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PHILIPPINES

Maximum speaking time: 7 minutes.

PHILIPPINE PRESENTATION
Delivered by

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for the
2017 ECOSOC SPECIAL MEETING ON INTERNATIONAL COOPERATION IN TAX MATTERS

"Promotion of international cooperation to combat illicit financial flows to foster sustainable development"
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Thank you.

The starting point for many discussions on illicit financial flows, as the draft IATF Report[1] indicates, is the lack of an internationally-agreed definition on what constitutes "illicit financial flows." But for many Filipinos, especially of my generation, IFFs for a long time meant the Marcos' ill-gotten wealth that had been hidden away in foreign jurisdictions. Current estimates place this amount at around $10 billion.

Ferdinand Marcos was President of the Philippines for 20 years, from 1965 to 1986. He was deposed and forced to flee the country by a peaceful

[1] https://www.un.org/esa/ffd/ffd-follow-up/inter-agency-task-force.html

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People's Revolution in 1986 because of social discontent and mass unrest arising from issues of corruption and abuse. To date, we have only recovered around $3 billion of the $10billion.[2]

But as a 2014 Global Financial Integrity (GFI) study[3] shows, the Philippines has lost more funds from IFFs caused by trade misinvoicing, defined by them as "deliberately misreporting the value of a commercial transaction on an invoice submitted to customs."[4] They estimate that we lost $363.5 billion from 1960 to 2011, or $6.98 billion per year.

That is staggering. To put it into perspective, our national budget for 2017 is $67 billion. Of these, $17 billion is intended for infrastructure, $13.9 billion for education, $5.9 billion for social welfare, $3 billion for health and $2.4 billion for agriculture and agrarian reform.[5]

Given that our budget will be financed mainly from domestic resource mobilization, we should be able to impose and collect the correct amount of taxes and duties or tariffs. Trade misinvoicing deprives us of that – both in relation to inflows and outflows.

How are we addressing this?

1. **Tax and customs reform.** Part of the Philippines' positive economic growth over the past six (6) years is due to our intensified tax collection

[2] http://pcgg.gov.ph/wp-content/uploads/2016/12/Accomplishment-Report-FY-2015.pdf
[3] http://philippines.gfintegrity.org/Illicit-Financial-Flows-to-and-from-the-Philippines-Final-Report.pdf
[4] http://www.gfintegrity.org/issue/trade-misinvoicing/
[5] http://www.dbm.gov.ph/?page_id=16375

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campaign and efficient tax administration programs. This led to the removal of the Philippines from the list of “tax havens” and its inclusion in 2013 in the Financial Action Task Force (FATF) International Co-operation Review Group (ICRG).

But our current tax system still has inherent deficiencies that lead to revenue erosion and large scale leakages. These include non-indexation, a large number of special treatment and exemptions, and barriers that hinder tax administration, such as bank secrecy laws. Our Philippine Development Plan for 2017-2022[6] thus provides for a shift to a simpler, fairer, and more efficient tax system characterized by lower rates and a broader base. It also aims to simplify process and forms for small taxpayers, electronic data sharing to improve compliance, taxpayer bill of rights, and to relax bank secrecy laws.

We have also enacted the Customs Modernization and Tariff Act (CMTA). In this light, our Bureau of Customs (BoC) has embarked on an aggressive anti-smuggling campaign supported by tighter enforcement in free trade zones, fuel marking, and reconciliation of trade data with partner countries. The BoC is also improving the agency’s processing and valuations system to aid in addressing issues that contribute to illicit customs activities and, therefore illicit financial flows, such as trade mis-invoicing, import undervaluation, and under-reporting.

The Philippine Statistics Authority has also improved the reliability and accuracy of exports and imports data, particularly on valuation.

[6] http://pdp.neda.gov.ph/wp-content/uploads/2017/01/Chapter-15-462017.pdf

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2. **Strong legal and regulatory framework for anti-money laundering (AML) and counter-financing of terrorism (CFT)**. The AML is being amended to expand its organizations and transactions coverage, particularly to casinos and similar entities.

   A strong regulatory framework has to be backed by effective supervision to monitor compliance by financial institutions with anti-money laundering regulations. While banks have adopted controls to monitor money laundering and terrorist financing risks, there is scope to strengthen the control processes especially in the areas of trade finance and correspondent banking. Sharing of international best practices is critical.

3. **Collaborative partnership with the industry**. The Bangko Sentral ng Pilipinas (BSP) continues to proactively engage other supervisory agencies (e.g., Securities and Exchange Commission), financial institutions, and industry players on coordinating and improving databases, and in putting in place guidelines and regulations to raise the country's standards in addressing unrecorded flows.

4. **Strengthen cross-border cooperation.** To help reduce the opacity in the international financial system, having coordinated policies among trading partners, particularly in enforcing reporting standards (i.e., invoicing of trade transactions), and automation and computerization of processes towards improvement of trade data is needed. For instance, our BSP actively participates in the EU-ASEAN Capacity Building Project for Monitoring Integration Project and Statistics (EU-ASEAN

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COMPASS) which aims to improve the compilation of trade in goods/services data.

We have also actively pursued Exchange of Information (EoI) agreements, either as stand-alone MOUs or as provisions in double taxation agreements.[7] Nevertheless, we recognize that we must remain cautious against potential spillovers of illicit funds triggered by external developments such as those arising from double taxation agreements.

In closing, let me go back to the Marcos funds. I want to stress that just because we lose more to trade misinvoicing than to corruption does not in any way diminish the importance of recovering the Marcos funds and other assets stolen by corrupt public officials. Whatever the amounts, these are public funds or revenues that ought to be used for national development programs.

The Marcos experience has also led to the creation of good governance institutions such as the Office of the Ombudsman – which investigates prosecutes charges of corruption – and a special court called the "Sandiganbayan" which tries such cases.

Indeed, we still need to come to a common definition of IFFs, and even of trade misinvoicing. We believe that this ECOSOC panel discussion is one step to getting there: by bringing tax and industry experts and governments together, it allows us to sort out the challenges and identify common threads and best practices. By virtue of the "flows" aspect, IFFs cannot be

[7] The Philippines currently has 44 Double Taxation Agreements. See https://www.bir.gov.ph/index.php/international-tax-matters/international-tax-agreements.html

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a purely domestic matter that can be solved by national laws and policies alone. Bilateral, regional and multilateral engagements such as this are necessary.

Thank you.

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