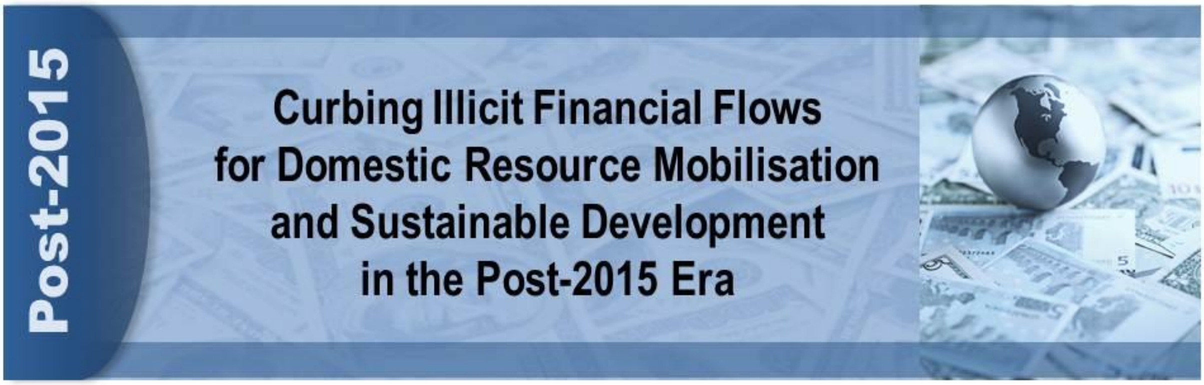
69th Session of the United Nations General Assembly



SIDE EVENT REPORT

Australia, Mexico, and the OECD, with the support of Japan, co-hosted a side event on *Curbing Illicit Financial Flows for Domestic Resource Mobilisation and Sustainable Development in the Post-2015 Era* on 24 September 2014. The event, held during the 69th UN General Assembly in NY, brought together representatives from governments, international organisations, civil society and the private sector to identify concrete international actions needed to curb illicit financial flows in key areas such as international tax evasion and avoidance, money laundering, bribery, and asset recovery. Participants also considered ways to more effectively mobilise domestic resources for sustainable development. The background of the discussion was the proposed target by the UN Open Working Group to significantly reduce illicit financial flows by 2030. The discussion was organised around four main questions: *(i)* What are the drivers behind illicit financial flows? *(ii)* What are the major challenges? *(iii)* How do we tackle illicit financial flows? And *(iv)* What can we suggest for an achievable IFFs target?

The event was opened by OECD Secretary-General Angel Gurría and moderated by Zeinab Badawi (BBC). Panellists included Ngozi Okonjo-Iweala, Minister of Finance, Nigeria; Clare Walsh, Chair of the G20 Development Working Group, Australia; and Juan Manuel Valle Pereña, Head of the Mexican Agency for International Development Co-operation This report highlights the key messages and recommendations emerging from the discussion.

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INTRODUCTION

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 public, private, international and domestic resources will be critical along with coherent international action to deal with the systemic conditions that hamper governments' efforts to use and mobilise their own revenues for sustainable development. Illicit financial flows represent one of the largest challenges in this respect.

Tackling illicit financial flows will therefore require the creation of enabling international environments that allow all countries to pursue national sustainable development strategies. In his opening remarks the OECD Secretary-General stressed that OECD is intensifying its work to contribute to an international enabling environment for sustainable development with an arsenal of 'soft laws', benchmarks, studies and peer pressure mechanisms to combat corruption, fight against tax crime and tackle other illicit financial flows, in particular, through the work on Base Erosion and Profit Shifting (BEPS), international tax transparency, Tax Inspectors Without Borders, and on anti-corruption.

"We have a shared responsibility to reduce all forms of illicit financial flows and their negative impacts on sustainable development. In this effort, policy coherence provides us with a tool to make this happen."
– Angel Gurría, Secretary-General, OECD.

WHAT ARE THE DRIVERS BEHIND ILLICIT FINANCIAL FLOWS?

Illicit financial flows relate to a range of social, political and economic phenomena. They are often a symptom of deeper structural and governance problems and, as such, can arise from a number of activities. They 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.

It is recognised that the bulk of IFFs result from money laundering, stolen assets and tax evasion and avoidance. Corruption, while only a small share of overall illicit flows, is a cross-cutting driver of such flows and risks undermining any efforts to curb them.

While the numbers are disputed, IFFs are believed to significantly exceed the inflows from aid and foreign direct investment in many developing countries. Data compiled by Global Financial Integrity, for example, suggest that close to USD 1 trillion flows out of developing country economies every year. This figure has been increasing steadily for the past decade.

"Roughly 80 percent of IFFs flow out of developing countries through trade misinvoicing, which facilitates the movement of corrupt, criminal and tax-evading funds."
– Tom Cardamone, Managing Director, GFI.

Illicit financial flows strip developing countries of resources that could be used to finance much needed public services, such as health care and education. A mere portion of these funds would have significant positive impact: 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.

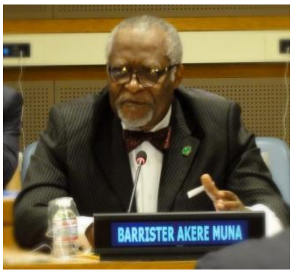
IFFs also reduce citizens' trust in the overall system, potentially discouraging them to pay taxes and creating a vicious circle. OECD countries have a responsibility too, as many of the funds end up in bank accounts within their jurisdictions.

"Laws and regulations, such as the UN Convention Against Corruption, must be accompanied by integrity, transparency and accountability mechanisms to implement them."
– Jason Reichelt, Senior Adviser, UNODC

WHAT ARE THE MAJOR CHALLENGES?

The challenges to curb illicit financial flows are numerous and complex. They include too many jurisdictions and actors overall, as well as weak institutions and lack of capacity in low-income countries. Secrecy and corruption add to the problem and the situation goes well beyond the setting of policies. Companies in most African countries regulate themselves, while in other countries privileged tax incentives serve to shift money for profit.

"Developing countries struggle to play by the rules. There are over 3000 different tax laws only in OECD countries, some of them dating as far back as to the 1920s."
– Barrister Akere Muna, Member of the High Level Panel on IFFs from Africa



The different elements of IFFs also have different developmental impacts, implying that targeted solutions are needed in addition to action at the aggregate level. Identifying the 'right level' of intervention can therefore be a dilemma for national governments, development banks and aid agencies. Other challenges include obtaining the most accurate data available.

Moreover, investigators of illicit flows are often stopped at borders, making it very difficult to trace hidden money and – in cases where the money is found – to bring the perpetrators to justice. Law enforcement officers and private investigators must join forces in the fight against IFFs.

"Private investigators have the advantage of being able to act more informally and across different jurisdictions."
– Jim Mintz, Founder and President of the Mintz Group.

HOW DO WE TACKLE ILLICIT FINANCIAL FLOWS?

The need to address illicit financial flows has received increased international attention in recent years, including by the OECD, the G20 and the UN system, and awareness of the problem is greater than before on the African continent. This – together with the Open Working Group's proposed goal to significantly reduce IFFs by 2030 – provides a momentum to take coordinated and collective action to tackle illicit flows.

Taxation, in particular, has been the focus of G20 efforts to curb IFFs. Most recently, the Australian Presidency tasked the OECD and other International Organisations to explore the implications of Base Erosion and Profit Shifting (BEPS) in low income countries. Under Australia's Presidency, the G20 also delivered a step-by-step roadmap for developing country participation in the Automatic Exchange Of Information (AEOI) for tax purposes, developed by the Global Forum for Transparency and Exchange of Information for Tax Purposes. The roadmap will be implemented through pilot projects with developing countries and in partnership with more experienced countries. In parallel, the adoption by G20 countries of the High-Level Principles on Beneficial Ownership and Transparency are expected to strengthen the investment climate and reduce the loss of revenue for all countries.

"Focusing on BEPS and AEOI has allowed the G20 to align its work on development more closely with that of finance ministers."
– Clare Walsh, Chair of the G20 Development Working Group

Regional efforts to curb IFFs provide important complements to efforts on the national and global levels. In Africa, for example, the High Level Panel on Illicit Financial Flows is working to determine the nature and patterns of illicit financial outflows, as well as to sensitise African governments, citizens and international development partners on the scale, and effect of financial outflows on development. The Panel will deliver its final report in January 2015.

"Countries finance most of their own development, so we need to look inwards to raise tax revenue. The tax to GDP ratio is only 12 percent in Nigeria, but we are making progress."
– Ngozi Okonjo-Iweala, Minister of Finance, Nigeria.

The return of stolen or frozen assets to developing countries represents yet another challenge that can only be solved through collaborative efforts. Data from the OECD and the World Bank shows large differences between assets stolen and assets returned, indicating that the demand and supply side of illicit flows must work closer together and focus their attention not only on recovery, but also on prevention.

In the fight against illicit flows, international co-operation must go hand-in-hand with capacity building in low-income countries. Regional organisations should be strengthened and the engagement of developing countries in international fora should be facilitated.

"In addressing IFFs, the Global Partnership for Effective Development Co-operation can provide a platform for knowledge sharing and triangular co-operation among countries with similar capacity."
– Juan Manuel Valle Pereña, Executive Director of AMEXCID.

WHAT CAN WE SUGGEST FOR AN ACHIEVABLE IFF TARGET?

The international community's efforts to curb illicit financial flows have strong links to the Post-2015 agenda. The challenges ahead are expected to relate to the means of implementation ("the how") rather than to the setting of the goal itself ("the what"). This will be a multi-year agenda.

"Policy coherence will be vital as we go forward. Government ministries need to join forces and deal with the issue of IFFs collectively."
– Ingrid-Gabriela Hoven, Deputy Director General, BMZ, Germany.

While specific targets for reducing IFFs have not yet been discussed in the G20 context, other actors are working to add more granularity and specificity to the goals. GFI, for example, suggests reducing illicit flows resulting from trade misinvoicing by 50 percent by 2030.

"In relation to trade misinvoicing, ongoing WTO talks on trade facilitation measures offer an opportunity to weave things together. Raising revenues and speeding up trade at the same time would be a double-win."
– Eric Postel, Assistant Administrator, USAID.

Advocates for other aspects of the development agenda (such as those focused on HIV/AIDS, water, education, malaria, etc.) must also be brought into the dialogue, because all of their agendas will benefit from increased revenues. All development advocates need to jointly cry out for attention to this critical issue.

Reducing illicit financial flows will ultimately be an issue of policy coherence. Governments must work together across borders and sectors, preferably using existing institutions. Implementation will be as important as the policies themselves. The incentives to fight IFFs are lined up – it is now time to act.

NEXT STEPS

The OECD will organise a follow-up discussion later in the year, with a view to facilitate more systematic and continuous knowledge exchanges in a dedicated knowledge sharing platform on policy coherence for curbing illicit financial flows. The purpose will be to further explore diverse means and options for achieving the proposed Post-2015 target on reducing illicit financial flows in key areas, such as money laundering, bribery, asset recovery and tax evasion and contribute to the intergovernmental deliberations in the run up to the Post-2015 Summit. We welcome any additional suggestions for ways forward.

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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The OECD PCD Unit facilitates analysis, dissemination, and advocacy on policy coherence for sustainable development. Its work aims to strengthen the capacities of governments and other stakeholders to design more coherent and integrated policies for sustainable development, as well as to foster policy dialogue and knowledge sharing on coherence issues. The Unit also supports the work of the OECD Deputy Secretary-General in charge of development to facilitate mainstreaming and cross-fertilisation of expertise relevant for sustainable development across the OECD. Together, this contributes to the implementation of the OECD Strategy on Development.