

Illicit financial flows



WHY IS INTERNATIONAL CO-OPERATION IMPORTANT FOR DEVELOPMENT?

Illicit financial flows from developing countries make up a significant part of the larger problem of capital flight, reducing the resources available for investment, growth, and poverty reduction and resulting in significant losses in government revenue. They comprise the movement of funds whose origin, transfer or use is contrary to national and/or international laws, including the following:

- the movement of money that has been illegally earned, including the proceeds of criminal activities and corruption, and illicit trade. Such transactions are often intended to disguise the illegal origin of funds and to make it appear that they have been generated from a legal source (money laundering);
- the illegal transfer of funds (whether earned legally or illegally) for the purpose of evading taxes or other legally required payment;

- the transfer of funds (whether earned legally or illegally) for an illegal use (e.g. terrorist financing).

Total illicit flows from developing countries have been estimated to be between USD 850 billion to USD 1 trillion per year, far exceeding inflows from Official Development Assistance and Foreign Direct Investment. Tax evasion is estimated to account for 60 to 65% of all illicit flows; 30 to 35% is attributed to criminal activities and 3% to bribery and theft by government officials. There is thus a close link to the two previous topics in this report, taxation and anti-corruption, to international organised crime and to conflict and stability (Topic 13).

There is a need both for action by governments at the national level and for increased international co-operation. A large number of international instruments (both hard and soft law) now exist to tackle illicit financial flows and the flow of illicit goods, such as drugs and illegal arms. Political momentum has been provided by the G20 process. The Seoul Anti-Corruption Action Plan calls for strengthened efforts to prevent and combat money laundering and strengthened channels for mutual legal assistance on asset recovery.

Drawing on the distinction above between origin, transfer and use, the three key areas for international co-operation are:

- stemming illegal earnings at their source;
- making the act of transfer more difficult;
- identifying and returning illegally transferred funds at their destination.

WHERE ARE WE NOW AND WHAT NEEDS TO HAPPEN NEXT?

(i) Stemming illegal earnings at their source

Legally binding anti-bribery instruments include the UNCAC and the OECD Anti-Bribery Convention, as well as the OECD Guidelines for Multinational Enterprises (MNEs), which set important recommendations for the private sector on preventing bribery and corruption. There are also a number of certification and transparency initiatives aiming to reduce corruption or illegal trade in natural resources, such as EITI, the Kimberley Process and the EU Forest Law, Enforcement, Governance and Trade (FLEGT) initiative.

The next steps include:

- Application of the UNCAC and related provisions in the Guidelines for MNEs and continued enforcement of the Anti-Bribery Convention.

(ii) Making the act of transfer more difficult

The Financial Action Task Force (FATF) has been active in encouraging countries to adopt its 40 + 9 recommendations on legal, regulatory, and administrative measures aiming to combat money laundering and terrorist financing. As part of the G20 Anti-Corruption Action Plan, it has been asked to report at the 2011 Summit on its work to identify jurisdictions with strategic Anti-Money Laundering/Counter-Financing of Terrorism deficiencies, and to update and implement the relevant FATF standards. The OECD-hosted Global Forum on Transparency and Exchange of Information for Tax Purposes aims to make it more difficult to shelter funds in tax havens. The OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations aim to protect countries against the artificial shifting of profits out of their jurisdictions, and have been widely adopted.

The next steps include:

- updating and implementation of relevant FATF standards; and action to address deficiencies in anti-money laundering regimes identified by FATF;
- further review of progress in 2011 within the G20 and other processes;

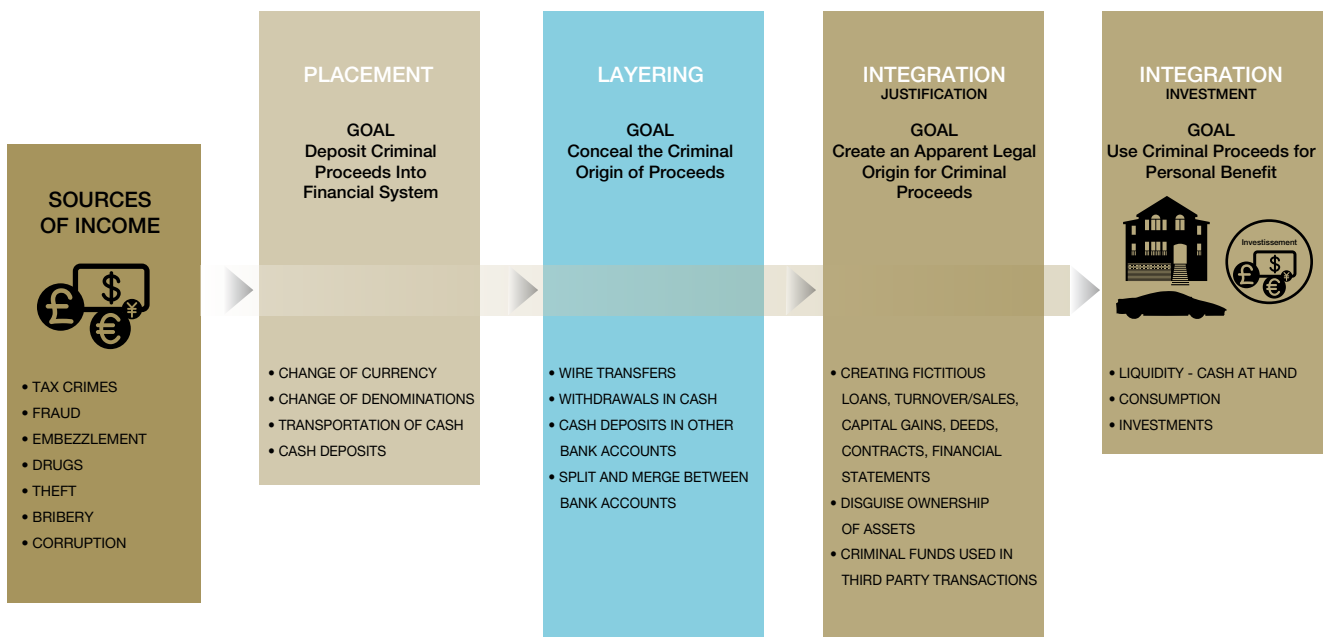
- implementation of standards on transparency and exchange of information for tax purposes in order to make it more difficult to shelter funds in tax havens.

(iii) Identifying and returning illegally transferred funds at their destination

The Stolen Asset Recovery Initiative (StAR) has been launched by the UN Office on Drugs and Crime (UNODC) and the World Bank to help developing countries recover stolen assets, including the proceeds of corruption. The G20 Anti-Corruption Action Plan calls for the use of the relevant provisions on mutual legal assistance and asset recovery of the UNCAC, and for all G20 members to establish clear and effective channels for mutual legal assistance and other forms of co-operation on corruption and asset recovery. The next steps include:

- enhancing effectiveness of the range of institutions, agencies, legal procedures, and rules which exist in relation to asset recovery;
- designation of an appropriate authority responsible for mutual legal assistance requests; and signature of bilateral and multilateral treaties on mutual legal assistance and asset recovery, where needed;
- provision of technical assistance where needed.

Overview of Money Laundering



Source: OECD Handbook on Money Laundering Awareness: www.oecd.org/ctp/taxcrimes/laundrying.

HOW CAN THE OECD, WORKING WITH OTHER INTERNATIONAL ORGANISATIONS, HELP TO ACHIEVE THIS?

There are a number of other international organisations and processes involved in this area. The main potential entry points for the OECD's engagement are its work on investment, anti-bribery, and taxation. There is a need to link work on these various issues. The OECD can contribute on the issues above as follows:

(i) Stemming illegal earnings at their source

Promoting co-ordination: there is a particular need to draw together and disseminate good-practice lessons on technical, administrative, regulatory, and legal measures aiming to combat illicit flows.

(ii) Making the act of transfer more difficult

Researching and data gathering, including on the nature, types, and scale of illicit flows, and the rapidly changing techniques used by individuals and companies to move money illegally.

(iii) Identifying and returning illegally transferred funds at their destination

Collaborating with the World Bank/UN StAR to follow up the 2008 Accra Agenda for Action commitment on OECD governments' responsibilities to trace, freeze, and recover illegally acquired assets originating from developing countries. A survey of OECD governments was undertaken in 2009-2010 and the OECD is also working with StAR to study the quantification of the proceeds of corruption for the purposes of confiscation and asset recovery (the OECD will publish a report on this in 2011).

The OECD is well placed to develop knowledge and promote dialogue with the UN system (covering drugs, arms trafficking, etc.), the World Bank (asset recovery), and the private sector, especially the banking sector and MNEs.

Finally, building on the outcomes from the March 2011 Tax and Crime Conference, the OECD could promote more intense dialogue at the national and international level between tax administrations and other regulatory bodies.



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