens such as the BOTs. In 2017, while still a member of the EU, the UK government required, and continues to require, the BOTs to implement the EU's 4th Anti Money Laundering Directive (4AMLD), which requires them to establish beneficial ownership registers for companies. Accordingly, information must be collected by registered agents and made available to the regulators and certain other government agencies with legitimate reasons for accessing it.

The requirement for publicly accessible registers for beneficial ownership of companies came with the 5AMLD, which entered into force in 2020. This directive requires that the registers set up under the 4AMLD are accessible to the wider public and introduces a requirement for beneficial ownership registers for trusts, although they are not publicly accessible. In 2021 the UK government announced that the BOTs had finally agreed to introduce the required registers, although not before 2023 (Southpac Group 2021).

In a similar development, in 2021, the USA enacted the Corporate Transparency Act, according to which many companies will be obliged to provide information pertaining to the beneficial owners and key individuals who formed the company to the Department of Financial Crimes Enforcement Network (FinCEN). However, the record will not be public and will be held by FinCEN in a database to which only specific law enforcement agencies or financial institutions will have access.

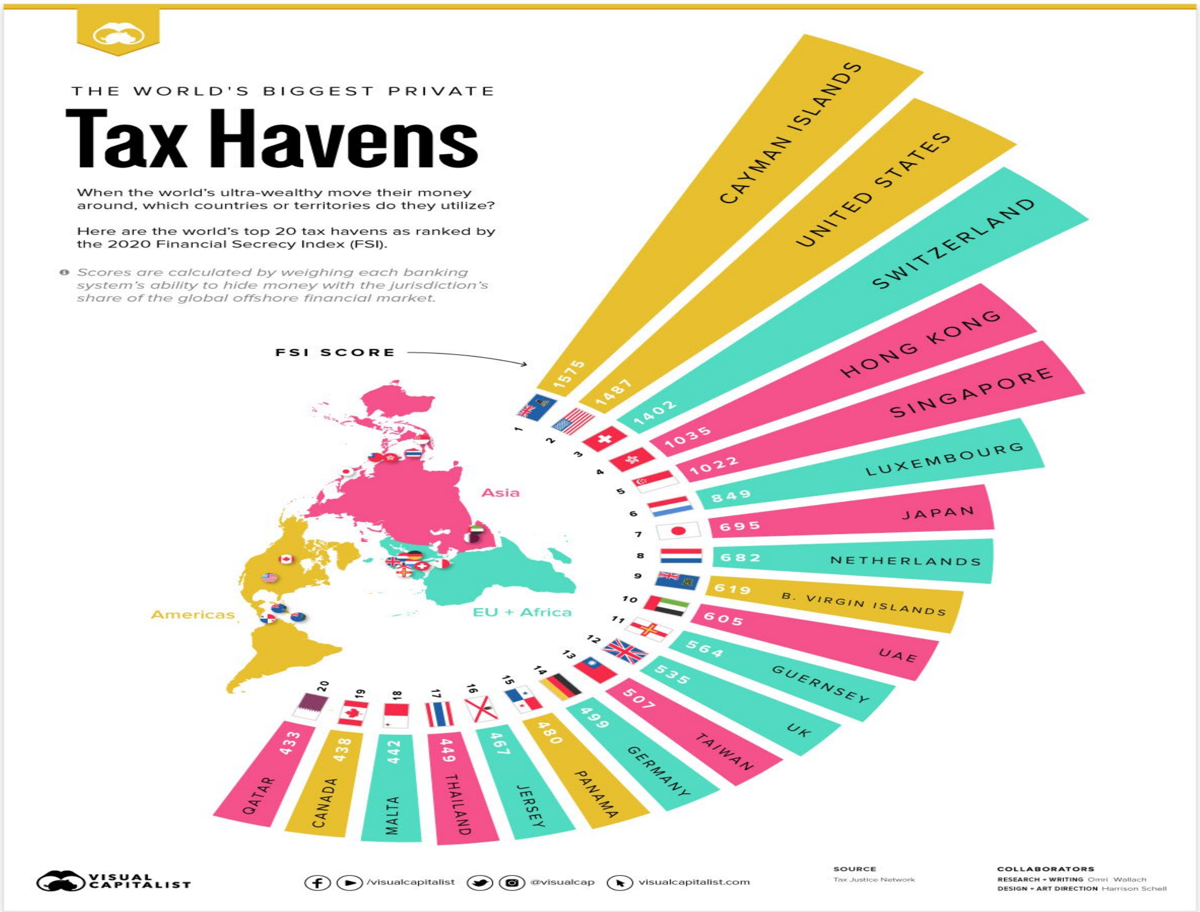
Taken together and along with other EU and US legislation, these developments mean that reforms are progressing with regards to disclosure of beneficial ownership of companies, although the rules applying to trusts and, in some cases, foundations still tend to protect the right to privacy and thus secrecy of beneficial ownership. A situation known as "ownerless limbo" can be created, particularly for trusts. This happens when the trust's creator (known as "the settler") transfers the assets to the manager of the trust (known as "the trustee") without indicating the identity of future beneficiaries. This disables creditors, including the tax authorities, from accessing the funds held by the trust. As Anders Knobel from the Tax Justice Network explains:

"During the time in which assets are held in the trust and before they are distributed to the beneficiaries, trust assets may be regarded as being in an 'Ownerless limbo' because they aren't really part of the personal wealth of either the settlor, the trustee or the beneficiaries. This means that neither the creditors of the settlor, the trustee or the beneficiary (if any creditor exists), will have a right to access those trust assets to get the money that they are owed." (Knobel 2016)

As the assets held by trusts can range from real estate and companies to mining rights, patents and IP, it goes without saying that the need to regulate trusts further is a sine qua non for a minimum universal tax rate to apply. If we look at the most important private tax havens – rather than the above-mentioned ranking of corporate tax havens – we see many of the same jurisdictions. However, the ranking is different and the USA enters the scene in a prominent way, not least due to legislation on trusts in states like Pennsylvania and South Dakota. According to the most recent numbers from the Tax Justice Network, the USA has climbed to the top of the global ranking of countries most complicit in helping individuals to hide their wealth (Mansour 2022).

This means that a handful of western governments – not least the UK[14] and the USA – are responsible for very large parts of the enabling environment underpinning one of the world's drivers of inequality.

Figure 2: FSI score of top 10 secrecy jurisdictions



Source: Wallach and Schell in Visual Capitalist (2021).

Note: FSI scores are calculated by weighing each banking system's ability to hide money with the jurisdictions' share of the global offshore financial market.

The US/EU crackdown on Russian oligarchs after Russia's invasion of Ukraine is interesting because it demonstrates what is possible if there is the political will and courage to pursue tax avoiders and money launderers. This situation also demonstrates a less encouraging fact regarding the dynamics of the challenge.

[14] According to the Independent Commission for the Reform of International Corporate Taxation, Britain is officially the biggest tax evasion enabler on the planet. Dorset Eye ICRICT (2022)

This challenge relates to the future ability of western governments to go after hidden fortunes. While the USA and the British governments may have contemplated tax havens for other and more pecuniary reasons, the fact that so much of the world's assets are held in British and American currency and jurisdictions means that western governments can get at it if they really want to. According to a senior British economist, speaking anonymously, such strategic considerations were likely in play by the British Secret Service in the 1960s when many of the BOT tax havens were set up. However, if western governments follow through with universal minimum tax rates, transparency legislation and seizure of assets through the courts, thousands of company and trust owners will no doubt consider their options and look at re-domiciling to other jurisdictions, including in the Gulf states' secrecy jurisdictions and China. Alternatively, simultaneously hidden assets could be transferred into gemstones, gold, art or crypto currencies.

However, these wealth protection vehicles, as the industry sometimes prefers to call them, all share the same weakness to some degree. They are dependent on an exchange rate vis-à-vis western currencies that enables the holders of such assets to spend the money outside the place where it is hidden especially in the OECD area. People with dirty money can store their wealth in fine art hidden in Swiss bonded stores, on gemstones or gold in deposit boxes in Gulf states or in Bitcoin or other anonymously traded crypto currencies. But to spend this wealth on real estate in western cities or university education for their offspring, the assets need to be converted into freely traded international currency, notably USD, EUROs or GB pounds.

This is where IFFs need to be treated like the proceeds of traditional crime and the secrecy jurisdictions need to be treated as the fences they are. Possessing and trading stolen goods is a crime. If taxes have been evaded, then some of the money stashed in tax havens is stolen money.

It is this volatility in the exchange rate with western currencies and jurisdictions from whatever vehicle was chosen to hide and store wealth that must be targeted in order to reduce the attractiveness of such storage. Just as fences of traditional crime pay less for the loot because it is stolen and there is risk associated with trading it, so should those who offer wealth protection vehicles in secrecy be targeted with sanctions. Under the 5AMLD, the EU has introduced public lists of so-called non-cooperative jurisdictions, from which transfers merit special scrutiny by financial institutions. This is a good first step but it needs to be followed up with more serious sanctions like those we have seen in relation to Russian oligarchs following Russia's invasion of Ukraine.

Coming back to the issue of reducing inequality from illicit flows, the OECD's BEPS initiatives are complicated and difficult to agree on and to implement. The Pillar One initiatives in particular are tailored to enabling governments to tax the tech giants where they do business and earn their profit (not allowing them to make sweet deals with a few countries to set up regional HQ domiciles). The tech giants' businesses and earnings are concentrated in the rich part of the world, especially in the OECD countries, and Pillar One is very much about how these rich countries can collect and share the tax revenues from the tech giants more equally. As Professor Kleinbard at the University of Southern California puts it:

"Multinational firms are the global grandmasters of tax avoidance schemes that deplete not just US tax collection but tax collection of every large economy in the world." (Waters 2020)

However, if the objective of reforms was to tax the tech giants in the service of a more equitable income distribution in the world, the tools would be quite different. The challenge for national tax authorities is that the tech giants are global by nature and operate everywhere and with no physical presence. The obvious answer is to have a global tax administered by a global entity. A universal excise or turnover tax would be much easier to enforce and could be administered by the UN with assistance from national governments. If the revenue from such a tax were spent on improving living conditions for the world's poorest, according to the mandates already in place for many UN organizations, reducing IFFs from tax evasion would make a difference to equality. Collecting such a tax only from multilaterals with a turnover of more than EUR20 billion, along with publishing information on revenue collected from each company and a score board in collaboration with the UN in line with the climate footprint accounting systems under development, could motivate companies to comply. According to Fortune 500, we are looking at combined revenues of more than US$3 trillion from these companies. A 5 percent revenue tax would roughly double the world's total ODA flows and make it deliver on its promise of 0.7 percent of GDP in ODA. For the UN, with a current regular budget of around US$3 billion, it would be a real game changer.

There are two reasons why we are not getting there: rich countries would have to forfeit their tax revenue from tech giants and they would lose influence as donors in the UN system. Various attempts to introduce such Tobin-like taxes have failed for the same reasons, as have initiatives under the Addis Tax Initiative (ATI) (part of the Addis Agenda for Development Finance) to introduce a supranational tax authority to deal with cross-border taxation. The ATI is about reducing inequality and financing the 2030 agenda. However, going by its latest declaration (ATI 2020), there are no plans for supranational initiatives. The declaration's four new commitments and its nine fundamental principles are all about domestic resource mobilization and ownership of development priorities by partner countries, with some financial and technical support from development partners (ATI 2020).

5.0 Conclusions

In a companion paper (Flentø and Simao 2022), we argue that the term "illicit financial flows" as defined by the UN in relation to SDG 16 contains too many and too different types of flows to be of operational use in containing such flows. Furthermore, the concept of what is illicit rests on definitions of terror and crime, on which there is no universal agreement. Combined with the difficulties and weaknesses in estimating the aggregate volume of illicit flows, this broad umbrella definition of the term lends itself to the harbouring of various political agendas and instrumentalizations of the concept in pursuit of such agendas.

It is difficult to ascertain the link between curbing IFFs and promoting development and equality in the world, which is repeatedly stressed in the discourse about IFFs. There is no linear relationship between stopping illicit flows and development; this discourse can only be maintained at a very general level. However, when we get to specific flows and initiatives to prevent illicit flows from serving as a driver of inequality, the hierarchy of the world order prevails. Much progress could be gained in blocking illicit flows if governments concentrated their efforts and cooperated in the two areas of tax evasion and illicit drug trafficking. There is huge potential for stemming illicit flows if some drugs were legalized and fencing stolen money in tax havens and secrecy jurisdictions was effectively outlawed.

Important and potentially strong initiatives are under way that will change the tax landscape, particularly in relation to tax evasion by large MNEs. However, with delays in implementation, owners of hidden wealth have plenty of time to find new ways and places for protection including trust architecture and jurisdictions beyond the reach of western law enforcement.

The initiatives to curb tax evasion that are under way are no doubt capable of reducing such flows, albeit that much of the foot dragging is done by OECD countries. In relation to inequality, the reforms will primarily redistribute income from very large and wealthy corporations to governments in the rich countries, primarily OECD countries. This means redistribution among the richest 20 percent of the world's population. Taxation tools that could effectively redistribute income from the large tech giants and other MNEs to the world's poor are not really on the table.

At the same time, the rich countries insist on globally outlawing many drugs that would make excellent cash crops for farmers in poor countries, primarily because the western countries anticipate a public health problem at home if drugs were allowed to trade more freely.

We encourage more research into these two areas as a way forward to limit the IFFs that harm development. Particular attention should be given to how a handful of western governments, especially the USA and the UK, could make a huge contribution to combatting both organized crime and inequality in the world, making it safer for all, if they wanted to.

References:

Addison, T., and Roe, A, (2018*). Extractive Industries: The Management of Resources as a Driver of Sustainable Development*. WIDER Studies in Development Economics. Oxford: Oxford University Press.

Alstadsaeter, A., Johannesen, N., and Zucman, G. (2017). "Tax Evasion and Inequality". NBER Working Paper 23772. Cambridge, MA: National Bureau of Economic Research.

ATI (Addis Tax Initiative) (2020). "ATI Declaration 2025". https://www.addistaxinitiative.net/sites/default/files/resources/ATI%20Declaration%202025%20%20%28EN%29.pdf

Beer, S., and Devlin, D. (2021). "Is There Money on the Table? Evidence on the Magnitude of Profit Shifting in the Extractive Industries". IMF Working Paper 21/9. Washington, DC: International Monetary Fund.

Brandt, C., (2020). “Illicit Financial Flows and the Global South: A Review of Methods and Evidence. WIDER Working Paper 169/2020. Helsinki: UNU-WIDER. https://www.wider.unu.edu/publication/illicit-financial-flows-and-global-south

Cruz, A., Ferreira, I., Flentø, J., and Tarp, F. (forthcoming). *Mozambique at a Fork in the Road: An institutional diagnostic*. Cambridge: Cambridge University Press.

EITI (Extractives Industries Initiative) (2022). “Contract Transparency: Strengthening Public Oversight of Extractive Sector Agreements”. https://eiti.org/contract-transparency

Eye, D., (2022).” Britain is officially the biggest tax evasion enabler on the planet. ICRICT https://www.icrict.com/icrict-in-thenews/2022/5/24/britain-is-officially-the-biggest-tax-evasion-enabler-on-the-planet

Flentø, J. and Simao, L.S. (2021). “Buying Security with Charity: Why Donors Change Conditionality”. Development Economics Research Group Working Paper Series 12-2021. Copenhagen: University of Copenhagen. https://www.econ.ku.dk/derg/wps/12-2021.pdf

Global Financial Integrity (2021).Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018. https://gfintegrity.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/

Hanes W.T. III, and Sanello F. (2004). *Opium Wars: The Addiction of One Empire and the Corruption of Another*. Naperville, ILL: Sourcebooks, Inc.

Helmore, E. (2020). “Google Says it Will No Longer Use 'Double Irish, Dutch Sandwich' Tax Loophole”. *The Guardian*, 1 January. https://www.theguardian.com/technology/2020/jan/01/google-says-it-will-no-longer-use-double-irish-dutch-sandwich-tax-loophole

Henry, J.S. (2012). “The Price of Offshore Revisited. New Estimates for ‘Missing’ Global Private Wealth, Income, Inequality and Lost Taxes”. Tax Justice Network. http://piketty.pse.ens.fr/files/HenryTJN2012.pdf

Johannesen, N., and Pirttilä, J. (2016). “Capital Flight and Development: An Overview of Concepts, Methods, and Data Sources”. WIDER Working Paper 2016/95. Helsinki: UNU-WIDER.

Khan, M., and Blankenburg, S. (2013). “Governance and Illicit Flows”. Semantic Scholar. https://www.semanticscholar.org/paper/1-Governance-and-Illicit-Flows-Blankenburg-Khan/baf1842251ae95c7389c4c4de824f03d3634e038

Khanal, Arjun & Suman, Khanal & Kattel, Rishi. (2019). An assessment of factors determining the productivity of coffee in western hills of Nepal.

Knobel, A. (2016). “The Role of the U.S. as a Tax Haven. Implications for Europe”. A Study Commissioned by the Greens/EFA Group in the European Parliament. Brussels.

Kouamé, W., and Goyette, J. (2018). “Tax Evasion in Africa and Latin America: The Role of Distortionary Infrastructures and Policies”. World Bank Policy Research Working Paper No.

8522. Washington DC: World Bank. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3238364

KPMG (2022). BEPS Pillar One and Pillar Two. https://home.kpmg/xx/en/home/insights/2020/10/beps-2-0-pillar-one-and-pillar-two.htmlMansour, M.B. (2021). “Tax Haven Ranking Shows Countries Setting the Global Tax Rules Do Most to Help Firms Bend Them”. Tax Justice Network, 9 March. https://taxjustice.net/press/tax-haven-ranking-shows-countries-setting-global-tax-rules-do-most-to-help-firms-bend-them/

Mansour, M.B. (2022). “US Tops Financial Secrecy Ranking as G7 Countries Upend Global Progress on Transparency”. Tax Justice Network, 22 May. https://taxjustice.net/press/us-tops-financial-secrecy-ranking-as-g7-countries-upend-global-progress-on-transparency/

Marcolongo, G., and Zambiasi, D. (2022). “Incorporation of Offshore Shell Companies as an Indicator of Corruption Risk in the Extractive Industries”. WIDER Working Paper 2022/14. Helsinki: UNU-WIDER. https://www.wider.unu.edu/publication/incorporation-offshore-shell-companies-indicator-corruption-risk-extractive-industries

OECD (2014). *OECD Foreign Bribery Report: An analysis of the Crime of Bribery of Foreign Public Officials*. Paris: OECD Publishing. http://dx.doi.org/10.1787/9789264226616-en

Östensson, O. (2018). “Misinvoicing in Mineral Trade: What Do we Really Know?”. Mineral Economics, 31: 77–86. https://link.springer.com/content/pdf/10.1007/s13563-018-0141-3.pdf

Oxfam (2022). “Inequality Kills. the Unparalleled Action Needed to Combat Unprecedented Inequality in the Wake of COVID-19”. Oxfam Briefing Paper. Cowley, Oxford: Oxfam GB. https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621341/bp-inequality-kills-170122-en.pdf

Southpac Group (2021). “Beneficial Ownership Registers”. https://southpacgroup.com/beneficial-ownership-registers/

UN Inter-agency Task Force on Financing Development (2020). “Illicit Financial Flows”. https://developmentfinance.un.org/illicit-financial-flows

UNODC (2005). “Estimating the Value of the Illicit Drug Markets”. In *World Drug Report 2005*, Volume 1. Analysis, Chapter 2. https://www.unodc.org/pdf/WDR_2005/volume_1_chap2.pdf

UNODC (2009). *A Century of International Drug Control*. Vienna: United Nations Office on Drugs and Crime. https://www.unodc.org/documents/data-and-analysis/Studies/100_Years_of_Drug_Control.pdf

UNODC (2019). *The World Drug Report 2019*. Vienna: United Nations Office on Drugs and Crime. https://wdr.unodc.org/wdr2019/

UNODC (2021). *Drug Situation in Afghanistan 2021. Latest Findings and Emerging Threats*. https://www.unodc.org/documents/data-and-analysis/Afghanistan/Afghanistan_brief_Nov_2021.pdf

UNODC and UNCTAD (2020). *Conceptual Framework for Statistical Measurement of Illicit Financial Flows*. Vienna and Geneva: UNODC and UNCTAD. https://www.unodc.org/documents/data-and-analysis/statistics/IFF/IFF_Conceptual_Framework_for_publication_15Oct.pdf

Wallach, O., and Schell, H. (2021). "The World's Biggest Private Tax Havens". Visual Capitalist, 9 July. https://www.visualcapitalist.com/worlds-biggest-private-tax-havens/

Waters, R. (2020). "Google to End Use of 'Double Irish' As Tax Loophole Set to Close". Financial Times, 1 January.

World Bank (2022). https://data.worldbank.org/indicator/NY.GDP.MKTP.CD