Adoption of the Mandate of Curbing Illicit Financial Flows in Asia-Pacific ahead of the High-Level Dialogue on Inequality at the 74th Session

Economic and Social Commission for Asia and the Pacific

May 11- 16, 2018

Subject: Adoption of the mandate of curbing illicit financial flows in Asia and the Pacific ahead of the High-Level Dialogue on Inequality in the Era of the 2030 Agenda for Sustainable Development at the 74th Session of ESCAP (May 11-16, 2018)

We, the undersigned civil society organisations based out of the Asia-Pacific, are writing to you to highlight the urgent need to incorporate the international problem of illicit financial flows in the agenda to examining inequality in Asia-Pacific. We strongly believe that the phenomenon of illicit financial flows is antithetical to achieving the Sustainable Development Goals (SDGs) and the Financing for Development (FfD) Agenda, thus impacting the mandate for reducing inequality.

We are deeply encouraged to see the primary focus of the High Ministerial Segment of the 74th Session of ESCAP is on addressing the underlying and emerging drivers of rising inequalities in Asia and the Pacific. As illicit financial flows exacerbate inequality and poverty levels in developing countries, there is an urgent need to curb them.

Illicit financial flows (IFFs) can be identified as funds generated through a range of activities including tax evasion, misappropriation of state assets, laundering proceeds of crime, corruption as well as tax avoidance and dodging by multinational corporations (MNCs) and the elite by abusing domestic tax laws, bilateral or multilateral tax treaties, trade and investment agreements. Due to their clandestine nature, IFFs are able to manoeuver from one jurisdiction to another, using secrecy hubs as conduits, to finally end up in influential financial centres. Aided by an efficient industry of tax lawyers, bankers and accountants who enable such activities, IFFs remain hidden from state authorities. IFFs widen the financing gaps and prevent the immediate and progressive realisation of human rights especially in developing countries. Despite being a key part of both the SDGs and FfD agenda, IFFs are a tier 3 indicator under target 16.4 i.e. without a set definition, work plan or an overlooking agency.

We therefore call upon the Economic and Social Commission of Asia and Pacific (ESCAP) to recognise that the curtailment of illicit financial flows is crucial for all countries, especially developing countries, and is significant within the mandate of reducing inequality, achieving progressive domestic resource mobilisation and financing for development.

Scandals like the Paradise Papers and Panama Papers are examples of a thriving hegemonic offshore industry that caters to the needs of the global elite, politically exposed persons and MNCs to dodge taxes. It is widely recognised that IFFs constrict sovereign policymaking, thus undermining effective redistribution, economic growth, democratic processes and institutions and civil liberties in a country. In fact, developing countries face a global infrastructural deficit of $3 - $5 trillion annually[1]. The link between IFFs and poverty and intersecting inequalities is particularly antithetical to the immediate and progressive realisation of human rights necessary to build sustainable societies. By depriving governments of crucial revenue, IFFs impede the realisation of human rights, including economic, social and cultural rights, such as health, education, social protection, water and sanitation, as well as civil and

[1] Inter-Agency Action Task Force (2017). Financing for Development: Progress and Prospects

political rights, such as access to justice, free and fair elections, freedom of expression and national security. Additionally, IFFs are also in contravention of the principles of equality and non-discrimination contained in international human rights framework, socio-economic inequality and sustainable development[2].

The High Level Panel 2015 Report by the African Union Commission (AUC) and the United Nations Economic Commission for Africa (ECA) on 'Illicit Financial Flows from Africa' defines the issue of IFFs as "money that is illegally, earned, transferred or utilised" recognising the perils of corporate tax avoidance practices as a true development challenge for African countries. **We would encourage ESCAP to commission similar research on developing and emerging Asia-Pacific economies losing revenue to illicit financial flows.**

<u>Rising inequality and the need to reform the international institutional architecture</u>

Comparing the average tax-GDP ratios of other developing regions at 20.2 percent[3], Asia-Pacific has the one of the lowest tax-GDP ratios in the world with tax systems with a high dependence on indirect taxes. Indirect taxes hurt the poor, marginalised and the vulnerable disproportionately and deny them access to opportunities. Further, more than half of the total wealth pool is owned by the top 1 percent[4] in countries like Indonesia, India, Russia and Thailand. Marred with such ingrained inequality, there is a need to recognise Asia-Pacific's challenges in strengthening tax systems, a sentiment that was shared at the Fourth High-Level Follow-up Dialogue on Financing for Development in Asia and the Pacific[5].

The norms on international tax in large part are designed by the Organisation for Economic Co-operation and Development (OECD) and the G20. Most developing countries are not part of norm shaping bodies, and therefore, do not have the policy space to shape international tax standards which affect them disproportionately. In the absence of an intergovernmental global tax body under the aegis of United Nations, the institutionalised cooperation of Asia-Pacific governments presents itself as an alternative to the standards set by the OECD. Thus, establishing a pan Asia-Pacific Tax Body under the aegis of ESCAP presents itself as a robust solution.

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[2] United Nations General Assembly, Human Rights Council (2016). Final study on illicit financial flows, human rights and the 2030 Agenda for Sustainable Development of the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights

[3] Economic and Social Commission for Asia and the Pacific and Oxfam (2017). Taxing for Shared Prosperity.

[4] Economic and Social Commission for Asia and the Pacific (2017). Taxing for Shared Prosperity. Policy Brief no. 6.

[5] ESCAP (2017). Tax policy and public expenditure management are key to financing sustainable development in Asia Pacific. Press Release. http://www.unescap.org/news/tax-policy-and-public-expenditure-management-are-key-financing-sustainable-development-asia

In this regard, we, the undersigned organisations, would urge the ESCAP to

- **Adopt a progressive and well-rounded definition of illicit financial flows that truly reflects the abusive impact on human rights in the context of developing countries.**
- **Commission research on the loss of revenue through illicit financial flows in developing and emerging economies in the Asia- Pacific region.**
- **Support the establishment of a Pan Asia-Pacific Tax Body under the aegis of ESCAP to reform the international taxation architecture and synergise regional cooperation on taxation matters in Asia-Pacific.**

We would be glad to provide further information on these issues.

Thanking you for your kind attention.

Yours sincerely,

Asian Peoples' Movement on Debt and Development, Philippines
Centre for Budget and Governance Accountability, India
Centre for Policy Dialogue, Bangladesh
Equity BD, Bangladesh
Focus on the Global South, Thailand
Global South Initiative, Nepal
Integrity Watch Afghanistan, Afghanistan
South Asia Alliance for Poverty Eradication, Nepal
Tax and Fiscal Justice Asia, Asia
Tax Justice Network Australia, Australia
Towards Transparency, Vietnam
Transparency International Cambodia, Cambodia
Uniting Church in Australia, Australia

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