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## **High-Level Event on Financing for Development in the Era of COVID-19 and Beyond**

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**Convened by Canada, Jamaica and the Secretary-General**

**May 28, 2020 – 8AM – 12 PM**

### **Discussion Notes**

1. Global Liquidity and Financial Stability
2. Debt Vulnerabilities
3. Private Sector Creditors Engagement
4. External Finance and Inclusive Growth
- 5. Illicit Financial Flows**
6. Recovering better for Sustainability

# Discussion Note

## Illicit Financial Flows

### 1. Background

As entire economies have shut down to help stop the COVID-19 pandemic, tax bases have shrunk almost overnight, hitting public revenues hard at a time when increased spending is most needed to tackle both the immediate health crisis and the economic and social consequences. Developing countries will be particularly hard hit by this crisis. They tend to have lower tax-to-GDP ratios and high levels of tax avoidance and evasion.

While the debt relief initiatives of the G20 and others are crucial to provide much needed fiscal space to developing countries in the short-run, effective domestic resource mobilisation remains crucial for recovering better and financing the achievement of the SDGs in coming years. Safeguarding domestic resource mobilisation and the economy from economic crimes, including tax crimes, money laundering and corruption, together with improved governance and enabling business environments will be imperative.

The international community has made significant practical advances in tackling tax avoidance and tax crimes over the last decade. Illicit financial flows related to the proceeds of crime, however, continue to result in huge losses in tax revenues and aggressive tax avoidance continues to lock in regressive income distribution. It is estimated that trillions of dollars are held in offshore undeclared financial holdings, which are difficult to investigate because of the lack of availability and / or access to information or registries on beneficial ownership.

Trade mis-invoicing and trade-based money laundering is estimated at hundreds of billions of dollars a year. One estimate finds base erosion and profit shifting costs governments between \$500 billion and \$600 billion a year in lost tax revenues. Money laundering has been estimated at around \$1.6 trillion a year, with only a small fraction of reported suspicious transactions investigated. Corruption, grand corruption and corruption involving vast quantities of assets cost Member States billions of dollars in lost revenues.

### 2. Main challenges

While it might be difficult to focus policy makers' attention on long-standing challenges of illicit flows in the midst of a crisis, the need to do so has been amplified by the size of the required emergency response in the near-term, the likely increase in inequality, and the need to finance a strong recovery in the medium-term.

It has never been more important to imbed and fully integrate financial integrity and robust provisions to combat money laundering and corruption into our economic recovery response. In addition, it is important to accelerate the implementation of the provisions of existing normative instruments and global standards, such as the Financial Action Task Force Recommendations and the United Nations Convention against Corruption.

In addition to existing frameworks – and in line with the sustainable development agenda imperative to engage in new, multisectoral partnerships, greater collaboration should be sought from the large financial institutions to ensure robust anti money laundering measures are in place to support financial stability and financial inclusion. Other global initiatives to tackle illicit financial flows, such as the international tax transparency standards, which are being implemented by over 160 countries, and the work of the High Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda ([FACTI Panel](#)) could help strengthen these frameworks. The international community needs to ensure developing countries can also benefit fully from these global initiatives.

Challenges on the national level include the following:

- Uneven and ineffective implementation of global instruments and standards, particularly the Financial Action Task Force Recommendations and the United Nations convention against Corruption
- Insufficient fiscal transparency.
- Inefficient and wasteful tax incentives, particularly in the extractives sector.
- Misalignment of natural resources taxation with environmental sustainability considerations.
- Lack of accessibility, incomplete tracking and transparency of beneficial ownership information.
- A dearth of financial investigation capacity.
- Uncoordinated approaches across ministries and agencies to tackling tax crimes and other financial crimes.

Challenges in International cooperation include:

- Insufficient tax coordination, especially at the institutional level, to prevent base erosion and profit shifting and non-taxation of income.
- Insufficient voice and participation of developing countries in international tax cooperation.
- Inadequate information-sharing and mutual legal assistance.
- Slow pace of confiscation, recovery and return of assets.

It is urgent to address risks related to the criminal misuse of emergency assistance, especially liquidity; as well as an increased movement of crime into cash intensive and high liquidity lines of business in low income countries and fraudulent exploitation of economic stimulus measures and bypassing of customer due diligence measures.

### **3. Exploring scenarios and implications**

Business as usual will result in investment in infrastructure and public services continuing to suffer, while corruption and economic crime will impact the effectiveness of COVID-19 response funds. Criminals and tax abusers will likely continue develop ever more sophisticated means of escaping regulation, enforcement, and accountability. Increasing complexity of tax rules and administration practices will also worsen the divide between countries based on capacity. Low-capacity countries will struggle to tax fairly and enforce rules, leaving them further behind.

In an alternative scenario, the world could move quickly to boost fiscal and financial transparency. These measures would strengthen the social contract and raise needed resources for investing in the SDGs.

Actions can be taken in the short, medium and long term. The first step is to ensure integrity in deployment of urgently needed COVID-19 resources, enhancing their effectiveness. In the medium-term, as part of building back better, governments would invest in boosting capacity to combat illicit financial flows and economic crime including money laundering and corruption. The international community would need to accelerate assistance to Member States in the international frameworks for combatting illicit financial flows.

## 4. Possible areas of action

- Enabling a more coordinated approach among governments to tackle tax avoidance, tax crimes and other financial crimes, including by strengthening legal capacity of different governmental bodies to share information with each other.
- Increase fiscal transparency, including the publication of public contracts and information on tax and employment incentive measures and their use by businesses, and the strengthening, empowerment of supreme audit institutions to audit spending and tracing and feedback on utilization, particularly for the extra-budgetary resources for emergencies (such for COVID-19).
- Revisiting inefficient and wasteful tax incentives and the taxation of natural resources to ensure environmental sustainability.
- Strengthening the implementation of beneficial ownership standards and improving the tracking and transparency of beneficial ownership of all legal entities.
- Advancing on a new international tax action plan specifically tailored to the needs of developing countries.
- Scaling up the Tax Inspectors Without Borders program.
- Providing assistance in public financial management, cross-border tax collection, and capacity building for tax administrations, especially so they benefit from international tax transparency.

## 5. Continued Collaboration

### A. By mid- July 2020, at the margins of the High-Level Political Forum

- Discussion on how to address risks related to the criminal misuse of emergency assistance, especially liquidity.
- Reflection on how to speed up integration and mainstreaming of financial integrity into domestic resource mobilization efforts, to avoid further draining and eroding recovery.
- Consideration of other avenues to further advance the [Secretary-General's Strategy and Roadmap for Financing the 2030 Agenda](#) in support of the process.

### B. By mid-September 2020, at the margins of the UN General Assembly

- Discussion on the implementation of measures to avoid misuse of emergency assistance.
- Consider avenues to invest in boosting capacity to combat illicit financial flows and economic crime including money laundering and corruption.

### C. By mid-December 2020

- Stock-taking and placing progress in the context of our common ambition to deliver the 2030 promise—by mobilizing together around the [Decade of Action](#), needed now more than ever to prevent losing decades of progress towards sustainable development.