

The Illicit financial Flows Reduction as Important Sustainable Development Goal*

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Abstract

Expecting 2030, the humanity has defined a broad list of goals related to sustainability as one comprehensive goal which should be achieved. The position of Developing countries especially during these several, very frequent crises in recent times, has shown the depth of the financial gap. The Sustainable Developments Goals achievement is threatened, among other factors, by the financial resources` drying up, partly through illicit financial flows. These financial flows, instead of its disappearance, were supposed to be the basis for development.

The reduction of illicit financial flows is activity of many Developing countries and it is based on numerous conventions and agreements, created by international institutions, primarily the United Nations. These activities, beside the registration of illicit financial flows, have the aim to take measures for their prevention, as well as implementation of measures for return of stolen assets. The prevention is oriented towards preventive anti-corruption policies and practices implementation, public reporting, enhancing the transparency, preventing the corruption.

The aim of this paper would be pointing out all sorts of illicit financial flows, finding different ways of distinguishing them, defining their purpose, as well as unifying methods for their statistical monitoring and evaluation and strengthening the further directions of many world governments. Numerous experiences of countries concentrated to return stolen assets that way will be pointed out, too.

Keywords: Illicit financial flows, sustainable development goals, prevention, anti-corruption measures, tax havens

1. Introduction

One of the most widespread initiatives by the United Nations, concerning the diversity of its targets which have to be realized by new Agenda 2030, certainly is the initiative of UN to adopt and realize 17 Sustainable Development Goals (SDG). The 2030 Agenda for Sustainable Development was adopted by UN members in 2015. These Goals oriented towards different items are concentrated on prosperity of people and the planet in Developing as well as in Developed countries. This year, 2015 was very productive for multilateralism, especially concerning development items, considering the fact that in 2015 the Paris Agreement on Climate Change and Addis Ababa Action Agenda on Financing for development were adopted.

One of 17 SDG is the SDG 16 which is dedicated to achieving peace, justice, and strong institutions. Apart from providing access to justice for all, building proper and strong institutions and enabling decrease and disappearance of conflicts and insecurity, this Goal also includes financial flows, with the focus on illicit financial flows.

The Illicit financial flows became one of Sustainable Development Goals, or SDG targets, with the aim to be achieved by 2030. Concerning the illicit financial flows (IFFs), the goal which is highlighted is defined as the target 16.4. This target is focused on reduction of illicit financial and arms flows with recovery and return of the stolen assets and, at the end, on the fight against organized crime. The main used indicator for this target is the SDG indicator 16.4.1 (UNCTAD, 2023a).

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2. International Initiatives Dealing with Illicit Financial Flows

Significant conclusions were reached during the Conference in Addis Ababa (UN, 2015). The reduction of IFFs by 2030 is determined as a priority in the Addis Ababa Action Agenda, as the result of the Conference, held in 2015. This Conference was dedicated to the problems of financing and development. One of the main contributions of the Conference was the classification of fields where some action should be taken, focusing on, that way heterogeneous sources of IFFs.

The world is facing the list of problems which cause many disruptions and impede development opportunities. Targeting the item of Illicit financial flows, apart from many other barriers for the development, this Convention set the framework for taking measures against IFFs. It was concluded that even twice as much investment is needed in order to reduce the level of the IFFs.

Bearing in mind that the overall IFFs item gathers very heterogeneous measures in the battle against IFFs, they are classified in a few different groups of measures: (UN, 2015)

- combating tax evasion and corruption,
- reducing tax evasion, with the inclusion of an anti-abuse clause in all tax treaties, then,
- increasing data transparency, especially in front of tax authorities, and for financial transactions between country governments and companies.
- It was also revealed that there is the necessity of changes in tax payment for MNCs. It is expected that multinational companies pay taxes in those countries where they have their business activities creating some values, and this should be harmonized with the laws of specific countries, as well as with international laws.

The basic dealing with this item is related to United Nations and its numerous Conventions. Several initiatives were launched with the same goal, mostly organized, supervised, or guided by United Nations. One of its initiatives oriented towards these items was UN Convention against Corruption (UNCAC). This Convention was one of global responses to many threats caused by corruption to economic development in narrow sense. The Convention was adopted by the UN Assembly Resolution 58/4 in 31 October 2003 and entered into force two years later, on December 2005, by 180 states parties.

The main purposes of this Convention are oriented towards the corruption prevention and anti-corruption combat, which is possible to be achieved only with the organized, facilitated and supported international cooperation oriented primarily towards asset recovery. Additionally, the Convention promotes integrity and proper management of public affairs and public property (UN, 2004). The Convention also defines many sources of the criminalization and highlights the necessity of law enforcement.

According to this Convention, signatories have committed to develop and implement coordinate anti-corruption policies, practices, and preventive anti-corruption body or bodies. All these elements should be created with the aim of preventing corruption. This is the contribution to the prevention of problems. That process should be monitored and evaluated by every country with the adjustment of all legal instruments against the corruption. The Convention implies the need for the relevant regional and international organizations with mutual collaboration and participation in international programs. (UN, 2004)

The Convention also highlights the importance of public procurements for achieving development goals, by maximizing value of contracts and minimizing costs. The specific attention is paid to the public procurement because it has the share of approximately 30% of

the GDP in Developing Countries, while only 12% in OECD countries, during the pre-COVID period (ITC, 2021). This proportion makes this item vulnerable to corruption.

By this Convention, each state party should “establish appropriate systems of procurement, based on transparency, competition and objective criteria in decision-making, that are effective, inter alia, in preventing corruption” (UN, 2004). These states should also take steps to enhance transparency by publishing information, or reports with new moments which could lead to the new risks of corruption in public administration. They have to enhance accounting and auditing standards especially in private sector, with the introduction of penalties for failure. (UN, 2004)

The prevention of money-laundering has to be added to previous regulations, as well as bribery of foreign public officials and officials of public international organizations, trading in influence and illicit enrichment (UN, 2004).

During the period 2006-2023, concerning data for 154 countries in a world, it is noticed that approximately 1 of 7 businesses faced requests for bribe payments by public officials (UN, Goal 16, Internet). It is about 15% of all business in a world, symbolizing significant share.

Joint cooperation between States, by this Convention, in criminal matters, gathers their forces to assist each other in investigations and proceedings relating to corruption. In order to achieve appropriate results, it is recommended to establish even joint investigative bodies. It is regulated by Articles 44-50 of the Convention.

The implementation of the Convention is expected to be in accordance with principles of the each state domestic law. Apart from this, it is expected that the Convention should be implemented pointing negative effects of corruption on society and especially on sustainable development (UN, 2004).

3. Sustainable Development Goal 16.4. and the UN Convention

Many elements of the UN Convention against Corruption items have become the part of the overall United Nations Sustainable Development Goals, especially the SDG 16. The whole group of goals SDG16, starting from 16.1 until 16.10 is dedicated to the:

- promotion of the peaceful and inclusive societies for sustainable development,
- providing access to justice for all
- building effective, accountable and inclusive institutions at all levels. (UN, Goal 16, Internet)

This broadly defined group is further divided into more narrowly specified objectives, with majority relating to the issue of corruption, illegal financial flows, transparent institutions, decisions-making, and the rule of law at all levels.

The SDG 16.4 as a target which should be achieved by 2030 is focused on:

- reduction of illicit financial flows,
- strengthening the recovery and return of stolen assets and
- combat against all form of organized crime;

The indicator for the level of fulfillment of this goal is indicator 16.4.1. which expresses total value of inward and outward illicit financial flows. (UNCTAD, 2023a)

For the IFFs classification, identification and statistical monitoring, UNODC (*United Nations Office on Drugs and Crime*) in 2015 has created the ICCS (*International Classification of Crime for Statistical Purposes*). The ICCS is the first point for identification of all activities that could generate IFFs.

The Illicit financial flows imply the cross-borders movement of the money which was:

- illegally earned,
- transferred, or
- utilized. (Hollingshead, A., 2010)

It is noticed that four different categories could be sources for the Illicit Financial Flows. It is very difficult to identify these flows in the world, as well as to undertake activities to decrease or eliminate their negative impact, especially concerning the target of Sustainable Development Goal (SDG). They reduce the opportunities for investment in the development segments of each society. This problem is particularly evident in the case of Developing Countries. In some African countries with the high IFFs, there was 25% less investment in health, and even 58% less investment in education, comparing to other countries with low level of IFFs. (UNCTAD, 2023b) The Agenda from Addis Ababa pointed out the great losses, dominantly for African continent, caused by the IFFs, in the past half century. It is believed that Africa has lost more than one trillion USD due to the activities of large companies, mispricing, as well as criminal activities and corruption. (UN, 2015)

The process of the IFFs measurement starts with the initial measuring of the IFFs which would be based on the already existing data. These data are a part of the IFFs scope, concerning all activities generating IFFs. These activities are divided in four groups, as categories of IFFs, mentioned in next table.

Table 1: Examples of activities generating IFFs from crime, by ICCS categories

Categories of IFFs	Examples
Tax and commercial practices	08041 Tariff, taxation, duty and revenue offences
	08042 Corporate offences including competition and import/export offences; acts against trade regulations
	08045 Market manipulation or insider trading, price fixing
Exploitation-type activities and terrorism financing (parts of sections 02, 04, 09)	020221 Kidnapping
	0203 Slavery and exploitation
	0204 Trafficking in persons
	0302 Sexual exploitation
	02051 Extortion
	0401 Robbery
	0501 Burglary
	0502 Theft
09062 Financing of terrorism	
Illegal markets	ICCS includes a long list of activities, including for example drug trafficking (060132), firearm trafficking (090121), illegal mining (10043), smuggling of migrants (08051), smuggling of goods (08044), wildlife trafficking (100312)
Corruption (section 0703)	07031 Bribery
	07032 Embezzlement
	07033 Abuse of functions
	07034 Trading in influence
	07035 Illicit enrichment
	07039 Other acts of corruption

Source: UNODC - United Nations Office on Drugs and Crime, International Classification of Crime for Statistical Purposes – version 1.0, March 2015, in: UNCTAD, *SDG Pulse 2022 — UNCTAD takes the pulse of the SDGs*, UNCTAD/STAT/2022/1, Geneva, 2023, p. 129.

This first group of activities, *Illicit tax and commercial practices*, consists of two subgroups of activities, the first of which is categorized as an illegal activity, and the second was created on the basis of the legal basis and legal economic activities, which as one of the results should include the payment of legally determined taxes and other duty. (UNCTAD, 2023a)

The first subgroup includes IFFs that arise from *Illegal tax and commercial practices* in foreign trade and taxation. This is primarily from the aspect of numerous potential violations related to the determination of the level of customs duties, as well as the payment of these obligations by the participants in foreign trade. Tax obligations are numerous, and various types of offenses committed by the companies themselves may occur, primarily in terms of customs duties and tax evasion.

The second subgroup is called *Aggressive tax avoidance*, with special reference to their harmfulness, as well as to the fact that there exist activities arose from legally permitted basis. In international business, these forms are mostly encountered in the business of transnational companies that, through the use of transfer prices, avoid paying higher taxes, as well as situations when stakeholders make selection of the strategic location of the debt, or use hybrid instruments and entities. This tax avoidance, although with the legal basement, when drains resources could become illicit. (UNCTAD, 2023) In this situation, the line between the legal and the illegal side is very blurred. This category of tax avoidance is connected with the term of tax planning, which starts as legal and through the aggressive tax planning (ATP) becomes illegal category of tax evasion. It is provoked mostly by the Multinational Corporations` reduction of their corporate tax burdens.

Table 2: The tax and commercial IFFs categories and their flows

Categories	Flows
A. IFFs from illegal commercial and tax activities	<p>F1 Transfer of wealth to evade taxes, i.e., ows related to undeclared offshore wealth</p> <ul style="list-style-type: none"> - Outright undeclared (concealed e.g., in secrecy jurisdictions) - Undeclared via instruments (Phantom corporations or shell companies, tax havens) <p>F2 Misinvoicing</p> <ul style="list-style-type: none"> - Under/over pricing - Multiple invoicing - Over/under reporting of quantities - Misclassification of tariff categories
B. IFFs from aggressive tax avoidance	<p>F3 Transfer mispricing</p> <p>F4 Debt shifting</p> <ul style="list-style-type: none"> - Intracompany loans - Interest payments <p>F5 Assets and intellectual property shifting</p> <ul style="list-style-type: none"> - Strategic location of intellectual property - Strategic location of other assets - Cost-sharing agreements - Royalty payments

Source: UNCTAD, *SDG Pulse 2022 — UNCTAD takes the pulse of the SDGs*, UNCTAD/STAT/2022/1, Geneva, 2023, p. 131.

The ATP mostly implemented by MNCs is excessive use of the opportunities for the corporate tax burdens reduction. These opportunities are technicalities of a tax system at one side, or,

mismatches between two or more tax systems, on the other. The main result of mentioned approach is decreased revenue level for many countries, partially provoked by the unfair contributions of these taxpayers. Further, this appearance decreases tax morale and creates many distortions of business positions of companies. (European Commission, 2017)

During a last few decades, many empirical studies have shown that revenue losses based on shifted tax revenues towards low tax countries had become very significant. It is just a rough estimate, though accurate measurement has shown different results, because of different sources of data and estimation methodology.

The Base Erosion and Profit Shifting (BEPS) project as the result of multilateral efforts, under the auspices of the OECD, was launched in 2012, with the aim to include in the observation, the solution of the Base erosion and profit shifting through tax policy measures at the international level. (Bradbury, D., Hanappi, T., Moore, A., 2018) These OECD efforts have been accelerated in 2013 to combat tax evasion mostly caused by MNCs. As the result BEPS package agreed in 2015 with 15 Actions which have made some improvements, but main problems have remained. The source of these main problems is the rule which gives the permission to MNCs to earn profits in one territory and to avoid the corporate income tax payment in these countries, or territories. The problem is growing if we take into account the fact that many countries implement taxing on domestic part of the MNCs income only, without foreign part of their income, considering the expectation that this kind of the profit would be taxed abroad.

With limited sources of data, precise results of the BEPS in future are expected after improvements of data sources and methodologies. Above mentioned category of BEPS, the IFFs are increasing as well. These categories have inter-relation, especially concerning the interest payments, strategic reallocation of assets, tax treaties and transfer pricing manipulations mostly used by the MNCs.

Activities of MNCs are important source for both phenomena. These activities are particularly obvious through activities of MNCs` affiliates. Numerous affiliates, registered in low tax countries, comparing with their global company, report very high profit rates, even doubled. Measuring the BEPS is very fluid, but some data from 2013 showed that global corporate income tax (CIT) revenue losses were estimated between 4 and 10% of global CIT revenues, or in USD, between 100 and 240 billion annually (OECD/G20, 2016). The impact of these distortions are more significant for Developing Countries comparing to Developed Countries, having in mind their higher dependence on CIT as revenue (OECD/G20, 2016). The causes of these losses are heterogeneous. By the OECD, between these causes, significant place is reserved for: (OECD/G20, 2016)

- the aggressive tax planning, mostly by MNCs,
- lack of transparency and coordination between tax administrations,
- limited country enforcement resources and harmful tax practices.

After a long period of searching for the solution in the field of taxation at the international level, mostly for the MNCs, the OECD/G20 Inclusive Framework on BEPS, in October 2021 has adopted Statement on the Two-Pillar Solution to Address the Tax Challenges in new century. The Plan for the implementation envisaged the implementation of new rules by 2023. This was the result of noticing the specific position of MNCs which do not pay their fair share of taxes despite the huge profits earned mostly on the wings of the globalization. These discrepancies initiated a change of tax policy rules for international business income applied for more than a hundred years. The main contribution will be the rule that MNCs will be subject to a minimum tax rate of 15%, with expectations to re-allocate their profit all around world. By this Statement

in October 2021, even 136 countries and jurisdictions have joined to that Statement, or more than 90% of the world GDP sources. (OECD/G20, 2021)

For further monitoring of BEPS and its impact on resource mobilization, the first important step would be collection, compilation and analysis of data. The next step which should be realized from the international cooperation point of view, certainly is a clear pointing out main problem in the form of the tax avoidance. In the absence of mutual work, further devastation of resources could be expected. It is important to estimate the level of the global corporate tax income and to achieve an increase of the CIT, in order to integrate these resources, necessary for the further global development.

4. The IFFs Data Collecting Results

The main challenges of the further actions oriented towards IFFs decrease would be IFFs data collecting. The second challenge is a huge number of countries for collecting these data. The first pilot projects have been implemented in only four countries and particularly in some IFFs, symbolizing main problems in these countries.

The first pilots were oriented towards Latin America during the period 2018-2020, in: Columbia, Peru, Ecuador, and Mexico. These four countries are seeing as pioneering countries in measuring SDG indicator 16.4.1 with the UNCTAD's support. (UNCTAD, 2023a)

In these countries the IFFs were measured only in some dominant fields of activities which have the IFFs as the consequence. These were selected illegal markets, such as drugs trafficking and smuggling of migrants. The Illicit tax and commercial practices were not in the focus.

The results for these countries were different, but the Mexico was dominant, with an inflow of IFFs around the 12 billion USD annually mostly by drugs trafficking activities in previous years. From activities as smuggling of migrants, estimation showed the amount of about 1.1 billion USD in inward IFFs in Mexico. (UNCTAD, 2023a)

The process continued with the twelve African and six Asian countries advised to continue the pilot research and testing the statistical methodologies for IFFs measurement, mostly focusing on tax and commercial IFFs, especially trade misinvoicing and the multinational profit shifting.

The importance of these pilot projects is pointed by its feedback for redefining procedures and skills necessary for future more successful reporting process concerning the SDG target 16.4. in widespread group of countries.

5. The Role of Tax Havens and Shell Companies in IFFs Creation

Tax haven is a name of the targeted country for the transfer of assets in order to avoid paying taxes in the home country. It causes transfer of the taxable profits with negative consequences on the level of collected taxes in many countries. The main result is the finance base erosion which is already estimated at the level of 100-250 billions USD. This base erosion is the loss of the tax base and the result of the shifted assets in tax havens.

This activity is mainly performed by MNCs, as well as wealthy individuals, who move their profits to countries which are positioned on the list of tax havens, in order to avoid paying taxes in the countries where they perform their dominant economic activity. The main factors for the tax havens attractiveness are low, or zero tax rates for assets.

The second elements of their attractiveness were bank secrecy laws, but, nowadays, their significance has decreased (Dharmapala, D., 2008). It happened with the increase of the international efforts for sharing information between tax authorities internationally. However, “tax havens” used to be the first association for providing financial confidentiality, although it was not their role always. At the list of favorite countries with the role of tax havens are included

even those countries providing even lower level of secrecy, as well as, lower level of effective tax rates.

The attractiveness of tax havens provoked by the bank secrecy laws was decreased by introducing of automatic exchange of bank account information within the Common Reporting Standard (CRS). This was approved by the OECD Council in 2014 as the request of G20 to have the approach to information about accounts and taxpayers covered and these data mutual exchange between different jurisdictions. (OECD, *What is CRS*, Internet)

It is noticed, by some authors that term “tax havens” has clear “pejorative overtones”. They also have noticed that new literature is pointing the relation between the word “haven” and possible positive impact of that phenomenon. (Keen, M., Konrad, K., 2013) This conclusion was highly motivated by the fact that the reduction of tax rates in some countries led to an activity increase on their territory. However, this rise of activities was expected to bring the prosperity for host countries, as well as to worsen the position of countries with high taxes. This is the opposite conclusion comparing the previous remarks about the tax base erosions provoked by their existence and negative consequences for domestic countries.

To this view of tax havens from the positive aspect of view, could be added the opinion of a group of authors who believe that countries, tax havens, have more serious institutions, political and legal systems, as well as a lower level of corruption comparing to similar, comparable countries which are not tax havens (Dharmapala, D., Hines, J., 2006).

Although FDI flows are oriented towards tax havens, avoiding high taxes in Developed countries, corporate tax revenues in many Developed countries have not decreased, vice versa, this revenue in USA, and UK and other Developed countries exporting FDI, has increased (Dharmapala, D., 2008).

By monitoring the tax policy during the period 1980-2018, it was established that, at global level, a significant decrease of corporate income tax rates was registered. Corporate income tax rates have been significantly reduced from an average of 49% to 24%. (Toroslov, T., Wier, L., Zucman, G., 2022) This decrease mainly is provoked by the international tax competition, partially led by tax havens. Some countries reducing their tax rates attracted profits and capital which have come from different directions.

Although one number of countries are exposed to the tax base erosion and losing profits, there are also countries collecting profits. Among them are countries and territories situated even on the European continent. One example is Monaco, which collects 69% of its corporate tax revenue by attracting nearly \$2 billion of shifted profits. However, with the level of 14%, the tax rate on shifted profits in Monaco is not negligible. Monaco receives tax revenues, gain from shifted profits in the amount of 0.3 billion USD, and the total revenue from corporate income tax is USD 0.4 billion.

The Cayman Islands are a well-known tax haven, with the 0% of tax rate on shifted profits, collecting as much as 100% of its income precisely on the basis of shifted profits, which annually attracts more than 76 billion USD, as it was in 2019. Similar position exists for Barbados and Jersey with negligible tax rate on shifted profits of only 1%. Similarities between them are more obvious if we consider the fact that the majority of their total revenue origins from the revenues collected on shifted profits.

Table 3: Realized profits and tax revenues in selected tax havens due to profit shifting

	Monaco	Cyprus	Jersey	Cayman Islands	Barbados	Singapore	Mauricius
Revenue collected on shifted profits, % of total revenue	69%	17%	88%	100%	98%	29%	96%
Tax rate on shifted profits	14%	7%	1%	0%	1%	3%	5%
Shifted profits (billion USD)	1.8	3.6	7.4	76,3	11,8	132,3	7,4
Tax revenue gain from shifted profits (billion USD)	0.3	0.3	0	0	0,2	4,3	0,4
Total corporate income tax revenue (billion USD)	0.4	1.5	0	0	0,2	14,8	0,4

Source: <https://missingprofits.world/> (18.07.2023.)

One of the first reports measuring the public revenue lost of DCs through illegal financial flows was the report: “Illicit Financial Flows from Developing Countries: 2002-2006”, by Global Financial Integrity. (Kar, D., Cartwright-Smith, D., 2008) This Report and its improved version from 2010, presented the information that the average tax revenue loss for all DCs, during the period 2002-2006, was between 98 and 106 billion USD annually (Hollingshead, A., 2010). These amounts are responsible for the average loss of approximately 4,4% of the overall government revenue of DCs. For many DCs, this percentage is much higher. The percentage of Loss of Tax Revenue expressed in percent of Government Revenue for the first five DCs on that list was about even 30%. Especially high percentage was registered for Zimbabwe, China, Philippines, Nicaragua and Mali.

Table 4: Countries with Largest Tax Revenue Loss in Percent of Government Revenue, average 2002-2006

	Country	Loss of Tax Revenue (In % of Government Revenue)		Country	Loss of Tax Revenue (In % of Government Revenue)
1.	Zimbabwe	31,5	11.	Cameroon	17.1
2.	China	31,0	12.	Guinea	16.5
3.	Philippines	30,7	13.	Ethiopia	16.2
4.	Nicaragua	27,7	14.	Malaysia	15.4
5.	Mali	25,1	15.	Centr. African Rep.	14.6
6.	R. of Congo	24,9	16.	Cambodia	13.9
7.	Costa Rika	22,2	17.	Togo	13.5
8.	Zambia	21,7	18.	Panama	13.5
9.	Honduras	21,6	19.	Tajikistan	13.3
10.	Belarus	21,5	20.	Solomon Isl.	13.0

Source: Ann Hollingshead, *The Implied Tax Revenue Loss from Trade Mispricing*, Global Financial Integrity, Washington, 2010, p. 4.

This Report from 2010 has pointed the importance of the trade mispricing which was the main form of the illicit money movement across borders, enabling the illicit money moving across borders more than any other instrument (Hollingshead, A., 2010). It means the process of the deliberated over or underinvoicing of imports or exports with the aim to achieve tax evasion.

This is the main way that some residents of the DCs transfer money illegally. These illicit flows are the loss of revenue which could be the source of assets to alleviate poverty, stronger investing in infrastructure, health and education system, fostering good governance.

One research of the IMF started with the idea, or paradox that Luxembourg is the country with only 600.000 habitants in the same time while it is the host to FDI almost with the same value as the USA (Damgaard, J., Elkjaer, T., Johannesen, N., 2019). It wouldn't be unexpected having in mind the fact that FDI are a kind of driver for genuine international economic integration, contributing the economic growth, job creation and the rise of productivity, enabling the capital, skills and technology transfer. Although this is a commonly accepted statement, we can even suspect that all FDI contribute to these goals. The main picture of FDI is that these investments are realized by the firms which are a part of the same multinational company, by their cross-border mutual investments. However, one part of these investments are “phantom in nature”, passing through empty “corporate shells”, as specific entities created for that, special purpose, without a real business activity. Their main aim is decrease and minimalizing the tax bill of their MNCs at the global level, by using all instruments of intra-firm financing. This activity is called “tax engineering”. (Damgaard, J., Elkjaer, T., Johannesen, N., 2019) That way, the “empty corporate shells” in tax havens, reduce, prevent or completely prevent the collection of tax revenues in countries of all levels of development, advanced and emerging, as well as in Developing Countries.

The hosts for phantom FDI are tax havens, numerous in a world today, although only a few of them are hosts for dominant part of these FDI. Only Luxembourg and Netherlands are hosts for almost a half of them. With a few countries added, Hong Kong SAR, the British Virgin Islands, Bermuda, Singapore, the Cayman Islands, Switzerland, Ireland, and Mauritius, it is easy to come on the level of 85%. (Damgaard, J., Elkjaer, T., Johannesen, N., 2019)

The dynamics of the Phantom FDI comparing to Genuine FDI is more pronounced. The level of phantom investments has increased at the level of 15 trillion USD, which is the level for annual GDP of China and Germany together. During a very short period, starting from 2009 until 2017, the share of Phantom FDI outpaced the growth of Genuine FDI. For these, only 8 years, it increased from approximately 30% in 2009 to almost 40% in 2017. (Damgaard, J., Elkjaer, T., Johannesen, N., 2019)

Given the fact that those countries, aiming to attract as much foreign direct investment as possible, approve very low corporate tax rates, and sometimes even zero tax rates, the question arises about these tax havens motives for such politics, especially having in mind expected (non) contributions from these phantom investments for their economic development. These “empty shell corporations” do not employ, or employ only a small number of the host's workers, pay no taxes, have no business activity, but, despite obvious expectations, some examples have shown that they contribute. However, they buy some services, financial, accounting, advisory services and they have to register in that country and pay for that activity. Although it looks as a small amount, in a case of Caribbean, as tax havens, these services contribute intensively to its GDP, having the dominant share, after the tourism sector. (Damgaard, J., Elkjaer, T., Johannesen, N., 2019)

6. Concluding Remarks

The initiative of the United Nations for achieving Sustainable Development Goals has inspired numerous researchers to notice, define, and measure some obstacles to the achievement of these goals. Suggesting some of the measures to overcome some known obstacles should be added, too. One of the biggest obstacles to the process of development is the lack of financial sources, or financing gap. The existing resources are further drained by numerous ways of the Illicit financial flows. Their restrain, domestic resourced mobilization and return of assets gone as the

result of the aggressive tax planning, should be a proper way of contributing the fulfillment all tasks of the Agenda 2030.

There are many of them, but in the field of international finance, we are pointing at illicit financial flows. The group of illicit financial flows implies many activities and flows that provoke impediments and hinder the collection of funds necessary for investments in development and ensuring the satisfaction of the population everywhere in the world. The battle against IFFs is in the same time a battle for development. With the aim to reduce IFFs, it is necessary to act in several directions and to apply many measures. There are: Illicit tax and commercial IFFs, IFFs from illegal markets, from corruption and exploitation.

During last two decades, several attempts at international level have been made to establish proper international regulation to curb tax avoidance which was the main source for the financial resources devastation. It needed a comprehensive and universal approach, as the SDG under the auspices of the UN. Important step towards decrease of IFFs is their registration, monitoring and evaluation. One of approaches contributing these actions is the G20 BEPS initiative, reinforced with the automatic exchange of banks account information within the CRS. They are dedicated to the increase of the corporate income taxes sources, to the observation and registration of their devastation sources, mostly by misinvoicing and multinational profit shifting to tax havens, with special reference to the shell companies and their roles in the Illicit financial flows continuing. Avoiding taxes payments in countries where they dominantly realized their economic activity, MNCs have the dominant role in the Base erosion and profit shifting. Using these methods they undermine the possibilities and chances for the realization of Sustainable Development Goals. It is expected that the mentioned initiatives will reduce the shifted profits in the near future and therefore they will restrain the current IFFs.

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