Statement Abu Dhabi

Let me start from the beginning. What are illicit financial flows?

They can be defined narrowly or broadly:

1) In their narrow sense, they refer to unrecorded financial flows involving funds that are illegally earned, transferred or utilized, for example, the profits of crime and corruption. Even if the funds originate from legitimate sources, however, their transfer abroad in violation of domestic laws, such as tax regulations, would render the capital illicit;

2) In their broader sense, illicit financial flows refer also to funds that, through legal loopholes and other artificial arrangements, circumvent the spirit of the law, including, for example, tax avoidance schemes used by transnational corporations.

IFF are an international phenomenon, involving astronomical amounts of money. Since 2003, illicit financial outflows have increased in real terms by about 9.4 per cent per annum, according to the latest Global Financial Integrity estimates.

IFF prevent States to collect essential public resources and this even taking into account that a certain percentage of illicit financial outflows re-enters developing counties in the form of illicit inflows. Those funds do not make up for the loss of capital through illicit outflows. Furthermore, illicit financial inflows are generally not taxed, or invested into public or social services to further the realization of human rights. Instead, they flow into the underground economy, thereby compounding the problem.

As a global challenge, IFF affect developed and developing countries. They are not accidental or a by-product of the market, rather these flows often appear to be the result of state-sanctioned practices.

Against common beliefs, corruption-based illicit financial outflows account only for a small fraction of all illicit financial flows. In fact, it has been estimated that the majority of all illicit financial flows are related to cross-border tax-related transactions. In developing countries, trade and transfer mispricing is the main vehicle for tax evasion or abuse.

In developed countries, tax avoidance schemes by transnational corporations shifting profits to low tax jurisdictions within OECD countries and commercial banks that facilitate tax evasion by high net worth individuals in a systematic manner contribute to the phenomenon. In addition, there is a lack of comprehensive information as to where illicit funds are held. The main beneficiaries of illicit financial flows are secrecy jurisdictions, financial service providers and economic sectors into which laundered funds are reinvested, including vendors of luxury estates and producers of luxury goods. While in some cases significant funds may be returned and invested in private assets in the countries of origin, most funds remain offshore.
Corporate tax avoidance causes additional problems beyond lost revenue. They perpetuates inequality since the benefits accrue to a small minority while revenue losses will need to be made up by the rest of the population.

And, in developing countries, the phenomenon decreases the competitiveness of domestic businesses which cannot take advantage of cross-border tax haven transactions in order to minimize their tax bill. Tax avoidance also wastefully increases the cost tax administration. Furthermore, the more sophisticated tax avoidance schemes become, the more ineffective capacity-building efforts to strengthen tax administrations become. This suggests that, while capacity-building efforts are important to help combat tax avoidance in the short term, what is needed more fundamentally is a change in the rules themselves.

Given their international nature, there is no doubt that these flows can only be effectively addressed and curbed through mechanisms of international cooperation and shared accountability. By the same token, responses by one country alone, isolated from structural changes in other jurisdictions or from international efforts to fight opacity, will seldom produce meaningful results.

One may wonder, as the title of this panel proposes, how IFFs, human rights and gender equality are connected.

There are various links between IFF and human rights but let me focus now on how women’s rights are disproportionally affected. Illicit financial outflows deprive Governments of resources required to realize progressively economic, social and cultural rights.

In practice, this means that tax abuse by corporations and high net-worth individuals forces Governments to raise revenue from other sources, including through regressive taxes, the burden of which falls hardest on the poor. This has important human rights implications because regressive tax structures limit the redistributive impact of social programmes since they effectively end up being funded by the very people they are supposed to benefit. The need to make up revenue shortfalls through regressive taxes thus further undermines the realization of economic and social rights for the most vulnerable.

This has further implications for gender equality. When low-income households face deteriorating public services, many women and girls are forced to take on the additional costs of unpaid care needs. In a nutshell, the loss of tax revenue in terms of tax structure and the lack of ability to fund adequate public policies aimed at reducing gender gaps and fulfilling women’s human rights.

The second way through which IFF affect women particularly is through the role of financial secrecy jurisdictions and global networks of facilitators enable IFF which result from trafficking in women. Profits of women’s trafficking are benefited by the diverse mechanisms that allow for IFF, and the difficulties that are still encountered when attempting to link human trafficking with its money trace.

The reluctance to treat private action, in particular tax fraud, as corruption overlooks most IFF and helps perpetuate poverty and radical inequality. There is a need expand our definition of corruption going beyond, what is commonly considered as bribery if we really want to tackle the most pressing issues which are to promote human rights, ensure
gender equality and achieve the SDGs.

In my view, there are four main measures that can contribute to overcoming the shadow economy:

a) the abolition of shell companies and anonymous accounts, by imposing a legal requirement for public disclosure of ultimate beneficial ownership information of all business entities.

b) ensure automatic exchange of tax-related information worldwide.

c) public country-by-country reporting, mandated by a legal obligation on multinational corporations to submit thorough reports.

d) Put in place and harmonize legal frameworks to implement the Palermo Protocol and to protect the rights of migrants, and trafficked people, especially women and girls.

It must be noted that from a technical point of view, those steps are not difficult to undertake; however, they require the political will to be implemented.

The inclusion of a specific target to reduce IFF under the Sustainable Development Goals makes clear that curbing such flows is also essential for creating an enabling environment for sustainable development. The Addis Ababa Action Agenda states that the bulk of the funds needed to reach the SDGs will come from the developing countries themselves through significant gains in domestic resource mobilization. Specific measures to operationalize these target are needed to ensure that progress is achieved and that such progress can be tracked and measured and the anti-corruption machinery could play a key role and serve this purpose.