

Advocating Adoption of Curbing Illicit Financial Flows ahead of the Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development

Economic and Social Commission for Asia and the Pacific

December 6-8, 2017



Subject: Adoption of curbing illicit financial flows under ESCAP's mandate of domestic resource mobilisation and financing for development ahead of the Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development (December 6-8, 2017)

We, the undersigned civil society organisations based out of Asia, are writing to you to highlight the urgent need to incorporate the international problem of illicit financial flows. We strongly believe that curtailing illicit financial flows (IFFs) is central to the debate of domestic resource mobilisation. Illicit financial flows - funds generated through a range of activities including tax evasion, misappropriation of state assets, laundering proceeds of crime as well as profit shifting by multinational corporations (MNCs) by abusing domestic tax laws, bilateral tax treaties, trade and investment agreements - impact and undermine national efforts to raise revenue to invest in social security, secure human rights, strive to reduce inequality and finance development.

IFFs are a key part of the Financing for Development (FfD) agenda, which includes tax evasion and corruption in its scope, but also recognises tax avoidance and abuse of tax treaties as potential avenues for the generation of illicit financial flows. Illicit financial flows are a tier 3 indicator under Goal 16.4 of globally adopted Sustainable Development Goals (SDGs), without a set definition, agency or work plan for national governments to prioritise.

We therefore call upon the Economic and Social Commission of Asia and Pacific (ESCAP) to recognise that curtailment of illicit financial flows is crucial for all countries, especially developing countries, and is significant within the mandate of domestic resource mobilisation and financing for development. ESCAP also must truly strive to adopt a progressive definition of illicit financial flows that goes beyond *illegal* activities like tax evasion, crime and corruption, and recognizes *socially unpalatable* and abusive practices such as tax avoidance by multinational corporations and the elite as equally corrosive towards the tax base of countries.

While there is lack of agreement on the scale of IFFs, given the deliberate clandestine nature of these funds, it is estimated that developing countries lose over \$1 trillion to IFFs,¹ and between \$500-600 billion through corporate tax avoidance practices alone,² every year. IFFs disproportionately affect developing countries as the GDP weighted losses of tax revenue were greater in developing countries than in developed nations.³ Further, taxation departments and regulatory bodies in developing countries face severe resource constraints to be able to crack down on illicit activities and channels.

IFFs are deliberately clandestine in nature and thus hard to track. 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 illicit financial outflows undermine economic growth, democratic processes and institutions, public trust and civil liberties in a country. In fact, developing countries face a global infrastructural deficit of \$3-\$5 trillion annually.⁴ The link between IFFs and poverty and intersecting inequality is particularly antithetical to the progressive realisation of human rights. By depriving governments of

¹ Global Financial Integrity (2017). Illicit Financial Flows to and from Developing Countries: 2005-2014

² Cobham, Alex & Peter Jansky. (2017). *Global distribution of revenue loss from tax avoidance: Re-estimation and country results*. United Nations University

³ Swiss Leaks Reviewed. Link: <http://www.swissleaksreviewed.org/#viewing-swissleaks-differently>

⁴ Inter-Agency Action Task Force (2017). Financing for Development: Progress and Prospects

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 political rights, such as access to justice, free and fair elections, freedom of expression and personal security. Furthermore, IFFs are also in contravention of the principles of equality and non-discrimination contained in international human rights law, economic inequality and sustainable development.⁵

The High Level Panel 2015 Report by the African Union Commission (AUC) and 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.⁶ **We would encourage ESCAP to commission similar research on developing and emerging Asian economies losing revenue to illicit financial flows.**

In this regard, we, the undersigned organisations, would urge ESCAP to include the issue of illicit financial flows under its mandate for financing for development for Asia and the Pacific.

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

Thanking you for your kind attention.

Yours sincerely,

Centre for Budget and Governance Accountability, India
Centre for Policy Dialogue, Bangladesh
Equity BD, Bangladesh
Global South Initiative, Nepal
Integrity Watch Afghanistan, Afghanistan
Perkumpulan Prakarsa, Indonesia
South Asia Alliance for Poverty Eradication, Nepal
Transparency International Cambodia, Cambodia

(For further information, kindly contact Neeti Biyani at neeti@cbgindia.org or Sakshi Rai at sakshi@cbgindia.org.)

⁵ 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

⁶ African Union Commission and Economic Commission for Africa (2015), Illicit Financial Flows: Report of the High Level Panel on Illicit Financial Flows from Africa.