Thank you for the kind invitation. My name is Tove Maria Ryding, and I’m the Policy and Advocacy Manager for tax justice at the European Network on Debt and Development, Eurodad.

The first thing I’ll comment on is the concept ‘illicit financial flows’.

The term is not yet clearly defined by the United Nations, but I think we can assume that if governments – when talking about illicit financial flows – simply wanted to address illegal of unlawful financial flows, they would have called it illegal financial flows. Illicit financial flows is a broader concept, which in our view also includes flows that might be happening through loopholes in the law, but are none the less highly immoral. This in particular includes tax avoidance by multinational corporations, which might be abiding by the letters of the law, but not the spirit of the law.

Another element of illicit financial flows is the illegal ‘tax evasion’, which can sometimes be very difficult to distinguish from the technically legal, but highly immoral tax avoidance.

Thus, corruption is only one element of illicit financial flows, and there are many elements that don’t fit that label. Therefore, although the UN Convention Against Corruption is an important tool, it cannot be the only one.

In terms of the magnitude of illicit financial flows, this is an issue of intense international debate. The discussions are mostly about exactly how many hundreds of billions we’re losing per year, and therefore I think it’s safe to say that this is an enormous problem with enormous consequences, not least for the prospect of ensuring global protection of human rights.

The impacts of illicit financial flows is not just the strait forward fact money which should have been available for public services are instead tucked away in tax havens. There are also secondary effects of human rights, such as the fact that many governments – in order to try and raise funds – introduce higher taxes for consumption. These kind of taxes, including value added tax, generally have a stronger impact on the poorest communities in societies, which spend a higher percentage of their income on consumption of everyday goods. The same can be said by women, who are generally impacted harder by consumption taxes than men. Thus, the wrong kind of tax system can end up hurting the poor rather than working to support their basic human rights.

Now, what are the key policies driving illicit financial flows?

First, we have a serious problem with transparency.

One central problem is that the system for information exchange between countries is deeply flawed. The so-called automatic exchange of information is unfortunately anything but automatic.

If you are a least developed country, you might find it extremely hard to access information about which of your citizens have opened secret bank accounts abroad or who owns secret shell companies. You might face the same problem if you for example would like to know where large multinational corporations have their economic activity, and where they register their profits.

The problem is not just the many technical requirements you will need to fulfil. A more fundamental problem is that even if you sign on to the international agreements for automatic information exchange, this does not mean that all the other signatories are in any way committed to send you information automatically. To achieve that, you will need a separate agreement with each of the other governments. It’s a bit like the online dating service ‘Tinder’, where you can ‘like’ a person, and if that person likes you too, you can go on a date.

Unfortunately, some developed countries do not seem very interested in going on dates with developing countries.

Some of the arguments we hear - as to why developed countries don’t want to exchange information automatically with developing countries - are:

* Developing countries cannot be trusted
* They might sentence tax evaders to death
* Their corporate tax system doesn’t comply with the OECD standards
* We only share information with countries that are financially important to us

Luckily, the solutions are simple:

* We need a real political commitment to cooperate and exchange information among everyone, with a special focus on ensuring that least developed countries can access the information needed to identify illicit financial flows.
* As for anonymous shell companies, they simply shouldn’t exist. We need public registers of who actually owns the companies that operate in our societies, and we’re very happy that the European Commission has just put forward a proposal to introduce this in the European Union.
* Similarly, we need fully public information showing where multinational corporations have their economic activity, where they register their profits and how much they pay in taxes. This is also known as public country by country reporting.

And as a very fundamental first step, we need to ensure that whistleblowers and journalists, who act in the public interest and expose large scale tax dodging are protected, not prosecuted. The LuxLeaks trial, which is still going on in Luxembourg, is a very sad example of exactly how useless the current whistleblower protection is.

The second problem is the international system for taxation of multinational corporations. This system, which was developed by the OECD, builds on the idea that multinational corporations should be treated as a collection of smaller independent companies, instead of one big company. Because the OECD system assumes that one branch of a multinational corporation is independent from another, the companies are able to make money disappear by moving it to branches they’ve established in tax havens.

To move the money around, the multinational corporations use internal trading known as transfer pricing, and in order to reclaim the hidden profits, the tax administrator will have to show that the internal prices used by the multinational corporation are different from the price levels used by independent companies trading with each other. This principle – known as the arm’s length principle - has proven to be a mission impossible, because independent companies rarely trade intangible products such as intellectual property rights and management advice. Since the arm’s length principle is so unclear, the legal basis for taxing multinational corporations is also very unclear, and tax administrations that try to combat tax avoidance risk being sued by multinationals. Another consequence of the unclear rules is the so-called “sweetheart deals”, which some governments negotiate bilaterally with individual multinational corporations, to determine exactly what the law means for them. As we saw in the LuxLeaks scandal, these deals can help companies lower their global tax payments dramatically, in some cases to below 1%.

Rather than reforming this system, the OECD and G20 only decided to make smaller adjustments, when the recent agreement on the so-called base erosion and profit shifting, or BEPS, was negotiated.

The solution to this problem will not be quick and simple, but we need a true reform of the international tax system, to ensure that multinational corporations pay their fair share of taxes, and compete on a level playing field with national companies and small and medium enterprises.

The third problem is that we don’t have real global tax cooperation among governments.

The international tax rules and standards have been decided by the OECD – also known as the rich countries’ club. In some cases, the G20 countries have been invited to join, but more than 100 developing countries have remained excluded from the international decision making on tax.

This has in some cases resulted in rules that don’t work for developing countries, and in other cases in rules that outright damage the interests of developing countries.

In several instances, the OECD has followed an approach where the rules are first decided behind closed doors, while excluding more than half the world’s countries. The once the rules are adopted, all countries have been invited, and in some cases even pressured, to commit to following the rules. This takes place in forums known as the Global Forum and the Inclusive Framework. However, this approach is unfortunately neither inclusive nor global.

The solution is quite simple. We need an intergovernmental tax body under the auspices of the United Nations, to revise the global tax system and introduce real transparency. The developing countries, through G77, have been proposing this for years, but until now the proposal has been blocked by OECD countries.

The fact that our governments are not able to cooperate and negotiate a solution in good faith and on an equal footing, is a key reason for the increasing illicit financial flows, which have severe impacts on developing countries. However, especially in the long run, all governments stand to lose, as more and more countries can be expected to take unilateral action to protect their tax bases. This in turn will lead to further fragmentation of the international tax system, and the decreasing levels of trust will reduce international transparency.

But to end on a positive note – if we get the political will, illicit financial flows is a perfectly solvable problem. And if we get these lost billions back, and ensure that they are channelled to the people who really need them, we can create the biggest boost for public services the world has ever seen.