



ILLICIT FINANCIAL FLOWS AND THE RIGHT TO DEVELOPMENT

POLICY BRIEF FOR INTERNATIONAL ORGANISATIONS

Analysed through the lens of the Declaration on the Right to Development, the 2030 Agenda and Sustainable Development Goals and the Addis Ababa Action Agenda, illicit financial flows must be addressed, prevented and controlled, to achieve domestic resource mobilization. Domestic resource mobilization in turn, is key to realizing the right to development and all other human rights, the Sustainable Development Goals, and Financing for Development. National and international policymakers in countries across all stages of development must take concrete steps to address the monumental effects of illicit financial flows on human rights, sustainable development and sustained peace. The Declaration on the Right to Development requires national and international development policies to create conditions favourable to development - an enabling environment for development, human rights as well as peace. The policy guidance which follows is grounded especially in the Right to Development and related human rights norms, standards and principles; SDG Target 16.4 wherein states pledge to significantly reduce illicit financial flows by 2030; SDG target 17.1 which entails strengthening domestic resource mobilization; SDG 10 which aims to reduce inequality within and between countries and SDG 5 aimed at advancing gender equality and women's rights.

While all countries are affected by illicit financial flows in an age of economic and financial globalization, outflows from developing countries are of particular consequence and entail disproportionate impacts given their resource-constrained settings and as a percentage of their public budgets; and longstanding systemic and structural inequalities and vulnerabilities including in the global trade and finance architecture which undermine equality of opportunity for development for all nations and peoples, as required by the Declaration on the Right to Development. The implementation of appropriate national and international policy measures to ensure development and eliminate obstacles to development in line with the Declaration on the Right to Development, mandates states to cooperate on the basis of their sovereign equality, interdependence and mutual interest. Such policy measures would significantly increase transparency in the global financial system, to prevent and regulate illicit financial flows and require the effective channels provided by national, regional and international tax cooperation.

Due to the inherently global and transnational nature of illicit financial flows, the institutional environment for international tax cooperation is of particular significance. In addition to the seminal principle of international cooperation (including shared global responsibilities and mutual accountability, as well as common but differentiated responsibilities), other principles of the Declaration on the Right to Development which apply both locally and globally, include the human rights principles of equality, non-discrimination, participation, accountability and transparency. Relevant Declaration on the Right to Development principles and elements in this context include social justice and equity; free, active and meaningful participation; fair distribution of the benefits of development and fair distribution of income; self-determination and permanent sovereignty over all natural wealth and resources; and equality of opportunity for development for all nations and individuals who make up nations.



ACCESS TO DATA ON ILLICIT FINANCIAL FLOWS

RECOMMENDATION 1

The World Bank and the International Monetary Fund should publish estimates of the volume and composition of illicit financial flows on an annual basis. The availability of this data would enable stakeholders to regularly monitor the implementation of the Sustainable Development Goal target 16.4 on illicit financial flows. The Bank of International Settlements should make public data on international banking assets by country of origin and country of destination.

COUNTRY-BY-COUNTRY REPORTING

RECOMMENDATION 2

The Organisation for Economic Co-operation and Development's (OECD) template to facilitate country-by-country reporting requires transnational corporations to report annually and for each tax jurisdiction in which they do business. While approximately 50 countries are moving forward with this reporting legislation, other countries should be encouraged to make progress on reporting practices.

HUMAN RIGHTS IMPACT ASSESSMENTS

RECOMMENDATION 3

International organizations should do their part to facilitate the conduct of human rights impact assessments by states which may seek to identify and respond to the human rights impacts of transnational corporations. Relevant data on the volume and composition of illicit financial flows should be made available to states in order to generate the information and analysis that human rights impact assessments may need in order to be effective in seeking redress.

NATIONAL TAX ADMINISTRATIONS

RECOMMENDATION 4

International organisations should contribute toward providing accessible and affordable technical assistance and other forms of support to strengthen the national tax capacity and operating procedures in developing countries. National customs agency officials could be provided with technical workshops organized and funded by international organizations.

INTERNATIONAL AND REGIONAL COOPERATION

RECOMMENDATION 5

In light of the prominent role that the Organisation for Economic Co-operation and Development (OECD) currently plays in global tax matters, voice and representation, free, active and meaningful participation of developing countries, and in particular lower-income developing countries, should be encouraged. The UN should continue to support and fund the work of the UN Committee of Experts on International Cooperation in Tax Matters, with a focus on enhancing democratic decision-making and participation by developing countries. The UN should ensure that the reports and analysis resulting from the Committee's proceedings are disseminated and discussed by all member states. The UN must also actively support its key instruments addressing IFFs (listed above).

REASSESSING THE DOING BUSINESS INDICATORS

RECOMMENDATION 6

The World Bank Group should reassess the role that the Doing Business Indicators plays in fostering international tax competition. In particular, the World Bank Group could rethink the advice given to many countries to ease the tax burden on businesses and to promote those countries in its rankings that reduce corporate tax rates, raise the threshold for taxable income or provide tax exemptions and holidays to corporations.

REFORM INVESTMENTS IN OFFSHORE FINANCIAL CENTRES

RECOMMENDATION 7

In the context of the International Finance Corporation's investments in companies that use tax havens, international civil society recommends that the World Bank Group should define and operationalize measures of tax advantage that can ease a transition from Offshore Financial Centers and towards structures that offer legal benefits while avoiding egregious tax implications

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