OFFICE OF UN HIGH COMMISSIONER FOR HUMAN RIGHTS (OHCHR) INTERSESSIONAL SEMINAR ON THE NEGATIVE IMPACT OF THE NON-REPATRIATION OF FUNDS OF ILLICIT ORIGIN TO THE COUNTRIES OF ORIGIN ON THE ENJOYMENT OF HUMAN RIGHTS.

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Excellencies, distinguished delegates, ladies and gentlemen,

It is a pleasure to be here with you this morning. I wish to thank the Office of UN High Commissioner for Human Rights (OHCHR) for the opportunity accorded to UNCTAD to make remarks at this Intersessional Seminar.

The world today faces multiple new challenges. One of the most important challenges, as you all know, relates to the COVID-19 pandemic which has been weighing negatively on all economies. Fortunately, in recent years, Africa has been able to make significant progress towards better integrated economies through the African Continental Free Trade Area. Yet, the financial capacity of the continent to implement its milestone integration Agenda and achieve sustainable and inclusive growth is being frustrated by the heavy socio-economic burden of COVID-19 impacts. SDG financing gaps for Africa is estimated at $200 billion per year. At the same time, the continent continues to lose billions of DOLLARS annually through illicit financial flows, depriving economies of much-needed domestic resources to build productive capacities and foster inclusive growth.

As you know, illicit financial flows are related to movements of money and assets across borders which are illegal in source, transfer or use. They mainly include illicit capital flight, tax and commercial practices such as misinvoicing of trade shipments and criminal activities such as illegal markets, corruption or theft. Clearly illicit financial flows cover a wide variety of phenomena, but the thing they all have in common is that they are all in some way linked to illegal activity. Our Economic Development in Africa Report (2020) shows that between 2010 and 2018 Africa has lost at least US$ 220 billion in illicit financial flows linked to the export of extractive commodities. We estimate that the continent loses on average US$89 billion a year to capital flight. Curbing capital flight alone could over half of the investment needed for climate change adaptation and mitigation in Africa. This money could have compensated for the 60-90 billion USD annually the African Development Bank estimates is needed to provide universal electricity access by 2025. Recent estimates by the African Development Bank (2018) suggest that the continent's infrastructure needs amount to $130–170 billion a year, with a financing gap in the range $68–$108 billion. Potentially, illicit capital flight could cover almost all the infrastructure financing gap to meet the related SDG targets. In fact, the continent loses more money through illicit financial flows than they receive in foreign direct investment and official development aid combined. These are big numbers, but the truth is that we still know less than we think we do about the scale of illicit financial flows.

For example, it is estimated that 30 percent of total African wealth or approximately US$500 billion is held in offshore accounts. Although these offshore deposits cannot be directly linked to illicit activities, such as tax evasion or money-laundering, data leaks like the 2021 Pandora papers have afforded national financial investigative units a rare opportunity to verify the national situation, at least partially.

Although these estimates of offshore wealth and capital flight are significant, recovering stolen assets where illegal activity has been identified by national authorities is not an easy or straightforward process and many developing countries have struggled to recover assets.

In 2007, the UNODC and World Bank launched the Stolen Asset Recovery (StAR) Initiative, which enabled for example African countries to recover around US$1.5 billion, which is equivalent to 0.5% of estimated capital flight (based on January 2020 data).

Illicit financial flows are more prominent in the commodities sector across the continent. We estimate, the cumulative figure over the past decade amounts to $220 billion; high value, low weight commodities such as gold, platinum and diamonds are the leading commodities-related to illicit financial outflows from the continent. Many resource-rich African countries have been struggling to transform their natural resource wealth into prosperity for their people. Illicit trade in extractive resources and corresponding illicit financial flows can have an unquantifiable multiplier effect, because of their propensity to undermine the state, as well as peace and security, which can confine an economy in a “conflict trap”, further reducing the ability of people to exercise their human rights.

Illicit financial flows still represent a major drain of capital and revenues in Africa, undermining human rights, productive capacities and Africa’s prospects for achieving the SDGs. We also found that in African countries with high levels of illicit financial flows, governments spend 25 per cent less than other countries on health and 58 per cent less on education. Since women and girls often have less access to health and education, they suffer most from the negative fiscal effects of illicit financial flows. The non-repatriation of funds negatively impacts government budgets, and domestic resource mobilization efforts for social development.

Let me turn now to a few actionable recommendations, to support the continent’s renewed fight against Illicit financial flows. We mainly contend that tackling illicit financial flows is a challenge **shared by developed and developing countries**, and therefore actions are required at international, regional, and national levels.

At the international level, there is a need to strengthen Africa’s engagement in international taxation reforms. This certainly entails aiming for an intergovernmental African position to be reflected in the international taxation reforms under OECD and Group G20 initiatives. The quality of institutions and governance structures also have a positive role to play in the fight against corruption and because of the international nature of the illicit activities, African countries would benefit from deeper international partnerships on tracking and arresting illicit financial flows.

At regional and national levels, it is urgent to continue and intensify the fight against corruption and money-laundering and other practices that tend to enable illicit financial outflows. Priority actions in this regard would imply strengthening intra-African coordination and cooperation by tax authorities and cross-border prosecution of crimes; and promote capacity building in tax administration and enforcement. Much of these can be done under the scope of the African Continental Free Trade Area as well as regional integration agreements at Regional Economic Community levels. Considering the development challenges posed by illicit financial flows and their intrinsic linkages with trade and other cross-border activities, cooperation among African countries, in particular among the customs authorities, financial institutions and regulatory bodies provided under the AfCFTA, offers an invaluable opportunity to track and combat these flows. Another key priority action in fighting illicit financial flows would be to scale up investments in data infrastructure to collect better trade data and improve transparency to track and detect these flows. In an effort to contribute to these efforts, UNCTAD is a custodian of the SDG indicator (16.4) on illicit financial flows jointly with the UN Office on Drugs and Crime (UNODC). Together we have developed a definition and statistical methods to measure illicit financial flows, which are being tested in 13 African and 6 Asian countries.

At the national level, strengthening regulatory frameworks tackling illicit financial flows; domesticating the African Mining Vision; adhering to the Extractive Industries Transparency Initiative; devoting more resources to the recovery of stolen assets; and simply protecting and supporting civil society organizations, whistle-blowers and investigative journalists is critical to combatting illicit financial flows in Africa.

The role of the private sector, especially Multinational Enterprises (MNEs) in fighting illicit financial flows cannot be overstated. Governments and MNEs should keep constructive and permanent mutual engagement to devise solutions to eliminate practices related to illicit financial flows.

Excellencies, Ladies and Gentlemen,
In closing, let me reiterate that the financial resources that Africa is losing through illicit financial flows are of serious concern given Africa's inadequate growth, relatively high levels of poverty, financial resource needs and the changing global landscape of debt and Overseas Development Aid. We look forward to working with our stakeholders and partners to help close illicit financial flow channels and to enhance domestic resource mobilization in Africa, and to contribute to the achievement of UN Agenda 2030 and Africa's Agenda 2063 "The Africa We Want".

I thank you for your kind attention.