SouthViews
No. 223, 14 July 2021
www.southcentre.int
Twitter: @South_Centre

**Financial integrity for sustainable development:
Importance of developing country joint action on tax, corruption and money-laundering**

By Dr. Ibrahim Mayaki

Countries are beginning to realize that the landmark agreement on the Sustainable Development Goals will be unrealized if financing is not found for the agenda. Much of that financing can be found if illicit financial flows are stopped. In March 2020, the Presidents of the United Nations General Assembly and Economic and Social Council convened a High-Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI Panel) to review global cooperation and recommend further actions by the international community as a contribution. Dr. Ibrahim Mayaki, the Co-Chair of the FACTI Panel, outlines the measures that the FACTI Panel recommended to combat tax abuse, corruption and money-laundering. He emphasizes the importance of developing countries taking a leading role in proposing solutions, and the value of inclusive international institutions. The text below is based on remarks that were made at a briefing to the Group of 77 and China in Geneva in April 2021, jointly organized by the FACTI Panel Secretariat and the South Centre. The Panel's full report can be read at: http://www.factipanel.org/report.

There is a growing awareness that the astronomical fortunes of multinational corporations and their billionaire founders, especially giant digital and technology companies, hinge on their aggressive tax avoidance. The proverbial person on the street can tell you, often with anger or frustration, that big companies do not pay their fair share. Estimates of the impact on public coffers put the cost at US$550-US$650 billion a year globally.

At the same time, citizens of the world are facing a dramatic under-provision of the things that matter: from social services like health care and education, to physical infrastructure, and a sustainable environment. Financing for investment in sustainable development has been sorely lacking.

Despite years of efforts by the international community, Illicit Financial Flows (IFFs) remain a chronic and ubiquitous problem for both developed and developing countries, but developing countries suffer the most. Countries lose billions every year to corporate tax avoidance, further billions to tax evasion by the wealthy, and further billions go missing due to corruption and financial crime. The financial system is riddled with corruption, money-laundering, hidden assets and tax abuses. This impoverishes governments and people.

The work of the High-Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI Panel) has been inspired by great support from developing countries and efforts that have been made within the United Nations (UN) system, for example joint work on the statistical measurement of IFFs by the UN Conference on Trade and Development (UNCTAD) and the UN Office on Drugs and Crime (UNODC). It has built on the work in Africa conducted by the High-Level Panel on Illicit Financial Flows from Africa, which was led by former President of South Africa (and Chair of the South Centre Board) Thabo Mbeki.

In February 2021, the FACTI Panel published its Report, providing a blueprint for a better financial system that works for all. The FACTI Panel calls this better system 'financial integrity for sustainable development'. Going beyond a diagnosis of the problem, the FACTI Panel has called for global action – for a Global Pact for financial integrity for sustainable development.

The Need For Systemic Change In The Financial System

The Report makes the case that a systemic approach is needed; with tax issues, corruption challenges and money-laundering being considered together, rather than in separate policy siloes. In that regard, the report contains 14 recommendations for reforming, redesigning, and revitalizing the global architecture, so it can effectively foster financial integrity for sustainable development.

The Report proposes that stronger values, policies and institutions are needed. Among those recommendations some key themes emerge that are essential for supporting a durable recovery from the pandemic and investment in sustainable development. Here are some highlights:

- The Report calls for greater transparency around company ownership and public spending.
- Bolstering transparency and exchanging data will be crucial in tackling the enablers and vested interests that benefit from criminal and abusive practices.
- The Report proposes that the world needs an overhaul in international tax norms and institutions, which are currently decided in exclusive forums hosted at the Organisation for Economic Co-operation and Development (OECD) in Paris.
- We call for an international minimum corporate tax and the taxing of digital giants. But these new tax norms must be designed with the needs of developing countries in mind.
- And the Report says these norms must be decided in an inclusive setting, so that developing countries, indeed all countries, have their voices heard. Thus, there is a need for a UN Tax Convention to address the many shortcomings of the international tax system.
- Finally, the Panel recommends more international cooperation and more coordination for the various parts of the international system.

Now is not the time for a lowest common denominator approach to adjusting the international system. Instead, it is time for governments to be ambitious and thus unlock the large resources currently being drained aggressively from public finances.

Domestic structures, laws, and enforcement mechanisms can be reformed, and transparency can be increased at the national level. Action can also happen regionally as well. But, of course, for the biggest effects, and the greatest generation of resources for developing country governments, the financial integrity challenge needs to be tackled at the global level.

The Imperative For Developing Country Cohesion Internationally

To be frank, the pandemic is preoccupying many countries. At the same time, the rewriting of global tax norms is happening without the say of many developing countries. The FACTI Panel supports changes to global tax norms that are being discussed in various venues, for example the global minimum corporate tax proposals being discussed at the OECD as well as the digital services taxation options being agreed at the United Nations Committee of Experts on International Cooperation in Tax Matters.

In the medium- and long-run, there needs to be an ambitious demand, from developing countries, to agree norms on tax transparency, tax cooperation and the division of tax rights, at a fully inclusive, transparent and universal forum. The United Nations is the only body with the legitimacy to step up to this task.

Furthermore, we must create a comprehensive, robust, and effective system that brings financial integrity for sustainable development. This is not a job for each government acting on its own. Given financial globalization, loopholes anywhere will be exploited by the unscrupulous everywhere. Both deliberately weak rules (used as a competitive advantage by some financial centers) and weak implementation of standards (by countries with low regulatory capacity) will have the same result: tax abuse and financial crime.

A Global Pact is needed to foster financial integrity for sustainable development throughout the world. Leaders must commit to stopping tax abuses and financial crimes, helping each other to do so, and investing the resulting money in sustainable development.

But global leadership on stopping illicit financial flows and putting forward the ambitious proposals for greater international cooperation needs to come from those countries that have suffered the most and who can legitimately step forward to demand solutions. Developing countries must come together to act. They must not lose this chance to fix the very important constraints that they face when trying to raise revenue and stop economic crimes.

Author: Dr. Ibrahim Mayaki is Former Prime Minister of Niger and Co-Chair of the FACTI Panel.

*** The views contained in this article are attributable to the author, and do not represent the institutional views of the South Centre or its Member States.**

SOUTHVIEWS is a service of the South Centre providing opinions and analysis of topical issues from a South perspective.

To view other articles in SouthViews, please click here**.**

To see the previous version of SouthViews, please click here**.**

For more information, please contact Anna Bernardo of the South Centre: Email bernardo@southcentre.int**, or telephone +41 22 791 80 50.**