

Capacity building

5 NOVEMBER 2020
FACTI ISSUES NOTE

The FACTI Panel published its [interim report](#) on 24 September 2020.

The FACTI Panel will hold a series of high-level virtual regional consultations with global stakeholders from 9 to 23 November 2020. The consultations aim to discuss possible means to address the shortcomings identified in the interim report. To orient the consultations a series of short issues papers are being presented along with guiding questions for the consultations.

INTRODUCTION

Techniques to disguise illicit transactions – designed by lawyers, accountants, financial institutions and other enablers – are increasingly sophisticated, prompting ever more complex global standards. Yet these complex standards are often hard to apply locally for countries with low capacity.

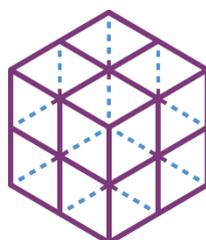
Given their relative lack of regulatory and enforcement capacity, smaller resource bases and less-developed markets, developing country authorities also have less ability to penetrate the webs of secrecy used by businesses, the powerful and their enablers in the transit and haven countries.

The Panel is clear that building the capacity to implement change is more than a technical question. It is shaped by history, power relations and country-specific characteristics, including the political context. It is, in other words, path-dependent. At times, the lack of capacity may be the result of low political priority for the topic, through in many countries there are also real issues of lack of resources for sometimes costly measures to prevent corruption, money-laundering, and tax abuses.

Financial integrity will require effective policy implementation by a large number of different public actors within a single country — revenue authorities, customs agencies, anti-corruption bodies, law enforcement and prosecutors, and financial intelligence units, among others. While a whole-of-government approach can improve cooperation and coordination, if an agency already does not have sufficient capacity, asking it to use scarce resources to coordinate with a half dozen others may not improve matters. International assistance with capacity building resources can help address some of the risks, as can careful whole-of-government approaches to policy planning.

Interagency collaboration at the national level can be enhanced, both through regional and international experience sharing, and through multilateral efforts to build capacity. Equally, multilateral efforts in tax cooperation, corruption and asset recovery and return need to cater to different national structures and requirements.

Capacity gaps that prevent effective implementation of international rules are



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prevalent across the areas the Panel has examined. Some examples are:

- Low-capacity tax administrations have more acute problems raising resources given the growth of electronic commerce and the transformation of business models by digital technologies.
- Tax authorities may have insufficiently robust data control procedures in place to prevent unauthorized use or disclosure of confidential information, creating obstacles to receiving information for tax purposes.
- Tax treaties as a form of international tax cooperation presume strong negotiating capacity, both at negotiation and afterward, yet some developing countries lack sufficient tax treaty negotiating capacity.
- There is a lack of capacity or resources among regulators or supervisors to properly oversee the implementation of anti-money laundering requirements.
- A lack of capacity to use information from suspicious transaction reports submitted by financial institutions and others results in gaps in money-laundering enforcement.
- Central authorities sometimes do not have adequate resources (financial, technical and human) to follow up on incoming mutual legal assistance requests in a timely fashion.

- Requesting jurisdictions may not have the capacity to establish the paper trail linking assets hidden abroad to a specific criminal offence committed in their country.

LOOKING FORWARD

Many of the most severely affected jurisdictions have especially limited capacity for engaging in international cooperation, as well as for implementation and enforcement. These jurisdictions frequently also have the least structural power, which affects not only their ability to shape the process of setting norms, but their ability to deter and prosecute crimes or combat abusive practices. The limitations faced by countries, particularly developing countries, are interrelated. Calls for stronger enforcement and internal agency cooperation according to international standards can be difficult to implement when other priorities demand attention. The Panel will examine ideas for international cooperation on capacity building to fight tax avoidance and evasion, money-laundering and corruption.

Guiding question for the consultations:

- **What do you think are the most important binding constraints to States building greater capacity to combat tax abuses and corruption, and how can they be overcome?**

Further details on the high-level regional consultations can be found on the FACTI Panel website: <http://www.factipanel.org/events>.

