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Summary record of the joint meeting of the Second Committee and the Economic and Social Council on "Illicit financial flows and development financing in Africa"
Held at Headquarters, New York, on Friday, 23 October 2015, at 10 a.m.

Co-Chair: Mr. Logar (Chair, Second Committee). . . . . (Slovenia)
Co-Chair: Mr. Oh Joon (President, Economic and Social Council) . . . . . . (Republic of Korea)

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The meeting was called to order at 10.10 a.m.

Introductory statements

1. **Mr. Logar** (Co-Chair) said that the Economic Commission for Africa (ECA) had been mandated to establish the current High-level Panel on Illicit Financial Flows from Africa with a view to ensuring Africa's accelerated and sustained development, relying as much as possible on its own resources. The Panel had concluded that combating illicit financial flows from Africa was imperative, and urged the African Union to elaborate a global governance framework to determine the conditions under which assets were frozen, managed and repatriated. The report noted that the global architecture for tackling illicit financial flows was incomplete; reforms were clearly needed to promote cooperation and coordination at a global level to stem the tide of illicit financial flows in Africa and beyond.

2. The current meeting should, first of all, reflect on how the United Nations could assist African countries in tackling illicit financial flows at the national and regional levels, incorporating lessons from other regions. Secondly, it should examine how the United Nations could stimulate greater global cooperation and coordination among entities tackling the problem, including Governments, donors, financial institutions, and international organizations. He wondered how new initiatives could be streamlined and integrated into a holistic, coherent global effort aimed at combating illicit flows across all nations. Thirdly, it was necessary to examine the necessary steps to foster a global governance and financial architecture that was capable of tackling illicit financial flows.

3. **Mr. Oh Joon** (Co-Chair) said that African countries were fundamentally transforming their economies, creating jobs, reducing poverty, combating inequality, empowering women and achieving sustainable development by balancing critical economic needs with social and environmental sustainability. In order to translate the Sustainable Development Goals into reality, they would require a vast number of investments in key sustainable development sectors, but it was unclear what the source of that financing would be. African countries were among the developing nations that would require the largest proportion of financial resources. Domestic resource mobilization was now an inescapable policy reality for all developing countries, including those in Africa.

4. For developing countries, the illicit outflows of finance represented a major loss of foreign exchange reserves, an erosion of their legal tax base and the forfeiture of investment opportunities from natural resource rents. It was estimated that illicit financial flows from Africa amounted to a staggering US$ 50 billion per year. Efforts at domestic resource mobilization must be complemented by efforts to combat illicit financial flows, lest the effectiveness of such mobilization be curtailed.

5. **Mr. Zhan** (Director, Division on Investment and Enterprise, United Nations Conference on Trade and Development (UNCTAD)), speaking via video link from Geneva, said that tackling illicit financial flows was essential for Africa to achieve the Sustainable Development Goals and structurally transform its economy. Nearly US$ 530 billion had left Africa in the form of illicit financial transfers during the decade 2002-2012, which was more than the gross domestic product (GDP) of Kenya during that same period. Representing a huge cost for development, illicit financial flows undermined institutions, drained the State of much needed resources, reduced the development resource base and could lead to higher domestic tax burdens. The direct and indirect consequences of illicit financial flows, including their repercussions on health, education and employment, were major constraints for Africa's structural transformation.

6. While the problem was serious, it was solvable with the help of institutions like UNCTAD and the Department of Economic and Social Affairs. Such institutions should help to strengthen the capacity of African financial institutions, revenue authorities and ministries administering natural resource extractive sector contracts to address illicit flows; undertake tax reform to widen the tax base and reform customs service procedures to curtail trade mispricing; and further enhance anti-money-laundering initiatives and enforcement.

7. The fight against illicit financial flows could not be won unless serious governance issues were addressed, particularly the use of natural resource revenues, and unless independent, transparent and accountable institutions were strengthened. Africa was the only region where illicit financial flows reached

around 5 per cent of GDP, with the natural resource sector often being the main source of such flows. Information asymmetries, which resulted in tax avoidance and trade mispricing, and unsuitable governance structures contributed to the problem. To address such issues, African countries should promote transparency and accountability by strengthening civil society organizations and implementing open and transparent budgeting processes. They should also promote institutional reforms to guarantee the independence of judiciaries, audit courts, customs authorities and central banks, and to tackle any signs of corruption. In addition, it was critical for African nations to create anti-corruption commissions and illicit financial flow units within tax revenue and customs authorities. Finally, African countries should promote initiatives to encourage politicians and civil servants to periodically disclose their assets.

8. The international community shared the responsibility of tackling the problem of illicit financial flows in Africa. Greater regional cooperation was needed between the African Union and regional economic communities, and greater international cooperation was needed through, inter alia, the United Nations Committee of Experts on International Cooperation in Tax Matters, the Stolen Asset Recovery initiative, and the Global Forum for Transparency and Exchange of Information for Tax Purposes.

9. How African countries dealt with multinational companies and foreign direct investors was another important issue, one on which United Nations agencies and departments like UNCTAD and the Department of Economic and Social Affairs could offer policy advice to Governments to help them design investment policies and handle tax avoidance and illicit practices by multinationals.

Panel discussion on illicit financial flows and development financing in Africa

10. **Mr. Maruping** (Commissioner for Economic Affairs, African Union Commission) said that with the advent of the Sustainable Development Goals, the new 2030 Agenda for Sustainable Development and the third International Conference on Financing for Development, it had become imperative to address the persistent challenge of illicit financial flows on the global level. Addressing the problem was particularly important for African countries, as official development assistance (ODA) continued to decline and foreign direct investment (FDI) remained scarce. Domestic resource mobilization had also not achieved its full potential. All three phenomena had led to a financing gap that had often been closed with external borrowing, thus exacerbating already heavy external indebtedness. The prospect of financing its Agenda 2063 put added pressure on Africa.

11. Reports indicated that the bulk of illicit financial flows, which were multifaceted and tended to mutate, were attributable to transnational corporations, especially in the extractive industry. Illicit flows were a much larger percentage of GDP in African countries than elsewhere. The region's aspiration towards transformative economic growth, poverty eradication and human development would require high, sustained, stable and inclusive economic growth characterized by equitable distribution of income and wealth. Given the current level of development in Africa, with over 30 least developed countries and several lower middle-income countries, an economic growth rate of at least 7 per cent in real terms would be necessary for economic transformation (in addition to enhanced productive capacities, competitiveness, diversification and value addition). According to Agenda 2063, that would require infrastructure development and energy generation; improved agricultural production; technology development, transfer and diffusion; increased investment in health, education and training, with special emphasis on skills development; accelerated industrialization; growth of the service sector; greater economic integration; private sector development; and joining subregional, regional and international supply chains through trade.

12. Agenda 2063 included a number of fast-track projects and programmes in the sectors of transport, technology, infrastructure, peace and security, finance, outer space, education and trade, which also factored in enablers such as good governance and cross-cutting issues such as gender parity, women's empowerment, youth employment and the inclusion of persons with disabilities in the workplace. The implementation of Agenda 2063 was highly likely to succeed because due attention had been paid to avoiding the pitfalls of previous frameworks. Implementation would now take a bottom-up approach that ensured inclusion, ownership and commitment by the public, private and civil society sectors; a framework based on existing continental and regional initiatives, programmes, resolutions and national strategic frameworks and

action plans would ensure harmony, alignment and coherence.

13. Agenda 2063 must be implemented at all levels. Clear targets and indicators would facilitate results-based management and the mounting of a credible accountability framework. Risk analysis had already been conducted and the required capacity to realize the first 10-year implementation plan had been assessed. Adaptation of the implementation plan to national and subregional situations would ensure the Agenda's integration into national and subregional action plans. An effective communications strategy was already in place, and the means of implementation had been duly considered.

14. All 17 Sustainable Development Goals were fully incorporated in the 20 goals of Agenda 2063, which could be seen as Africa's instrument for their implementation. While ODA would be welcome for financing Agenda 2063, it remained an unpredictable and selective source of funding, laden with conditionalities that stifled policy space. Agenda 2063 was therefore not pinning its hopes on ODA, despite the many commitments made internationally. Philanthropy, which had played a substantial role in funding the Millennium Development Goals (MDGs), was by nature discretionary and would therefore be a precarious, though welcome, source of funding. Foreign direct investment had likewise been side-stepping Africa for years despite generous incentives offered by African countries.

15. Domestic resource mobilization was thus the only source of financing that was under African countries' control; their potential for domestic resource mobilization remained largely untapped, however. Illicit financial flows further complicated the situation: tax bases were eroded, leading to deficits and external borrowing that often worsened sovereign debt problems; domestic financial markets were distorted and drained; financial deepening was hampered; fiscal and financial imbalances were prolonged; investment allocations became inefficient; and inequalities in the distribution of wealth were exacerbated. The African Union was therefore deeply concerned about the effect of illicit financial flows on financing for Agenda 2063. The international community had likewise expressed concern, including at Group of Eight and Group of 20 summits, and the Extractive Industry Transparency Initiative had been created. The issue of illicit financial flows had been addressed by a number of United Nations bodies in addition to the Second Committee, the Economic and Social Council and the Department of Economic and Social Affairs, including UNCTAD and the United Nations Global Compact, as well as in United Nations reports.

16. Africa had taken the lead in combating illicit financial flows, forming the High-level Panel on Illicit Financial Flows from Africa in 2012. The High-level Panel had issued a comprehensive and informative report and, in 2015, had met with key African stakeholders. The African Union had mandated various pan-African organizations to work with the Panel, including ECA and the African Union Commission. Combating illicit financial flows was a complex and multifaceted process: while some challenges could be overcome in the short term, others would take a long time to conquer. As illicit financial flows were global, no single region could effectively tackle them on its own. The United Nations was the relevant platform for mobilizing global efforts against illicit financial flows; the Addis Ababa Action Agenda provided the basis for the Second Committee and for the Economic and Social Council to engage legitimately.

17. He urged the Second Committee to appoint a committee of relevant experts to combat illicit financial flows at the global level and to develop an action plan to eliminate illicit financial flows by 2030 or earlier. The Economic and Social Council should work with the Commission on Crime Prevention and Criminal Justice and draw on the United Nations Convention against Corruption to produce a global framework for dealing decisively with global illicit financial flows, perhaps in the form of a protocol to an existing instrument.

18. **Mr. Nour** (Director of the United Nations Regional Commissions New York Office) said that the 2030 Agenda and the Addis Ababa Action Agenda had identified illicit financial flows as a major obstacle to development. The three major aspects of illicit financial flows were commercial, criminal and corruption-related. The assets lost represented an enormous transfer from developing States of limited resources that could otherwise have been invested in development. Although illicit financial flows emanating from Africa were not as high in absolute terms as in other places, that continent was where the average ratio of illicit financial flows to GDP was the highest. That was all the more damaging given that Africa's average GDP was not adequate in the first

place to meet the aspirations of the Sustainable Development Goals. Moreover, official estimates of the commercial component of illicit financial flows were on the conservative side because they relied primarily on trade mispricing and generally did not include losses resulting from transfer pricing, unequal contracts and misinvoicing.

19. Although a number of global, regional and subregional initiatives to combat illicit financial flows were already under way, there was a clear need to institute laws against mispricing and strengthen capacities to detect transfer pricing. Greater tax cooperation and exchange of tax information were necessary to address base erosion and profit shifting, and independent institutions should be established to track and prevent illicit financial flows. In cooperation with the African Union and other African institutions, the Economic Commission for Africa was working to expand the toolkit for policymakers and to promote capacity-building, research and advocacy. There were a number of useful lessons to be learned from the experiences in other regions. For example, between 2004 and 2008, Bolivia had dramatically increased the revenues it received from its hydrocarbon industry, mainly as a result of renegotiating contracts.

20. Reduction of illicit financial flows as called for in the Addis Ababa Action Agenda would require more of the kind of political will that had been displayed by the High-level Panel on Illicit Financial Flows from Africa. The problem needed to be viewed through a development lens that took capacity constraints into account. Upscaling regional and international cooperation, including among the regional commissions, and the creation of more inclusive platforms would be essential to stem the drain on domestic resource mobilization created by illicit financial flows.

21. **Professor Boyce** (Department of Economics, University of Massachusetts, Amherst) said that illicit financial flows included not only capital flight (defined as unrecorded outflows, including funds that were illicitly acquired, transferred or held abroad) but also payments for smuggled imports, transactions in connection with illicit trade in narcotics and other contraband, outflows that had been domestically laundered, and transfer pricing by the corporate sector.

22. There was a relationship between capital flight and external borrowing. In the phenomenon known as debt-fuelled capital flight, officials received kickbacks on, or diverted funds from, Government-contracted loans and stashed the proceeds abroad. In the phenomenon known as flight-fuelled external borrowing, private individuals illicitly parked funds abroad and then "borrowed" them back. The borrower could reap further illicit gains if liability for repaying the loan passed to the Government. Analyses had shown that for every dollar of external borrowing by African countries, as many as 60 exited Africa via capital flight. Debt management and oversight of natural resource extraction were thus extremely important for addressing the problem of capital flight.

23. A measure of success had been achieved in recovering stolen assets — for example, the $700 million held in Swiss bank accounts by Nigeria's former military ruler Sani Abacha and his family. Even if that was modest compared to the total magnitude of capital flight, such recoveries had a demonstration effect that could help to deter future capital flight. International infrastructure to assist in stolen asset recovery included the United Nations Convention against Corruption and the Stolen Asset Recovery Initiative of the World Bank and the United Nations Office on Drugs and Crime. National financial intelligence units and anti-money-laundering legislation also played a crucial role in the process. A key feature of that international architecture was the ability of investigators to demand proof that assets had been acquired legitimately when they identified substantial foreign holdings belonging to politically exposed persons or persons suspected of criminal activity.

24. One possible innovation would be the creation of an international bankruptcy court that could consider cancelling "odious" debts contracted by Governments without the consent of the people, from which the people did not benefit, and in circumstances where creditors knew or should have known that those conditions applied. Where there was evidence of systematic misuse of borrowed funds, the burden of proof should be placed on creditors. Capital flight could also be limited by increased transparency in international banking. Contrary to popular conception, the most important offshore domiciles were not tropical islands, but rather New York, London and other international financial centres. Cross-country exchange of information should include automatic disclosure by banks of the identities of beneficial

owners, a standard that the Group of 20 had endorsed in 2013.

25. The main motivations for capital flight were to conceal illicitly acquired funds and to evade taxation. Increased transparency and the creation of an impartial body to adjudicate cases of odious debt would be important deterrents both to those who engaged in capital flight and to officers of banks and other financial institutions who might be in a position to profit from aiding and abetting it.

26. **Ms. Dayle Siu** (Tax and Development Consultant, Independent Commission for the Reform of International Corporate Taxation, and Managing Attorney-at-Law) said that in the broadest sense, illicit financial flows included all arrangements that circumvented the spirit of the law, including tax minimization by multinational corporations. Base erosion and profit shifting were estimated to cost a percentage of GDP three times greater in developing countries than in developed countries. At the same time, there had been a dramatic drop in nominal corporate tax rates over the preceding 30 years, just as low-income countries were growing more reliant on corporate income taxes. Tax abuse benefited the rich and hurt the poor by depriving Governments of funds that might be invested in health, education and infrastructure. Domestic businesses that did not have access to tax havens ended up paying for abuses by multinational corporations. The overall effect was to increase the reliance of developing countries on foreign assistance.

27. Existing rules and institutions governing taxation dated from early in the previous century when most cross-border trade was in commodities and manufactured goods. However, in the twenty-first century, over half of GDP was being generated by services and other intangible assets, with many transactions occurring between related parties within the same multinational corporation. Institutions had not adapted to the new realities. For example, only three African countries had transfer pricing units in their internal revenue services, even though a majority of tax treaty disputes involved transfer-pricing abuses. Capacity-building at the national level needed to be supplemented by regional cooperation and more effective global governance. The base erosion and profit shifting initiative launched by the Group of 20 and the Organization for Economic Cooperation and Development (OECD) was a step in the right direction, but the country-by-country reporting scheme needed to be strengthened. Enhanced representation for developing countries in decision-making in global international economic and financial institutions, as provided for by Goal 10 of the Sustainable Development Goals, would be crucial for the success of any reforms.

28. The recommendations contained in the Declaration of the Independent Commission for the Reform of International Corporate Taxation included taxing multinational corporations as single firms and sharing out tax revenues to the countries where the relevant economic activity had taken place. Tax competition needed to be curbed, with developed countries establishing a minimum corporate income tax and addressing spillover effects through regional and international cooperation. States should also ensure that their tax administrations had the necessary authorities and resources to collect taxes owed by multinational corporations. Country-by-country reporting information should be made public, so that the effectiveness of reforms could be monitored. Above all, inclusivity should be built into tax policy through the creation of an intergovernmental commission to draft a convention against abusive tax practices. A global problem required a global solution.

29. **Mr. Davis** (Economist of Division for Africa, Least Developed Countries and Special Programmes, United Nations Conference on Trade and Development (UNCTAD)) said that in its Economic Development in Africa Report 2015, the United Nations Conference on Trade and Development had highlighted the need to address the lack of prudential regulation in the financial services sector in order to tackle the problem of illicit financial flows. In view of the rapid growth of cross-border banking and financial trade, and the fact that over half of commercial bank assets in Africa were being held by foreign countries, regulation must be developed to cater for more effective disclosure and transparency in trade and financial flows. The struggle to implement such regulation was exacerbated by trade mispricing and inadequate tax regulation, a lack of harmonization across the African continent, and a shortage of skills available to regulatory authorities.

30. In the East African Community, tremendous progress was being made in the form of a code of conduct to prevent harmful taxation, and in the harmonization of tax incentives. Thus steps were being taken to prevent the phenomenon of a “race to the

bottom" in corporate taxation. In the move towards greater regional integration, more emphasis had been placed on the sharing of information, as well as on oversight bodies and boards that had jurisdiction over much of the sector.

31. African States needed to build their institutional capacity to address illicit financial flows. UNCTAD provided technical assistance to relevant countries through its Automated System for Customs Data programme, which enabled better monitoring of transfer pricing and imports and exports. Dependence on raw primary commodities was growing in countries in sub-Saharan Africa, which were also the most affected by illicit financial flows. The direct and indirect costs of illicit financial flows represented enormous development financing losses for African countries. Consequently, many of them were reverting to international capital markets to fill development funding gaps in their capital account, as commodity prices had steadily declined over several years. Illicit financial flows had thus made those countries more dependent on external financing and debt, which in turn gave rise to issues of sustainability. They also reduced incentives for policymakers and the private sector to engage in legitimate economic development and structural transformation, including necessary policy, regulatory and governance reforms; at the same time, they reduced potential fiscal and export revenues for those countries. In many of the affected countries, the problem was closely linked to the natural extractives sector, where powerful interest groups ensured that exports remained constituted primarily by raw materials, instead of higher-value processed materials.

32. Government leadership and regional action would be critical in addressing those problems. As illustrated by the case of Sierra Leone, countries that had struggling health care services and systems could finance universal health care coverage by reducing tax incentives, making mining agreements more transparent, and inhibiting illicit financial flows.

33. Initiatives such as the African Minerals Development Centre and the Africa Mining Vision had argued that Africa's mineral endowments could, if managed well, lift the continent out of poverty and catapult it to growth, development and prosperity for all. Governments in Africa must engage multinational corporations to reinvest profits and taxes in local economies to boost infrastructure development and provision of social services. Sovereign wealth funds also had a role to play, and lessons could be drawn from the experience of Botswana in that regard. The payments transparency issues important to many commodity-dependent developing countries could be addressed through a consensus-building forum convened by the United Nations. Regional integration, international partnerships and a broadened economic base comprising manufacturing and services would all play major roles in resolving the problem of illicit financial flows from Africa.

34. **Ms. Spiegel** (Chief, Policy Analysis and Development Branch, Financing for Development Office, Department of Economic and Social Affairs), lead discussant, said that the current discussion of illicit financial flows showed that real policy changes were on the horizon. The discussion had touched on transparency, budgets, taxes, corruption, investment and debt, reflecting the content of various paragraphs of the Addis Ababa Action Agenda, an international agreement on issues such as ODA, private investment, regulation and debt. One subject that had not been covered was technology, even though new technologies could help to better track financial flows. There had also been calls for international financial institutions and the United Nations system to publish estimates of the volume and composition of illicit financial flows, which were illicit for a reason and were therefore difficult to track. Another problem was the lack of a definition of illicit financial flows, which were not merely money illegally earned, transferred or used but also concerned money that crossed borders. The figures mentioned mostly referred to trade invoicing issues, but some also covered capital flow invoicing issues, tax incentives and contracting. There was therefore a lack of consistent definitions and numbers. Policy consistency would be needed among decision-makers in various ministries so as to ensure synergy.

35. Regarding trade misinvoicing and capital account issues referred to by Professor Boyce, the numbers given were gross flows, namely, private flows whose tax implication would have to be calculated. The Organization for Economic Cooperation and Development and the Committee of Experts on International Cooperation in Tax Matters were investigating transfer mispricing, for example base erosion and profit shifting, which were estimated to cause annual losses of $100 billion to $240 billion. Further research would be needed to determine the full

impact. The Addis Ababa Action Agenda mentioned the United Nations Convention against Corruption as the framework for addressing corruption and money laundering. Mr. Maruping had also suggested working with the Commission on Crime Prevention and Criminal Justice for that purpose. A small proportion of ODA had already been devoted to building capacity to tackle domestic tax evasion, another issue discussed by the panellists. The Addis Ababa Action Agenda also outlined initiatives in that area, and other initiatives had been launched by the International Monetary Fund, Tax Inspectors Without Borders, the United Nations Conference on Trade and Development and the United Nations Department of Economic and Social Affairs.

36. Money leaving countries in the form of illicit financial flows was money that could have been invested domestically; the need for investment in infrastructure was particularly high. The Addis Ababa Action Agenda acknowledged that even if the problem of illicit financial flows were solved, the resources that became available might not go to areas where financing was needed. The broader question was therefore how to encourage financing in those areas.

37. With regard to Mr. Maruping's proposal to form a group of experts in the Second Committee, she said that the OECD Global Forum on Development, held ahead of the Addis Ababa Conference, had been another platform for discussing those issues.

Interactive discussion

38. **Mr. Shearman** (United Kingdom) said that the Committee should take action on the issue of illicit financial flows. His country was already taking various demonstrably successful policy and regulatory measures, such as a register of beneficial ownership of companies, tougher legislation to counter money-laundering and bribery, and specialized law enforcement units tasked with tracing and recovering stolen assets that originated in developing countries and were found in the United Kingdom and investigating bribery by its citizens in developing countries. A new agency should be created that was dedicated to bilateral cooperation with the tax authorities of developing countries with a view to strengthening their capacities and tackling the problem of tax evasion.

39. Looking at the issue of illicit financial flows from a development perspective, how recovered money was used was extremely important, as was stronger emphasis on coordination among development agencies and multilateral development banks and better cooperation with legal and regulatory authorities. His delegation supported initiatives for cooperation on base erosion and profit shifting and other tax matters and stressed the importance of a more coordinated approach to the difficult task of asset recovery, perhaps in the form of an internationally endorsed asset recovery rapid response capability, since the current international response had been chaotic in many cases. His delegation wished to explore solutions with partners, including the United Nations, the World Bank, the International Criminal Police Organization (INTERPOL) or others, and welcomed further reflections or comments from the High-level Panel on Illicit Financial Flows from Africa. He wished to inform the Committee that his Government would convene a summit in 2016 to address the issue of combating corruption and illicit financial flows, and hoped for a broad range of participants.

40. **Mr. Dennis** (Liberia), noting that the primary responsibility of the African Union was the economic and social development of Africa, asked Mr. Maruping what action the African Union had taken in response to the findings of the report of the High-level Panel on Illicit Financial Flows from Africa. He asked Mr. Zhan about the relevance of the solutions he had proposed to address illicit financial flows. Why had the issue become even more acute since the publication of the Panel's report, despite the increased attention of the international community? African Governments knew that Africa was the least developed continent and its people were poor. Were those Governments being deceitful in begging other countries for development money each year?

41. **Mr. Maope** (Lesotho) said that the presentations showed that crimes had been committed by corporations from the developed world against developing countries, and yet the implication was that the victim should be the one to take action, not the countries where the criminal elements were based. Legislation had been adopted in the United States to tackle that criminal activity, and the representative of the United Kingdom had explained the actions taken in his country to control such criminal activity; in general, however, victim countries were expected to change their governance structures. He asked whether developed countries would be willing to extradite the

individuals who were responsible, recalling that in the 1990s, after an incidence of corruption in the Lesotho Highlands Water Project, not a single manager had been returned to Lesotho for prosecution and imprisonment.

42. **Mr. Tadesse** (Ethiopia) said that all developing countries faced financial constraints. All forms of financing should therefore be mobilized. Domestic resource mobilization promoted legitimacy, democracy, development and ownership. It was also necessary to promote inclusive economic growth to broaden the tax base. Growth should therefore remain at the centre of the debate.

43. Institutional capacity and tax reforms at the international, regional and national levels remained critical. There was a link between ODA and domestic resource mobilization, and ODA should be aligned with national development priorities. A link could be created between ODA, the fight against illicit financial flows, and domestic resource mobilization since ODA could be used to enhance the capacity of developing countries to mobilize domestic resources. The Addis Ababa Action Agenda had created a financial framework that would enhance tax cooperation and included initiatives such as Tax Inspectors Without Borders.

44. One problem was the lack of coordination between regional and international bodies. Illicit financial flows, in particular by multinational corporations, were unethical but it was difficult to argue that they were illegal since those corporations were exploiting legal loopholes. Legal loopholes must therefore be closed if illicit financial flows were to be curbed and the money used for sustainable development instead.

45. **Mr. Manongi** (United Republic of Tanzania) said that in confronting the consequences of illicit financial flows, the impact of tax havens must not be ignored. Wealth that was not fully accounted for and fairly taxed was unjustifiable in the context of the governance structures of the twenty-first century. The international community should support innovative and coordinated intergovernmental mechanisms that would facilitate efforts by national tax administration authorities to combat tax evasion and levy taxes on capital income flows and the stock of wealth.

46. **Ms. Elhassan** (Sudan) said that the report of the High-level Panel on Illicit Financial Flows from Africa had shown that some US$50 billion were lost to Africa every year as a result of illicit financial flows, owing largely to corruption and tax evasion in the extractive industries. That represented a major diversion of revenues that could be used to invest in infrastructure, economic growth and poverty eradication. She stressed that urgent measures should be taken towards the return of stolen assets and the elimination of safe havens for illicit profits. Her delegation welcomed the commitments to reducing financial flows contained in the 2030 Agenda and the Addis Ababa Action Agenda, and urged increased regional and international cooperation in that regard.

47. **Mr. Singer** (United States of America) said that a distinction should be made between the illegal activities involved in illicit financial flows, and efforts by multinational corporations to lower their tax burdens through legal loopholes. The policy response was different in the case of base erosion and profit shifting and in the case of criminal activity. The key to addressing illicit financial flows was to improve the frameworks in place to address underlying crimes. There was a need both for good laws and for effective implementation of those laws by the authorities, civil society and the private sector. International standards were in place but implementing them was a challenge for many countries.

48. **Mr. Maruping** (Commissioner for Economic Affairs, African Union Commission) said that the African Union was holding regional meetings with a broad range of stakeholders to find ways to implement the report, and measures were being taken accordingly. The African Union Commission worked closely with the Economic Commission for Africa, the African Citizens Development Foundation, the African Development Bank, and the Planning and Coordinating Agency of the New Partnership for Africa's Development.

49. Illicit financial flows caused excessive inequalities as money left Africa and the poor became even poorer. The Second Committee should therefore work on that issue with a view to producing an action plan. Similarly, the Economic and Social Council should engage the Commission on Crime Prevention and Criminal Justice to work on the global framework for climate change, either as a stand-alone framework or as a protocol to existing instruments.

50. **Mr. Nour** (Director of the United Nations Regional Commissions New York Office) said that the

issue of financing for development was currently framed in terms of internal and external resources. Factoring in illicit financial flows, many developing countries were actually net creditors to developed countries, and that fact should be taken into consideration when determining the regional and international responses to the issues, a process which should in all cases retain the core element of domestic resource mobilization.

51. Even if there was sufficient political will to implement existing global initiatives in African and developing countries, those countries did not have the requisite technical capacity in such areas as tax cooperation, transfer pricing and other trade-related commercial activities involved in illicit financial flows. Official development assistance should be better leveraged for the purpose of building those capacities. Regional cooperation and integration were crucial to improving tax policy and tax incentives, and he hoped that the various initiatives could be carried out in the context of the OECD Global Forum on Development, so as to produce results at the global level.

52. **Professor Boyce** (Department of Economics, University of Massachusetts at Amherst), responding to questions and comments by the delegations of Liberia, Lesotho and the United Republic of Tanzania, said that the countries that were destinations for illicit financial flows and capital flight had a grave responsibility to address those issues, and in fact served as more than mere safe havens, but sometimes also as countries of origin, as exemplified by instances of external loans being used to finance private external wealth accumulation in a process he had termed “debt-fuelled capital flight”. In many cases, extractive resource revenues from oil and mineral exports flowed back to the same countries from which the revenues had originated at the time of purchase. Accordingly, it was extremely important to consider the responsibilities of the international partners of African countries; it would be a huge mistake to place the entire onus on the African countries alone.

53. Rapid response capabilities were needed to address the issue of asset recovery. More important, however, was a coordinated approach involving strengthened international enforcement capacities in the arena of financial crimes, where the perpetrators of the crimes would be understood to be not only those people directly engaged in the illicit flows, but also those in the financial system who were aiding and abetting them. Unitary taxation and formulary apportionment of tax revenues would be necessary to close loopholes and draw a clear distinction between illegal activities such as capital flight and illicit acquisition of funds, and activities that were in a grey area, where a great deal of transfer pricing occurred. New and innovative institutions would need to be created for that purpose.

54. External borrowing diverted to capital flight was such that the net resource drain from Africa occurred not when the capital flight itself happened, but when the debts were repaid, often with interest. New international institutions were also needed for the adjudication of such odious debt, which was not the same as forgiving the debts. It was the creditors who should, in fact, be asking the people of Africa to forgive them for issuing loans that benefited not the people, but rather their corrupt rulers. Addressing the problem would reduce the resource drain from Africa, and would also align the incentives for creditors in the international financial system with the incentives for bona fide development. If the legitimacy of debts was not challenged, then the incentive would be weak for creditor institutions to exercise due diligence and ensure that their loans were not misappropriated. The United Nations should play a leading role in institutional innovation in the areas of asset recovery, coordinated international taxation of multinational corporations, and odious debt adjudication.

55. **Ms. Dayle Siu** (Tax and Development Consultant, Independent Commission for the Reform of International Corporate Taxation, and Managing Attorney-at-Law), responding to the comments and questions of several delegations, said that efforts begun by the Organization for Economic Cooperation and Development in the late 1990s to address harmful tax practices had not been completely effective. In the context of the base erosion and profit sharing initiative of that Organization, an area of concern had been the use of tax incentives for intellectual property, in the form of “patent boxes”, which had led to tax avoidance on a very large scale. Further global efforts benefiting from the support of all countries were needed. Legal loopholes were a central issue of governance, but prevalent corporate interests at the national and international levels lobbied strongly and invested large sums of money to determine the outcome of legislation that benefited the corporations. Therefore relevant reforms would require the participation of multilateral

institutions, national governments, businesses and civil society.

56. **Mr. Davis** (Economist of Division for Africa, Least Developed Countries and Special Programmes, United Nations Conference on Trade and Development (UNCTAD)) said that the United Nations should address capacity constraints on introducing more effective regulation in Africa to deal with the problem of taxation and financial flows. The problem was a global one, and multilateral and regional initiatives would be needed to align the relevant regulatory frameworks. It would nevertheless be difficult for African countries to tackle cross-border illegality given the rise in illicit financial flows generated through the tertiary sector. Countries would need adequate capacity-building and technical assistance from the United Nations in order to respond to those challenges. Given the link between structural transformation and illicit financial flows, the failure to tackle them had implications for development. More serious efforts to tackle illicit financial flows would be needed to enhance domestic resource mobilization and achieve national development goals.

Closing statements

57. **Mr. Oh Joon** (Co-Chair) said that while illicit financial flows from Africa were a regional problem, the discussion had demonstrated that a global solution was required. The Economic and Social Council would undertake its share of follow-up work in response to the Addis Ababa Action Agenda, which underlined domestic resource mobilization.

58. **Mr. Logar** (Co-Chair) expressed gratitude for the contributions of the panellists and the delegations which had participated in the discussion, to the African Union and the Economic Commission for Africa for spearheading the work of the High-level Panel, and to UNCTAD and the Department of Economic and Social Affairs for their support for the joint meeting of the Second Committee and the Economic and Social Council.

The meeting rose at 12.55 p.m.