1 trillion dollars were spirited out of developing countries in 2010 in the form of illicit financial flows.

Illicit financial flows (IFFs) refer to money that is illegally earned, transferred, or utilized. This money is strategically shifted from developing economies and into the global shadow financial system through various channels including trade mispricing, smuggling, corruption, and money laundering.

According to a report by Global Financial Integrity, over 50% of IFFs can be attributed to **trade mispricing**. This type of misinvoicing is most prevalent in trade between related companies or subsidiaries of the same company. Goods leave the exporting country under one invoice, which is then redirected to another country, usually a tax haven, where the price is altered. The revised invoice is then sent to the importing country for clearing and payment. Such illegitimate financial practices allow businesses to pay reduced taxes in the country of export and import, while shifting the bulk of their profits into tax havens with low or zero taxes. This movement of illicit capital out of the countries from which they are earned is facilitated by complex financial networks, including the creation of shell corporations and fake bank accounts. It is estimated that individuals have $12 trillion in undeclared assets outside their countries of residence. More importantly, the amount of tax revenue lost from such undeclared assets is approximated at $255 billion[1]. **Money laundering** further encourages IFFs as it involves taking money obtained from criminal activity and making it appear as though it was earned by legitimate means.

For every dollar that goes into developing countries as foreign assistance, 10 dollars goes out through these illicit means.

This is money that is meant to finance infrastructure development and the provision of essential services like healthcare and education, and the lack thereof hinders progress where it is most needed. IFFs also facilitate kickbacks, bribery, and other forms of grand corruption[2], thereby making basic day-to-day services more expensive and less efficient. The resulting mistrust in the government makes way for more corruption and inefficiency as individuals are driven to save money by avoiding tax payments or offer bribes to receive basic public services. Furthermore, IFFs increase economic inequality as the rich benefit from tax evasion while the poor and middle class bear the burden. When governments are unable to collect adequate tax revenues from larger corporations, they make up the difference by increasing taxes for smaller businesses and lower income families[3]. Kenya's poorest are facing the prospect of a 16% tax hike on basic commodities like maize flour, bread, and milk as the Kenyan government attempts to compensate for the approximately 1.1 billion it loses every year to tax evasion and incentives[4]. Of importance, Kenya's yearly average illicit financial outflows amounts to US$686 million and accounts for over half of this loss[5]. In redirecting the resources that are meant to promote development, IFFs further perpetuate the never-ending cycle of poverty and the human rights violations that accompany it.

*The figures for IFFs in the GFI report were calculated using 2 methods. The **World Bank Residual Method** measures the difference between a country's incoming funds and its spending. If a country's source of funds exceeds its use of funds, it is assumed that money has been lost through outflows. Given that this includes both illicit and licit outflows, these values are supplemented by more conservative estimates yielded by the **Hot Money Narrow method**. It detects trade mispricing by measuring the difference between recorded exports and imports as reported by a country's importing partners. In a reputable transaction, there should be no discrepancy between these two figures.*

[1] http://www.financialtaskforce.org/issues/automatic-tax-information-exchange/
[2] Grand corruption consists of acts committed at a high level of government that distort policies or the central functioning of the state, enabling leaders to benefit at the expense of the public good.(http://www.transparency.org/whoweare/organisation/faqs_on_corruption)
[3] http://jubileeusa.typepad.com/blog_the_debt/2013/05/curtailing-illicit-financial-flows-a-human-rights-imperative.html
[4] (https://www.therules.org/en/actions/kenya-tax-petition--8)
[5] (http://www.gfintegrity.org/storage/gfip/executive%20-%20final%20version%201-5-09.pdf)

Having recognized this intimate link between human rights and international financial integrity, ASAP joins **Global Financial Integrity** and The **Taskforce on Financial Integrity** in calling for policies that promote transparency, and curtail the primary sources of IFFs.

Curtail Trade Mispricing: Require that parties conducting a cross-border sales transaction sign a statement certifying that no trade mispricing has occurred and that the transaction has been priced based on the OECD arms-length principle.

Will allow governments in less affluent countries to collect a fair amount of tax revenue from multinational corporations (MNCs) operating within their borders.

Country-by-Country Reporting: Require that all multi-national corporations report sales, profits, and taxes paid in each country in their audited annual reports and tax returns

Empower civil society *to advocate for policies and institutional practices that enhance transparency, by allowing them access to this data and strengthening their ability to hold their governments accountable*

Require **beneficial ownership** information of ALL subsidiaries, trusts, and foundations

This information will help prevent and track the movement of illicit funds more quickly and effectively, as well as allow national authorities to better estimate tax revenue and identify where evasion is occurring.

These reforms require action and compliance from both developing and developed countries, as both have played a part in perpetuating IFFs. In fact, companies in developed countries have for decades provided mispricing services to their customers overseas and facilitated the transfer of billions of dollars into Western bank accounts.

Moving forward in our campaign to curb illicit financial flows, we are working with a team of NGO leaders and world-class scholars to prepare a proposal to be presented to UN decision makers by the end of this year. To date, ASAP, along with various organizations including Amnesty International, Oxfam, and Human Rights Watch, have drafted and signed the **New Haven Declaration of Human Rights and Financial Integrity**. This document calls upon international fora including the United Nations, G8, and G20 and national governments to take decisive action to ensure that developing countries can retain their resources for sustainable growth and poverty alleviation.

Despite the short timeline that we face, we are already seeing the impact of our efforts. In the recently published report commissioned by Secretary General Kofi Annan, **The High-Level Panel of Eminent Persons on the Post-2015 Agenda** has identified IFFs as a priority that requires immediate attention. The panel encourages a global partnership between developed and developing countries in implementing and enforcing the automatic exchange of tax information as a means of combating tax evasion[6]. **The African Progress Report** 2013 echoes this recommendation, and specifically calls upon the G8 and G20 to lead the development of a "credible and effective multilateral response to tax evasion and avoidance"[7]. These successes have provided great momentum to our campaign, and as we prepare for our final push, we ask for your support in putting a stop to the system that has kept millions of people in poverty for far too long.

[6] http://www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf
[7] http://africaprogresspanel.org/en/publications/africa-progress-report-2013/apr-documents/