Measuring OECD Responses to Illicit Financial Flows from Developing Countries

Huge sums of money leave developing countries illegally. OECD countries can do more to stop these flows by adhering to their own rules and by implementing best practices.

WHAT IS THIS REPORT ABOUT?

Illicit financial flows from developing countries often reach OECD countries. This report analyses the performance of OECD countries against the main international standards for countering illicit financial flows. It focuses on five policy areas: money laundering, tax evasion, foreign bribery, asset recovery and the role of donor agencies. It is the first report to bring together such a synthesis of country performance across these related policy areas. Instead of attempting the impossible task of quantifying what is by definition a hidden activity, this report looks at ways to tackle this issue.

WHY IS IT IMPORTANT?

- We see record-fines for banks that violated anti-money laundering rules.
- The G8 and G20 are pushing for a new standard for exchange of tax information and increased transparency on beneficial ownership.
- From "offshore leaks" to corporate tax avoidance to asset freezing following the Arab Spring – recent events and current topics illustrate the relevance of this report.
- Stopping illicit financial flows is essential for keeping more resources in developing countries.

KEY FINDINGS

Key numbers

- 27 out of 34 OECD countries store or require insufficient beneficial ownership information for legal persons, but no country is fully compliant with the beneficial ownership recommendations for legal arrangements.
- Across all OECD countries as of 2012, only 221 individuals and 90 companies have been sanctioned for foreign bribery, around half of all OECD countries have yet to see a single prosecution.
- Between 2010 and 2012, OECD countries have returned USD 147 million and frozen almost USD 1.4 billion stolen assets.
- 30 out of 34 OECD countries do not properly regulate and supervise designated non-financial professions and businesses which may pose money laundering risks.
- Since 2000, OECD countries have signed roughly 1 300 bilateral exchange of information agreements with developing countries.

Money laundering

Illicit financial flows often leave developing countries via the commercial financial system. Through this system, funds can be laundered to disguise their origin. Anti-money laundering and counter-terrorist financing (AML/CFT) regimes are very broad and comprehensive tools to prevent illicit funds from being held, received, transferred and managed by major banks and financial centres.

Anti-money laundering and counter-terrorist financing efforts are governed by the recommendations of the Financial Action Task Force (FATF). OECD countries' anti-money laundering regimes have improved since the first set of Recommendations was established in 2003, but not across the board. On average, OECD countries' compliance with FATF standards needs to improve me.

Tax evasion

Fighting international tax evasion and avoidance is important because these are major sources of illicit financial flows from developing countries. To combat tax crimes, effective exchange of information among countries is essential. Since 2000, the number of agreements on exchange of information between OECD countries and developing countries has steadily increased. Although most of the agreements signed since 2005 comply with the Global Forum on Transparency and Exchange of Information for Tax Purposes, there is room for improvement. While automatic exchange of information is becoming more widely recognised for its effectiveness, it remains an exception.

International bribery

An estimated USD 1 trillion is paid each year in bribes. Reducing bribery reduces the opportunities for illicit gains, and hence illicit financial flows. The 1997 OECD Anti-Bribery Convention tackles the supply side: the bribe payers. The effective prosecution of bribe payers also outside of developing countries is central for drying up this source of illicit financial flows.

In OECD countries, the sanctions for foreign bribery offenses are increasing. While peer reviews confirm that OECD countries are taking a harder stance against corruption, around half of OECD countries have yet to see a single prosecution. Some countries maintain provisions in their legal frameworks that can be exploited by bribe payers, including overly narrow definitions or short statutes of limitations; other countries impose impractical burdens of proof, or let strategic considerations influence whether or not to pursue a bribery case.

Stolen asset recovery

Repatriation of stolen assets to their country of origin can provide developing countries with additional resources, offering a powerful deterrent as well as justice for the societies whose funds are repatriated.

Progress in OECD countries in freezing and repatriation has been modest, however, with only a limited number of countries having frozen or returned assets. The countries that are the most successful in tracing, freezing and repatriating assets have made asset recovery a clear priority, dedicating resources and expertise to this issue. They also have legal frameworks that allow for rapid tracing, freezing and forfeiture, including non-conviction based forfeiture and civil prosecutions. Proving that assets are linked to criminal conduct can be a complex process. One way to counter this problem is to require proof that excessive wealth has a legitimate origin.

The role of donor agencies

Over the past years, donor agencies have become increasingly involved in tackling illicit financial flows. Agencies have supported civil society organisations and researchers working on this agenda, and have built developing countries' capacities to combat tax evasion, money laundering and corruption. Some have supported their home country institutions to handle asset recovery cases involving developing countries – with good results. Donor agencies are the link between OECD countries and source countries of illicit financial flows, and can play an even more proactive role by using their aid in smart ways to strengthen technical and investigative capacities against economic crime.