

Curbing Illicit Financial Flows for Domestic Resource Mobilisation and Sustainable Development in the Post-2015 Era



SIDE EVENT



Co-hosted by Australia, Mexico and the OECD

Wednesday, 24 September 2014, 11:00 – 13:00 hrs.
United Nations, North Lawn Building, Conference Room 7 (CR-7), New York, NY

Purpose

With the proposed target by the UN OWG to significantly reduce by 2030 illicit financial flows as background, this Side Event aims to identify concrete international actions needed in key areas for achieving this target, such as international tax evasion and avoidance, money laundering, bribery, and asset recovery; consider ways to overcome implementation challenges and how to more effectively mobilise domestic resources for sustainable development.

Objectives

More specifically, the Side Event aims to:

- Raise awareness of the need for greater political commitment from all countries as well as coherent and coordinated actions at the domestic and international levels to tackle illicit financial flows, as part of the means of implementation – and sources of finance – for the Post-2015 development agenda;
- Identify ways in which more coherent policies in all countries can generate an international environment that discourages illicit financial flows from developing countries (e.g. transparent tax systems, financial transparency, clean business environments, and institutional capacity); and
- Identify specific areas where international cooperation can support developing countries' efforts in mobilising domestic resources for sustainable development, including through knowledge sharing and capacity building;

Links with the Post-2015 Development Agenda

This Side Event links with the Post-2015 Goal proposed by the UN OWG to “Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels”, which includes the following targets:

- *“16.4 by 2030 significantly reduce illicit financial and arms flows, strengthen recovery and return of stolen assets, and combat all forms of organised crime; and*
- *“16.5 substantially reduce corruption and bribery in all its forms.”*

The Event also relates to the proposed goal by the UN OWG to “Strengthen the means of implementation and revitalize the global partnership for sustainable development” which proposes, amongst others, the following targets:

- *“17.1 strengthen domestic resource mobilization, including through international support to developing countries to improve domestic capacity for tax and other revenue collection”;*
- *“17.3 mobilize additional financial resources for developing countries from multiple sources”;*
and
- *“17.14 enhance policy coherence for sustainable development”.*

Finally, the Side Event links with the work of the Inter-governmental Committee of Experts on Sustainable Development Finance (ICESDF). In its Final Report, the ICESDF has highlighted the need for greater international co-operation on tax policy to counter transfer mis-pricing based on tax evasion, as well as the need for making best use of existing international standards and instruments in areas such as money-laundering, anti-corruption, and asset recovery, to create an international enabling environment for financing sustainable development.

Expected outcomes

- Contributions to: (i) the UN Secretary General’s Synthesis Report on the Post-2015 Development Agenda, which is expected by the end of 2014; (ii) the elaboration of the new Post-2015 Development framework; (iii) the upcoming Financing for Development Conference in Addis in July 2015; and (iv) the intergovernmental negotiations in the run up to the Post-2015 Summit.
- Identification of specific areas which can generate greater impact on sustainable development; and more concise post-2015 targets for curbing illicit financial flows; as well as ways for increasing revenue levels in developing countries.
- Identification of priorities and needs of developing countries to increase their capacities for building strong domestic frameworks to curb illicit financial flows.
- Creation of a knowledge sharing platform on policy coherence for curbing illicit financial flows, designed to facilitate more systematic and continuous knowledge exchanges and further explore diverse means and options for achieving the proposed Post-2015 target on IFFs.

Key challenges

The financing needs for a universal and transformative Post-2015 Development Agenda will be large. It is widely recognised that a more effective mobilisation of all types of flows including public, private, international and domestic will be critical for achieving the ambitious new set of goals and targets for the post-2015 era. In this context, an enhanced capacity of governments to effectively mobilise domestic resources for sustainable development will be a critical element in meeting the challenge of financing the Post-2015 agenda.

An effective mobilisation of resources will very much depend on enabling environments at the national, regional, and global levels. Coherent international action will be essential to deal with systemic conditions that hamper governments to use and mobilise effectively their own revenues and resources for sustainable development, such as transnational corruption or illicit financial flows. IFFs stemming from corruption, money laundering, tax evasion, and other crimes reduce the resources available to developing countries and are an impediment (disabler) to sustainable development, affecting many countries’ ability to implement the Post-2015 Development Agenda.

The volume of illicit financial flows significantly exceeds the inflows from ODA and foreign direct investment in many developing countries. Practices that lead to IFFs occur in all countries and are damaging everywhere, but the economic and social impact in developing countries is more severe, with a reduction in resources adversely affecting domestic expenditure and investment, both public and private. This means fewer jobs, hospitals, schools and infrastructures – and ultimately fewer resources to support sustainable development. It is estimated that every \$100 million recovered could fund full immunisations for 4 million children or provide water connections for some 250 000 households in a developing country.

Illicit financial flows may be generated through illegal activities such as smuggling drugs, selling counterfeit medicine or embezzling public money. In other cases, the funds may result from legitimate activities such as a company selling legal goods in a given country – however, the funds become illegal when transferred out of the country in an attempt to avoid taxes and other financial regulations. Alternatively, they may be intended to finance illegal activities elsewhere, such as illegal trade in forest and wild life products, illegal exploitation of natural resources or illegal fishing.

The existence of illicit unregulated money contributes to the spread of other criminal activities, such as illicit trade of arms, smuggling, terrorism and infiltration of criminal interest in the public sector, as well as illicit traffic of cultural property which is aggravated by an unprecedented increase of terrorist attacks against cultural sites. Illicit resources also foster underground economies, involving avoidance of regulations and taxes, low-quality jobs and insecure business relationships. Illicit flows are a symptom of governance failures and are just one element of a wider set of governance challenges faced by many countries. Corruption combined with weak institutions in origin countries are drivers of such flows, but also some conditions in recipient countries that allow IFFs to thrive, such as tax havens and secrecy jurisdictions.

The role of collective action, policy coherence and knowledge sharing

The phenomena of IFFs concern multiple policy areas. From crime control to regulations in the financial sector, and tax regimes, its implications require cross-sectoral and cross-national responses, and entail a shared responsibility by all countries. The challenges are complex and require greater policy coordination and enhanced capacities of governments to address IFFs in a more holistic and integrated manner linking efforts with broader issues such as governance, anti-corruption, regulatory regimes, and domestic resource mobilisation. Achieving the proposed post-2015 target on IFFs will require greater political commitment from all countries as well as coherent and collective action in multiple fronts:

Increasing consistency among national and international regulations

IFFs are facilitated by secrecy jurisdictions that often undermine the regulations of other jurisdictions. Countries will have to aim for consistency with international conventions and standards related to IFFs, such as the UN Conventions against Corruption and against Transnational Organized Crime; the recommendations of the Financial Action Task Force (FATF) or international standards on exchange of information for combating tax evasion, and the Stolen Asset Recovery Initiative (StAR). Combating illicit financial flows depends on whether countries comply with international best practices and are aligned to globally agreed goals. At the same time, it depends on the quality of national regulations, their implementation, capabilities and specific challenges which may differ from country to country. Some may, for instance, focus on strengthening institutions and building national capacities in identifying, tracking and fighting tax evasion, money laundering, and corruption; and others on taking specific actions to avoid being safe havens for illegal money. Knowledge sharing can play an important role in creating expertise, building technical capacity, and strengthening institutions to comply with international standards, and to combat corruption, money laundering, tax evasion, and complex economic and financial crimes.

Creating an international environment for sustainable development

Curbing illicit financial flows could make available additional sources of revenues for financing sustainable development and poverty eradication. This will be critical for meeting the challenge of financing a more ambitious Post-2015 Development Agenda. But also for creating an enabling international environment that allows countries to pursue national sustainable development strategies. This includes supporting a fairer and more transparent global tax system. There is a need to address and curb tax avoidance strategies which in most cases are legal but unfairly take advantage of the interaction between the tax rules of different countries, making it difficult for any single country, acting alone, to fully address the issue. As highlighted by the ICESDF international tax cooperation needs strengthening. G20 Leaders have endorsed the Action Plan on Base Erosion Profit Shifting (BEPS) and a single standard for the automatic exchange of tax information. The G20 Development Working Group is also leading work to analyse the impacts of profit shifting on low income and other low capacity countries and to develop a roadmap outlining steps that countries can take to access greater information on profits and income held offshore by their taxpayers. But greater international efforts are needed to increase the capacity of governments in all countries to raise the revenues they need to provide their citizens with better services.

Fostering convergence of diverse international agendas and processes.

The challenge of curbing illicit financial flows is at the forefront of the international agenda and is being addressed in a number of different fora. The United Nations High-Level Panel (HLP) of Eminent Persons on the Post-2015 Development Agenda has highlighted the need to tackle illicit financial flows and to regulate tax havens as key to global development moving forward. The UN Open Working Group (OWG) and the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) have highlighted the need for fighting illicit financial flows as part of the means of implementation for the Post-2015 Agenda. G20 and G8 Leaders are urging countries to take action in strengthening their anti-money laundering regimes, enforcing greater transparency of company ownership and international bribery. Members of the Global Partnership for Effective Development Co-operation (GPEDC) have also reaffirmed their commitment to combat corruption, money laundering and IFFs. In a post-2015 context, coordination, synergies and complementarities among these different processes and initiatives, will be critical to create global conditions that discourage IFFs and support holistic responses and align different efforts towards the achievement of the post-2015 goals.

Enhancing synergies between economic, social and environmental policies.

Illicit Financial Flows relate to a range of economic, social, and environmental phenomena, which can only be effectively dealt with through co-ordinated national and international actions. Illegal natural resource exploitation, for example, represents a threat not only to the environment, but also to revenues from natural resources, to state security, and to sustainable development. It is estimated that \$48-153 billion of natural capital is lost through illegal trade of wildlife globally each year. Similarly, illegal, unreported or unregulated (IUU) fishing not only damages the environment and threatens biodiversity and ocean ecosystems, but also has an impact on human rights by undermining labour standards, harming markets for legally harvested fish, destabilising the economy in developing coastal nations and encouraging corruption. Global estimates suggest a minimum 20 percent of seafood worldwide is caught illegally, representing losses between \$10 to 23 billion and 11-26 million tonnes. The economic, social and environmental impacts of illicit flows can only be effectively tackled through a coherent and coordinated response involving key stakeholders from different sectors.

Making best use of existing resources

Efforts to curb illicit financial flows require mobilising multiple resources to build technical capacity, strengthen institutions and systems, and ensure policy reforms. These resources may be provided through development co-operation, international and regional development banks, the private sector and philanthropists, and domestically. National and international efforts will be more effective if the funds are disbursed in a coherent manner and under the umbrella of internationally agreed goals. There is also a need for exploring ways to use ODA to leverage additional resources to fight IFFs.

Questions for discussion

- What are major challenges to action on reducing IFFs? What barriers do governments face in efforts to enforce and implement national measures for identifying, tracking and combating illicit financial flows? What are the knowledge and capacity gaps?
- What policy instruments and tools can be used by governments, international organisations and key stakeholders to strengthen global cooperation, institutions and legal regulations in this area? What lessons can be learnt from existing experiences to scale up or improve the response to fight IFFs?
- What are the policy options and trade-offs in actions to prevent money laundering, tax evasion and avoidance, international bribery, transnational corruption, and illegal trade?
- What specific targets to curb illicit financial flows could be proposed as part of the Post-2015 development agenda?

For more information:

[Better Policies for Development 2014, Policy Coherence and Illicit Financial Flows](#)



Every year, huge sums of money are transferred out of developing countries illegally. This report shows that coherent policies in OECD countries in areas such as tax evasion, anti-bribery and money laundering can contribute to reducing illicit financial flows from developing countries.

[Policy Coherence for Inclusive and Sustainable Development](#)



While policy coherence for development (PCD) has traditionally been seen as the main responsibility of donor countries, the post-2015 development agenda calls for a broader and more proactive approach, bringing in many more actors. This paper outlines the OECD's reflections on what this broader approach could look like, and how OECD expertise could contribute.

[Policy dialogue, knowledge sharing and engaging in mutual learning](#)



Many pressing concerns – climate change, health, peace and stability – are universal, and can only be tackled by cross-border collaboration and sharing mechanisms. Knowledge sharing for the post-2015 framework needs to include concrete elements beyond datasets – chiefly, new substance, new processes and new partnerships – to share experiences between countries to face global challenges and opportunities today.

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