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Macroeconomic policy questions: promotion of international cooperation to combat illicit financial flows and strengthen good practices on assets return to foster sustainable development

International coordination and cooperation to combat illicit financial flows

Report of the Secretary-General

Summary

The present report, submitted pursuant to General Assembly resolution [76/196](#), provides a layout of existing commitments on combating illicit financial flows and strengthening good practices on the recovery and return of assets, as well as recommendations to strengthen international coordination. In the report, the Secretary-General calls for new efforts to implement existing international and domestic commitments, strengthened international norms to close gaps and respond to evolving risks, improved enforcement capacity, better use of existing institutional frameworks for cooperation, and innovation in global governance to ensure coherence and coordination of efforts to eliminate illicit financial flows.

* [A/77/150](#).



I. Introduction

1. In General Assembly resolution [76/196](#), Member States recognized that combating illicit financial flows was an essential development challenge. Illicit financial flows reduce the availability of valuable resources for financing sustainable development, including the Sustainable Development Goals, and recovery from the coronavirus disease (COVID-19) pandemic. In resolution [76/196](#), the Assembly set out some of the commitments by Member States to combat illicit financial flows and strengthen good practices on assets return to foster sustainable development, including efforts to stem tax evasion, tax avoidance, tax base erosion and profit shifting; combat corruption and transnational organized crime; and strengthen the recovery and return of stolen assets in support of sustainable development.

2. In paragraph 3 of resolution [76/196](#), the General Assembly expressed its commitment to financial integrity for sustainable development. This concept was defined by the High-level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda as all economic and financial activities being conducted in line with the content, and spirit, of legitimate financial rules and standards, which must be fully compatible with – and contribute to – sustainable development ([A/75/810/Rev.1](#), annex). The Panel deliberately takes a unified, systemic perspective. Targeting the systemic factors that enable and entrench illicit financial flows is entirely compatible with, and in fact mandated by, the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda of the Third International Conference on Financing for Development.

3. In the 2030 Agenda and the Addis Ababa Action Agenda, Member States committed to eliminating illicit financial flows. Goal 16 of the 2030 Agenda – which describes how to promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels – includes a target on significantly reducing illicit financial flows. The Addis Ababa Action Agenda, which provides the means of implementation for the 2030 Agenda, includes the commitment to eliminate illicit financial flows in the action area on domestic public resources, and lays out both domestic and international actions to eliminate illicit financial flows. Countries cannot effectively eliminate illicit financial flows alone; the cross-border nature of these flows necessitates cooperation and coordination.

4. In the context of the commitment of Member States to financial integrity for sustainable development, this report was mandated to examine existing commitments and how to strengthen international coordination in relation to illicit financial flows and the implementation of asset recovery and return.

5. Significant progress has been made in combating illicit financial flows since 2015. International tax transparency has been improved, the General Assembly held its first special session on combating corruption, and asset recovery and return has accelerated. There has also been progress in measuring and estimating the value and volume of illicit financial flows.

6. Commitments on illicit financial flows range across legal multilateral conventions and international normative frameworks, but there are gaps, overlaps and fragmentation. The international community must also recognize many shortcomings and weaknesses in implementation. The progress made in estimating volumes of illicit financial flows reveals a large gap between the current systems and a world characterized by integrity. In many countries, the recent emergency health and financial response to the pandemic, which was important and necessary to counter the impact of the pandemic, was beset by corruption. Media around the world continues to expose national corruption, tax abuse scandals, and global failings of regulations

and controls relating to tax matters, money-laundering and corruption. Unfortunately, these exposés have yet to translate into sufficient official action to close systemic gaps and address fragmentation.

7. To deliver on the ambition of Member States, more needs to be done. It is critical to ensure that no country is left behind in efforts to secure financial integrity. This will require new efforts to implement existing commitments; strengthened international norms to close gaps and respond to evolving risks; improved enforcement capacity; better use of existing institutions for cooperation; and innovation in global governance to ensure coherence and coordination.

8. In his report entitled “Our Common Agenda”, the Secretary-General emphasized the need to renew the social contract between Governments and their people, anchored in human rights. He called for trust to be built through all taxpayers making fair contributions to pay for the delivery of quality public goods and services. The report served to bring together ideas for international action on illicit financial flows with other needed reforms to the international system, and provided an outline for an integrated approach to reforming the multilateral architecture to create a more networked and inclusive multilateral system, anchored within the United Nations.

II. Building trust and strengthening the social contract

9. As expressed in General Assembly resolution [57/213](#), solidarity is a fundamental value underpinning the functioning of human societies. It is buttressed by the perception that governance arrangements are fair and just. People and the institutions that serve them should feel connected, and there needs to be common understanding within a society of how shared problems are solved, risks managed and resources pooled to deliver public goods. By increasing participation and inclusion, States and other actors work together to build the trust that supports solidarity. The exact nature of reciprocal obligations varies across countries, but the existence of such relationships among people, households, communities and their leaders is universal. The purpose of the State is to provide for the needs of its residents, and it derives its legitimacy from doing so fairly.

10. The legitimacy of the international system comes from cooperation that provides an enabling environment for States to deliver on those needs. Member States have defined these needs in the sustainable development agenda and human rights frameworks; both have universal backing. Inclusion and equality are tenets of the human rights conventions, while the 2030 Agenda articulates the concept of “leave no one behind”. Meeting these needs requires resources. The Addis Ababa Action Agenda describes how countries can raise resources and effectively deliver public goods and services, as well as how countries need to cooperate to leave no one behind.

11. Strengthening the social contract and the global partnership to combat illicit financial flows will contribute to efforts to mobilize and protect resources for the delivery of the broader sustainable development agenda. Taxpayers need to make fair contributions to the effective delivery of public goods and services, which enables governments to meet their obligations. High and persistent levels of tax evasion and avoidance undercut the social contract, erode trust in the State, increase inequality and serve as a barrier to greater domestic resource mobilization. Public corruption likewise damages the trust of all citizens in the State. Robust fiscal systems are essential to financing investment and service delivery. Integrity in the fiscal system is also central to fighting fraud and corruption.

12. Appropriately balancing the imperative of raising resources (including by conducting investigations and regulating financial activity) with the rights of people

(including their right to privacy) will reinforce the trust between citizen and State and strengthen the social contract. Governments should uphold human rights standards in all their efforts to combat illicit financial flows, including in financial investigations, in domestic and international cooperation for asset recovery and return, and in the use of technological tools for intelligence gathering and enforcement. Governments should ensure that information is used only for legitimate purposes. Due respect for human rights law and privacy does not accord a right to secrecy that can be abused by perpetrators of illicit financial flows to violate both the law and the social contract.

13. Solidarity is also at the core of international cooperation. Successful international cooperation on illicit financial flows must be built on a solid legal framework. It also requires open dialogue on how to improve policy coherence and mitigate any unintended consequences of efforts to combat illicit financial flows. It will require political will and political commitment to action. A healthy domestic social contract, with quality public goods and services, will reinforce the viability of political leaders taking action to cement financial integrity both at home and in the international sphere.

14. The building of trust must begin with transparency, the establishment of coherent regulations for accountability and measures to ensure the inclusion of all, and be reinforced by international cooperation and coordination.

III. Existing commitments

15. There is a wide range of possible activities that generate resources that are illicitly transferred across borders. These include corporate and individual tax avoidance, profit shifting, tax evasion, organized crime and corruption. The United Nations Convention against Corruption is the only legally binding global instrument on all forms of corrupt behaviour. The Convention is complemented by a number of regional and cross-regional anti-corruption conventions. The United Nations Convention against Transnational Organized Crime also includes relevant commitments on the transfer of the proceeds of crime. In the area of tax cooperation, there is no legally binding global instrument, but a number of plurilateral initiatives, including the ones hosted at the Organisation for Economic Co-operation and Development (OECD) – such as the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, the Global Forum on Transparency and Exchange of Information for Tax Purposes and the Convention on Mutual Administrative Assistance in Tax Matters. The Economic and Social Council has adopted resolution 2017/3, which contains the United Nations code of conduct on cooperation in combating international tax evasion, and the Committee of Experts on International Cooperation in Tax Matters has developed an influential model treaty for bilateral cooperation on tax. Member States have also committed to effectively implementing the International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation, the recommendations set by the Financial Action Task Force.

16. Aside from financial crimes, criminal activities giving rise to illicit financial flows can include environmental crimes (e.g. illegal wildlife trade, illegal fishing and illegal logging), illegal mining, trafficking in drugs and other illicit substances, trafficking in persons, and illicit transfer of cultural objects or property. Such crimes are frequently covered by additional international agreements and frameworks. Action against the proceeds associated with these crimes will not only contribute to reducing illicit financial flows, but also help deter crime in these areas, generating strong synergies for sustainable development. As illicit financial flows and transnational organized crime may benefit terrorists or fund conflict in some regions,

actions against illicit financial flows may also create synergies with efforts for peace and security. The 2030 Agenda is precisely about reaping the synergies of a more sustainable environment, a more equitable and just social system, and a stronger and more stable economic system in the service of sustainable development.

IV. Transparency as a foundation

17. In 1946, in its resolution 59 (I), the General Assembly recognized that freedom of information was a fundamental human right. Improving transparency is the foundational step towards creating financial integrity for sustainable development. Reinforcing the social contract may require new social norms around financial integrity, with changes in both attitude to transparency and expectations about others' behaviour. Public information helps such a shift and contributes to building trust, while also guiding policymaking.

A. Volume estimates and statistical framework for illicit financial flows

18. Comparable and reliable statistics help shed light on the activities, sectors and channels most prone to illicit financial flows, and can point to priorities for enforcement. Measuring and tracking illicit financial flows is extremely challenging because of the clandestine nature of the underlying activities. Different components of illicit financial flows are not directly comparable, and aggregation of illicit financial flow estimates across channels and components could result in double counting. Many estimates of the volume of illicit financial flows across different channels and components have been published, but caution should be exercised in interpreting these because, inter alia, the values reported may not be equal to the revenue impact and estimates might only be accurate on orders of magnitude.

19. The global indicator framework for the Sustainable Development Goals and targets of the 2030 Agenda for Sustainable Development includes a mandate to collect and disseminate data on illicit financial flows, in indicator 16.4.1 on the total value of inward and outward illicit financial flows. The United Nations Conference on Trade and Development (UNCTAD) and the United Nations Office on Drugs and Crime (UNODC) – the co-custodian agencies of the Sustainable Development Goal indicator – developed a definition of illicit financial flows for statistical purposes that was approved by the Statistical Commission. Their task force for the statistical measurement of illicit financial flows also published the Conceptual Framework for the Statistical Measurement of Illicit Financial Flows in October 2020. The Conceptual Framework serves to promote transparency as a foundational principle and define illicit financial flows as “financial flows that are illicit in origin, transfer or use, that reflect an exchange of value and that cross country borders”.

20. UNCTAD, UNODC and relevant United Nations regional economic commissions conducted pilots in 23 countries to produce preliminary country-level estimates on selected illicit financial flows using the agreed methodology. In four Latin American countries, the pilots focused on measuring illicit financial flows related to illicit markets. Financial outflows from drug trafficking were estimated to be hundreds of millions of dollars, while inflow estimates were between 1 and 17 billion dollars. While financial inflows from human trafficking were only available for one country, they were estimated to be about \$1 billion. Twelve countries in Africa tested the methodologies for measuring illicit financial flows related to tax abuses. These pilots provided countries with the resources and tools to conduct illicit financial flow risk assessments and build their statistical capacity to estimate illicit financial

flows, including through creating national technical working groups on the measurement of illicit financial flows. These countries will be finalizing their respective estimates of tax-related illicit financial flows in 2022. A further six Asian countries will conclude pilots on tax-related illicit financial flows by the end of 2022. The pilots indicate that there are challenges in coordinating access to and use of data, as well as in coordinating methodological work across entities within countries.

21. In the Arab region, the Economic and Social Commission for Western Asia prepared the first regional estimates in a report issued in 2018 entitled “Illicit Financial Flows in the Arab Region. In the report, the Commission found that Arab economies fell prey to anywhere from at least \$60.3 billion to \$77.5 billion per year in damages due to illicit financial flows associated with trade-related money-laundering and illegal markets (see [E/ESCWA/EDID/2018/TP.1](#)).

22. While data collection is important for accurate estimation, there are numerous gaps in data availability. Enforcement action should not wait for better data. Enforcement can itself lead to better data, and new estimates and risk assessments can be used to progressively improve enforcement. There are also data gaps at the international level, including in information-sharing and international cooperation practices. International institutions should be given clear mandates to close these gaps with regular annual publication of global data.

B. Transparency in tax

23. To reduce and eliminate tax-related illicit financial flows, it is essential that country authorities have relevant information. Tax administrations generally have the right to demand such information from their taxpayers. However, those committing evasion often place assets and realize income subject to taxation in other jurisdictions to hide them from the authorities, and may also obfuscate the ownership and origin of taxable assets and income. International cooperation is essential to exchange information and thus reveal tax evasion and enable enforcement. The Committee of Experts on International Cooperation in Tax Matters agreed in 2009 to a code of conduct on cooperation in combating international tax evasion, setting minimum standards of conduct required of Member States regarding the exchange of information (see [E/2009/45](#)).

24. The Economic and Social Council formally adopted the updated code of conduct on cooperation in combating international tax evasion in resolution [2017/3](#). In the resolution, the Council called on countries to exchange information on both criminal and civil tax matters and endorsed the work carried out on automatic exchange of financial account information. It also recognized that it was vital for developing countries to have access to information, even if they were not ready for automatic exchange.

25. There are a number of reasons why countries with the greatest needs are not receiving sufficient information to combat tax abuses. For example, they may not have found reciprocal matches for exchange, have sufficient technical capacity, or want to agree to a wide range of commitments that are expensive to implement and that may be irrelevant for their context but are required when becoming parties to the international information exchange instruments. The Committee of Experts on International Cooperation in Tax Matters is planning to survey countries to identify challenges faced in the exchange of information and any gaps in existing guidance and standards.

26. The OECD-housed Global Forum on Transparency and Exchange of Information for Tax Purposes – a venue for cooperation on tax transparency – hosts legal instruments that enable information exchange, such as the Convention on

Mutual Administrative Assistance in Tax Matters and the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information. As of October 2021, there were over 7,500 bilateral exchange relationships for automatic exchange of information for tax purposes. In 2020, information on more than 75 million financial accounts covering total assets of around €9 trillion was exchanged automatically. Many countries opened voluntary disclosure programmes and compliance initiatives alongside launching automatic exchange of information; these and offshore investigations, enabled by exchange of information on request, helped to generate €112 billion in additional revenue globally (tax, interest, penalties), €30 billion of which was in developing countries.¹ Developing countries lag behind in the receipt of information from the automatic exchange of information system. While 46 developing jurisdictions are carrying out automatic exchange of information or are committed to doing so in the near future, no least developed countries are currently receiving information via this initiative.

27. The Global Forum on Transparency and Exchange of Information for Tax Purposes adjusted the peer review process during the pandemic so that reviews could continue without on-site visits. Of the 81 jurisdictions fully reviewed in the second round, 85 per cent received a satisfactory rating (compliant or largely compliant). On implementation of automatic exchange of information, 98 per cent of the reviewed jurisdictions had an international legal framework determined to be “in place” and 89 per cent had a domestic legal framework determined to be largely consistent with the requirements. However, the poorest countries are not receiving information through these processes, hindering their ability to detect and combat tax-related illicit financial flows. Measures should be developed to automatically provide information on a non-reciprocal basis to developing countries that do not pose a risk as a safe haven for illicit financial flows but that may be losing resources.

28. Country-by-country reporting refers to an annual report by large multinational enterprises to the authorities in the jurisdiction where they are headquartered. The report shows a range of data for the activities of the multinational enterprise in each tax jurisdiction in which it does business, enabling high-level risk assessments that can help prioritize further investigation. The OECD-hosted Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports facilitates the exchange of country-by-country reporting. As of October 2021, there were 3,000 exchange relationships for country-by-country reporting information provided by multinational enterprises. However, developing countries lag behind in access to this information. Only 12 non-OECD/Group of 20 developing countries or jurisdictions (and no least developed countries) currently receive country-by-country reports. In such cases, authorities may create requirements for multinational enterprises operating locally to file the reports with the local tax administration. This would give the authorities access to useful information for enforcement purposes. Requiring public transparency on country-by-country reports from all multinational enterprises above a relatively low threshold would be a more comprehensive solution that would level the playing field and support the efforts of all countries to combat illicit financial flows.

29. Tax transparency can incentivize taxpayers to declare previously undeclared assets. More inclusive information-sharing systems should be combined with effective use of information for enforcement. Auditing wealthy individuals and large corporate taxpayers can allow countries to move beyond deterrence to recover resources that are not disclosed or improperly declared. Many countries, especially developing countries with lower capacity tax administrations, may need to enhance their audit capacity to effectively use information as part of their enforcement regime. Weak enforcement derives from both technical and political challenges. Political will

¹ Figures are incomplete due to pandemic-related delays and difficulties.

is needed to invest in the capacity and follow-through on enforcement, including of taxpayers with political connections. Fair and even-handed enforcement will help to rebuild trust between citizens and the State.

C. Beneficial ownership transparency

30. Beneficiaries of illicit financial flows commonly rely on secrecy to disguise or hide their activities and often use opaque legal structures to this end. In many cases, only the “legal owners” of an asset or legal vehicle (e.g. a company) are known. The legal owner may refer to a nominee or to another legal vehicle, meaning that accountability cannot be ensured. A basic tool for addressing these secrecy risks is to identify the “beneficial owners” of legal vehicles – the natural persons who ultimately own, control or benefit from the legal vehicle. This approach can help officials to investigate and eventually prosecute financial crimes and other abuses. The concept of beneficial ownership is used in tax transparency instruments and anti-money-laundering rules.² International norms require country authorities to have access to beneficial ownership information for both types of legal vehicles: legal persons (e.g. companies) and legal arrangements (e.g. trusts).

31. Since 2015, Member States have improved the quality of and access to information on beneficial ownership. Many jurisdictions have decided to make beneficial ownership information on some legal vehicles public, which also allows the information to be used for private sector due diligence. So far, progress has been insufficient. Mutual evaluations of jurisdictions committed to implementing the Financial Action Task Force standards show that just about half have adequate laws and regulatory structures in place, but that less than 10 per cent are implementing their beneficial ownership laws effectively.³

32. In December 2021, the Conference of the States Parties to the United Nations Convention against Corruption adopted resolution 9/7 on enhancing the use of beneficial ownership information to facilitate the identification, recovery and return of proceeds of crime, urging States parties to facilitate the efficient exchange of adequate and accurate beneficial ownership information in a timely manner.

33. The Financial Action Task Force strategic review – a multi-year exercise that concluded in 2022 – sought to address gaps and vulnerabilities in policy and impediments to effective implementation. A key outcome was a decision in March 2022 to strengthen the beneficial ownership standard related to legal persons. According to the decision, countries must ensure that beneficial ownership information will be held by a public authority or body functioning as beneficial ownership registry.⁴ However, this situation does not apply to legal arrangements. In June 2022, the Financial Action Task Force opened a public consultation on potential revisions to its standards to address this gap.⁵ Rapid implementation of stronger beneficial ownership transparency systems, including with automated verification systems, and expansion of these rules to all legal vehicles would significantly boost efforts to combat illicit financial flows. Public transparency of this information can boost trust and strengthen the social contract, as well as speed international cooperation on tracing assets and prosecuting financial crimes.

² A different “beneficial ownership” standard is used in tax treaties to address certain abusive tax structures.

³ Financial Action Task Force, *Report on the State of Effectiveness and Compliance with the FATF Standards* (Paris, 2022).

⁴ Financial Action Task Force, “Public statement on revisions to R.24”, 4 March 2022.

⁵ Financial Action Task Force, “Revision of Recommendation 25 – white paper for public consultation”.

V. Regulation for accountability

A. Anti-corruption implementation and enforcement

34. The Convention against Corruption contains requirements for States to address financial integrity and proceeds of crime. Countries' progress in meeting these commitments is assessed within the Mechanism for the Review of Implementation of the United Nations Convention against Corruption. The Convention's peer review mechanism provides an entry point for discussions among States and between States and other actors on measures relating to anti-corruption. The first review cycle, which started in 2010, covered chapters III (Criminalization and Law Enforcement) and IV (International Cooperation) of the Convention. In its state of implementation summary, UNODC noted that there were considerable outstanding issues on criminalization in many countries, including concerning the inadequate implementation of measures that are mandatory under the Convention. Significant gaps and challenges were also observed regarding international cooperation.⁶

35. The second review cycle started in 2016 and covers chapters II (Preventive Measures) and V (Asset Recovery) of the Convention. Of the 62 reviews completed so far, the most recommendations for needed action on corruption prevention were related to the public sector, codes of conduct for public officials, and the private sector. For example, just over half of the reviewed States prohibit declaring bribes as tax-deductible expenses (see [CAC/COSP/2021/5](#)). New tools and guidance are being produced by international institutions to improve implementation.⁷

36. Well-structured public-private partnerships can add value to the prevention of financial crime and to enforcement. For example, private stakeholders could be invited to sit on oversight committees related to large public procurement projects. Working with the financial sector is particularly important to fight money-laundering. Most countries require their financial sector entities to report suspicious transactions. Some countries have more in-depth collaboration between authorities and financial institutions, which can improve understanding of the risks and the effectiveness of enforcement. These public-private partnerships typically involve banks and financial intelligence units sharing information to jointly identify and research trends but can also include operational cooperation to coordinate enforcement on a specific financial crime. Public-private cooperation can also include civil society, the media and academia. These groups play an important role in financial integrity, especially as they can help hold corrupt public officials accountable.

37. In resolution [S-32/1](#), which contains the political declaration entitled "Our common commitment to effectively addressing challenges and implementing measures to prevent and combat corruption and strengthen international cooperation", adopted by the General Assembly at its thirty-second special session, in June 2021, States committed to a range of measures to prevent and combat illicit financial flows and strengthen financial integrity. For example, they committed to instituting comprehensive domestic regulatory and supervisory regimes for banks and non-bank financial institutions, as well as for designated non-financial businesses and professions, in order to deter and detect all forms of money-laundering. In the political declaration, the Assembly called for effective and timely communication and cooperation between competent authorities.

⁶ Office on Drugs and Crime, *State of Implementation of the United Nations Convention against Corruption: Criminalization, Law Enforcement and International Cooperation, Second Edition* (Vienna, 2017).

⁷ See www.unodc.org/unodc/en/corruption/publications.html and <https://star.worldbank.org/publications>.

38. The Global Operational Network of Anti-Corruption Law Enforcement Authorities (GlobE Network), which was launched at the special session, operates under the auspices of UNODC. It is aimed at developing a quick, agile and efficient tool for combating cross-border corruption offences; strengthening communication exchange and peer learning between anti-corruption law enforcement authorities; and complementing and coordinating with existing platforms for international cooperation. As of June 2022, the GlobE Network included 105 authorities from 61 countries.

B. Strengthening tax norms and enforcement

39. Tax evasion is an illegal action that is, in most countries, characterized as a crime; tax avoidance is a legal practice, which frequently involves tax planning and arbitrage across borders. Taxpayers have many strategies to engage in domestic tax abuses, and, in some countries, the political and economic elite find ways to remain outside the tax base. International tax avoidance strategies are also common. High-wealth individuals can hide assets and income offshore through complex legal arrangements and tax planning practices. Multinational enterprises are usually supposed to allocate profits based on the arm's length principle, according to which the price used for transactions between two related entities (e.g. a company's headquarters and its local subsidiary) should be the same as if the two parties were unrelated. However, such enterprises often exploit gaps and mismatches in tax rules to artificially shift profits to low- or no-tax locations. Such arrangements may involve large sums and make use of loopholes and lax legal frameworks in a wide variety of jurisdictions, with the beneficiaries often preferring resources to end up in developed countries with attractive characteristics, such as relatively stable currencies and markets.

40. OECD and the Group of 20 launched the Base Erosion and Profit Shifting Project in 2013, which concluded in 2015 with agreement on four minimum standards in the Action Plan on Base Erosion and Profit Shifting. In November 2016, countries concluded negotiations, held under the auspices of OECD, on a multilateral legal instrument to facilitate relevant modifications to tax treaties (e.g. introduction of anti-abuse provisions). As of June 2022, the multilateral legal instrument has been ratified in 73 Member States and five other jurisdictions, with only 1 least developed country in the group.

41. The 2015 OECD Action Plan on Base Erosion and Profit Shifting included an agreement to conduct further work on tax challenges arising from digitalization, through the OECD-housed Inclusive Framework on Base Erosion and Profit Shifting. Political agreement was reached on a two-pillar approach in October 2021. Pillar one addresses digitalization and globalization by making a limited departure from the arm's length principle for allocating taxing rights on corporate profits on a share of profits of the largest and most profitable multinational enterprises globally; it would allocate a small share of profits to a market jurisdiction, regardless of whether the corporate group has a physical presence in the market. Pillar two includes global minimum corporate tax rules allowing countries to top up the tax paid on profit by a multinational enterprise to 15 per cent, either at the source through a minimum tax or in the jurisdiction of the enterprise's headquarters. Work is ongoing on both pillars. The exact revenue implications will be determined by multiple factors, including final carve-outs and exemptions; when and how widely the final agreement is implemented; the extent of changes to tax rates and policies expected in countries; and how businesses and their professional advisors respond to the changes. While 120 Member States and 17 other jurisdictions signed on to the two-pillar statement in October 2021, it is not clear how many will ratify or implement the final agreement.

42. The Committee of Experts on International Cooperation in Tax Matters has also sought to develop solutions to the tax challenges arising from digitalization. In 2021, the Committee agreed to add a new article on the taxation of income from automated digital services to its model bilateral tax treaty. This new provision, article 12B, provides a bilateral solution to the taxation of digital business models that preserves the operation of domestic tax law in taxing digital services, regardless of whether the business has a physical presence in the country. The new article provides a simple and practical solution for developing countries to realize revenue from digital transactions, which previously were not generally subject to tax. To be effective, countries would need to have related domestic legislation and incorporate the new provisions into a tax treaty. The Committee has decided to look into the multilateralization of some United Nations Model Provisions to fast-track incorporation into existing bilateral treaties (see [E/2022/45/Add.1](#)). The Committee is now receiving expert input on the issues involved in multilateralization, including lessons from other similar experiences, for presentation of a paper during the next Committee session.

C. Improving integrity in trade

43. Goods trade misinvoicing is one type of illicit financial flow, which involves transactions being manipulated for the purposes of evading tariffs, circumventing capital account rules or financial regulations, or for other illicit motives. Cross-border information exchange is more complicated in relation to trade and customs data because of agreements to maintain commercial confidentiality. The Automated System for Customs Data has been helping developing countries to modernize their customs clearance processes since the 1980s and is increasingly being adapted to detect trade misinvoicing. To take data-enhanced approaches further, some countries have proposed multilateral automatic exchange of transaction-level trade data.

44. A new generation of regulations, standards and norms is needed to improve compliance and oversight in international trade. The trade-related aspects of electronic commerce should also be reworked to ensure a level playing field for domestic and foreign suppliers of digital products and services. The proposed taxation reforms related to the digitalized economy, such as taxation based on economic rather than physical presence, are relevant to the jurisdiction of the multilateral trading system over trade of digital content.

D. Enablers and regulation of corporate and financial sectors

45. A wide variety of individuals and entities are involved in creating and executing the many complex transactions that comprise an illicit financial flow and result in hidden or disguised assets. Those who are not direct beneficiaries of the flow but profit from providing some professional services to the beneficiaries are often called enablers or gatekeepers. These can include lawyers, accountants, corporate service providers, real estate agents, bankers, investment advisors, and those in many other types of professions. The inadequate understanding of risk for most of these professions and lack of national frameworks for regulation often lead to a patchwork of arrangements, ranging from highly regulated systems to self-regulation by industry bodies and unregulated operations. This creates gaps that allow secretive transactions and enable regulated/designated entities to pass the buck on accountability for violations.

46. The Financial Action Task Force standards include the expectation that all financial institutions and some designated non-financial businesses and professions have obligations related to anti-money-laundering enforcement. UNODC is actively involved in the Gatekeeper Taskforce, a cross-sectoral taskforce of private sector

“gatekeeper” representatives, convened by the World Economic Forum’s Partnering Against Corruption Initiative and the Global Future Council on Transparency and Anti-Corruption. In June 2021, the initiative launched a unifying framework for self-regulation that aims at complementing existing regulatory measures. However, the continued presence of intermediaries who are willing to profit from illicit financial flows indicates that Member States need to find ways to extend business regulatory policies to tackle the problem.

47. The financial sector has a special role to play in combating illicit financial flows given that financial institutions are the conduits of finance as it crosses borders. The Wolfsberg Group of Banks, an association of 13 large global banks, seeks to develop frameworks and guidance for the management of financial crime risks.⁸ Such cooperation can increase operational effectiveness and has led to a deeper understanding of risks, although members of the group have also been accused of significant failings in implementing anti-money-laundering and anti-corruption policies, with many criminal investigations ongoing. Furthermore, the group does not include the growing number of globally active banks headquartered in developing countries. There have also been significant concerns about the unintended consequences of the financial sector’s implementation of anti-money-laundering rules, such as the reduction in the number of correspondent banking relationships, which is a critical issue for smaller developing countries because of the potential impact on access to banking services and the cost of remittances.⁹

E. Accountability impact of asset recovery and return

48. There is an intrinsic connection between the leakage of development resources through illicit financial flows and the need to recover assets. Repatriation of the proceeds of corruption through asset recovery can have a significant development impact. First, it can result in significant resource mobilization to finance sustainable development. Second, effective asset recovery can be a useful tool for deterring illicit financial flows.

49. The joint UNODC-World Bank Stolen Asset Recovery (StAR) Initiative works on asset recovery and financial integrity through knowledge products and technical assistance delivery. A recent StAR Initiative survey found that 59 States reported involvement in asset recovery cases; close to \$10 billion in foreign corruption proceeds had been frozen, restrained or confiscated since 2010; and over \$4.1 billion had been returned internationally. There was a marked increase in completed returns between 2017 and 2021; however, much of the activity (54 per cent of confiscations and 41 per cent of returns) was initiated by domestic authorities in the destination state, independent of a foreign request. Among the respondents, the average time period between an asset freezing order and the start of the return of funds was less than four years.¹⁰ The survey documented a significant increase in recoveries and returns compared to the StAR Initiative’s previous analysis in 2014, but still showed the constraints in the system that prevent cases from being settled quickly. The analysis also demonstrated the value of regularly publishing data on progress in asset recovery. A stronger expectation of yearly data provision on progress will incentivize Governments to meet their obligations, and help build trust among countries as they see the success of their cooperative work.

⁸ See www.wolfsberg-principles.com/.

⁹ Financial Stability Board, *FSB Action Plan to Assess and Address the Decline in Correspondent Banking: Progress Report to G20 Finance Ministers and Central Bank Governors Meeting of March 2018* (Basel, 2018).

¹⁰ See CAC/COSP/2021/CRP.12.

50. The Convention against Corruption chapter V on asset recovery is a focus of the second round of peer reviews. Of the 62 reviews completed to date, 54 countries received recommendations for improving the prevention and detection of transfers of proceeds of crime, while 44 received recommendations on the return and disposal of assets, showing the trends of weak implementation. Very few countries received recognition for adopting good practices; only two countries had good practices on the return and disposal of confiscated assets (such as the use of a victims' compensation fund), and only three countries had good practices on bilateral and multilateral agreements for asset recovery (see [CAC/COSP/2021/6](#)).

51. Asset recovery continues to be hindered by institutional, operational and legal obstacles, and the lack or insufficiency of arrangements to secure the return of stolen or illicitly transferred assets. The gap between the lowest estimates of stolen assets and those returned demonstrates the importance of strengthening mutual legal assistance. The Convention against Corruption is the only legally binding multilateral instrument that tackles asset recovery. It is supported by agreements, operational initiatives and programmes, both within and beyond the United Nations system, to assist in different aspects of the asset recovery cycle. For example, asset recovery inter-agency networks are active in most regions.¹¹ Some options have been suggested to improve asset recovery, such as the creation of a formal multilateral mechanism to assist in the recovery and return of stolen assets, the establishment of trusts or escrow funds for the management of seized assets, and annual publication of data on asset recovery progress to keep the pressure on countries to meet their existing commitments.

52. While the Convention against Corruption provides for the recovery and return of the proceeds of corruption, there is a gap in the international legal framework regarding asset recovery for other types of illicit financial flows. The African Union-driven Common Africa Position on Asset Recovery calls on the international community to “repatriate the proceeds of tax evasion” alongside efforts to recover the proceeds of corruption and illicit enrichment.¹² The importance of building capacity in Africa on asset recovery and return processes specifically emerged as a priority from the Conference of African Ministers of Finance, Planning and Economic Development in May 2022.

F. Impact of new technologies

53. Digital transformation is a critical focus of the international community. Technological advances offer opportunities to improve enforcement related to illicit financial flows. For example, adoption of technological tools can increase the capacity and productivity of tax administration staff and compliance with a tax regime. Technology can help strengthen the accuracy of information in tax administration databases. Connected devices, such as secure electronic cash registers, can boost tax compliance by addressing unreported sales. The technology at the heart of the gig economy also creates data, which can facilitate transparency and simplification of tax obligations.¹³ Big data approaches combined with artificial intelligence can also be used to improve identification of tax evaders. Some country authorities have experimented with using hackathons – intense technology development sessions involving programmers and public officials – to quickly develop new artificial intelligence tools to validate information. Such approaches rely

¹¹ See <https://www.unodc.org/documents/treaties/UNCAC/WorkingGroups/workinggroup2/2018-June-6-7/V1803851e.pdf>.

¹² African Union, document EX.CL/1213(XXXVI) Add.1.

¹³ Organisation for Economic Co-operation and Development, *The Sharing and Gig Economy: Effective Taxation of Platform Sellers* (Paris, 2019).

on the ability of multiple agencies and ministries, and potentially subnational authorities, to share information while maintaining trust and privacy. In the most advanced practices, Governments can use non-government data to help validate government data or flag suspicious information. Countries should invest more in such technologies, with the assistance of donors where needed.

54. As more countries require electronic filing of asset declarations by public officials, UNODC is providing advice on organizing the processes and developing risk analysis frameworks. The hackathon concept has also been used to create new tools, including for transparency in public administration and public procurement, safe and reliable reporting of corruption, and financial investigations. Responsible use of new technologies, for example for transaction monitoring and analysis, can assist in effective implementation of anti-money-laundering rules.¹⁴ Financial sector institutions already submit a high volume of suspicious transaction reports due to digital risk assessment technologies. Country authorities need to improve their own digital technologies to match. Artificial intelligence systems may be helpful in focusing enforcement efforts on the highest priority areas. Digitalization of money and the creation of central bank digital currencies provide further opportunities. They can create a more secure monetary system that enables financial integrity, but care must be taken to balance privacy and human rights concerns. Placing the objective of trust and the social contract at the core of efforts to use new technologies for enforcement can help country authorities achieve that balance.

55. At the same time, digitalization can bring risks. Trading in cryptoassets such as bitcoin can result in large gains or losses for taxpayers, but few countries have rigorous reporting frameworks to ensure that such gains/losses, realized or unrealized, are reported to tax authorities. This has enabled speculators to escape taxation on their profit from cryptoasset markets. In addition, some cryptoassets can enable the quick transfer of resources to any party in the world with anonymity, heightening the risk of illicit finance and facilitating exchange in illicit markets. Cryptoassets and “coin” offerings have been a significant source of financial fraud, often with international dimensions. In 2019, the Financial Action Task Force provided guidance on how countries can apply anti-money-laundering standards to virtual assets and virtual asset service providers in a risk-informed way. The Financial Action Task Force standards state that States should license or register virtual asset service providers, subject them to supervision or monitoring by competent national authorities, and ensure they follow the same measures as other financial institutions, such as “know your customer” principles.

VI. Inclusion and universality

56. In General Assembly resolution [75/1](#), Member States expressed that there was no other global organization with the legitimacy, convening power and normative impact of the United Nations. Since the adoption of the Convention against Corruption by the Assembly on 31 October 2003, it has reached near universal adherence: 189 parties, including the European Union, have ratified or acceded to the Convention. The Conference of the States Parties to the United Nations Convention against Corruption is the main anti-corruption policymaking body of the United Nations and the world’s largest global, multilateral anti-corruption event. Universalism is also witnessed through the 190 Member States that are parties to the Convention against Transnational Organized Crime.

¹⁴ See Financial Action Task Force, “Digital transformation of AML/CFT”.

57. For other policy frameworks related to combating illicit financial flows, inclusion has been growing, but universalism is far from being achieved at the end of 2022. While more than 200 jurisdictions are committed to implementing the Financial Action Task Force standards through their membership in Financial Action Task Force-style regional bodies, the Financial Action Task Force itself currently comprises 36 Member States, one additional jurisdiction and two regional organizations. The OECD-housed Inclusive Framework on Base Erosion and Profit Shifting provides a forum for 124 Member States and 17 other jurisdictions. The Global Forum on Transparency and Exchange of Information for Tax Purposes includes 145 Member States and 19 other jurisdictions. So far, 102 Member States and 19 other jurisdictions are automatically exchanging financial account information using the Standard for Automatic Exchange of Financial Account Information in Tax Matters or are committed to doing so in the near future. The OECD-housed Convention on Mutual Administrative Assistance in Tax Matters has been signed and/or entered into force in 125 Member States and 19 other jurisdictions. Even the most inclusive of these frameworks encompass only 75 per cent of Member States.

58. All voices need to be heard and engaged in policymaking. Following on from the report of the Secretary-General entitled “Our Common Agenda”, the United Nations system has prepared a detailed road map of the measures it can take to advance a more networked, inclusive and effective multilateralism. Yet, political leadership is needed to transform the patchwork of illicit financial flow-related voluntary forums and bilateral agreements into a universal, legitimate global system of laws, norms, standards and institutions that are consistent with the principles set out in the Charter of the United Nations. Over its 77 years of history, the convening power of the United Nations has been used to create binding international legal frameworks across its various workstreams, from peace and security to human rights, and most recently sustainable development.

59. Political leadership is emerging in Africa. At the fifty-fourth session of the Conference of African Ministers of Finance, Planning and Economic Development, held on 16 and 17 May 2022, the Committee of Experts called upon the United Nations to begin negotiations under its auspices on an international convention on tax matters, with the participation of all States members and relevant stakeholders, to address tax-driven illicit financial flows, particularly base erosion, profit shifting, tax evasion, including issues of capital gains tax, and other tax abuses.¹⁵ The United Nations Secretariat can provide expertise and knowledge to support Member States to take the next steps needed to ensure inclusive international cooperation and coordination.

VII. Cooperation and coordination

60. Domestic-level coordination on illicit financial flows is important, not only for domestic enforcement, but also for international cooperation. The multidimensional nature of illicit financial flows requires a coordinated, whole-of-government approach, spanning a range of national institutions and government functions across the tax system, law enforcement, judicial authorities, financial intelligence units, and financial regulatory and supervision mechanisms. Coherence can be enhanced in policy formation, implementation and communication with non-governmental stakeholders, including the private sector and civil society. Progress on specific risks relevant to national contexts may involve an even wider set of institutions. For example, addressing

¹⁵ See report of the Conference of African Ministers of Finance, Planning and Economic Development on its work during the fifty-fourth session of the Economic Commission for Africa (E/ECA/CM/54/6). Available at www.uneca.org/sites/default/files/com/2022/E_ECA_CM_54_6_E.pdf.

illicit financial flows derived from cultural heritage crimes might require coordination with museum professionals and culture ministries, or those related to environmental crime may involve environmental protection agencies. Institutional mechanisms to ensure whole-of-government coordination are essential and need to be driven by high-level political commitment. Countries that share and make better use of information across government not only bolster effective enforcement, but also strengthen their ability to cooperate effectively internationally. While many countries have begun to set up such mechanisms, all countries can strengthen their systems and make them more integrated with international cooperation mechanisms.

61. In addition to domestic implementation, international cooperation also needs to be strengthened. In combating illicit financial flows, weaknesses in one country can undermine the ability of all countries to ensure integrity through regulatory arbitrage. Mismatches in laws, procedures and capacities can and will be exploited by the unscrupulous. Such mismatches frequently occur within a particular area – for example between the tax laws of two States – but take on greater significance when considering the mismatches in different policy areas. Operating in silos undermines the international community’s ability to identify and address gaps. Coordination to prevent and combat illicit financial flows is essential as new technologies and techniques arise. Transparency rules across policy arenas should move in tandem and in concert globally in order to address new risks. Given global interconnectedness, this process needs to be coordinated internationally.

62. Yet, there is no venue for dialogue among institutions and States on illicit financial flows that cuts across normative frameworks for corruption, financial crime and tax. The institutional architecture was not designed for international coordination, as the frameworks were developed independently. There has been increasing technical-level discussion, for example between anti-money-laundering forums and tax transparency forums on beneficial ownership rules. But, this type of coordination is not systematized at the political level internationally. Lack of political will also remains a key constraint on action. Coordination is further constrained by differences in membership in some of the existing institutions and frameworks. Efforts have been made to bring these constituent parts together under the financing for development process. The Inter-Agency Task Force on Financing for Development is an important analytical platform for international institutional coordination. Intergovernmental discussion on the agreed conclusions and recommendations of the forum on financing for development, held under the auspices of the Economic and Social Council, provides opportunity for political engagement. However, these processes rarely include the wide variety of domestic agencies that work on the relevant topics. The time available for discussion on the complex and multidimensional challenges related to illicit financial flows is severely limited.

63. Intergovernmental discussion in relevant specific policymaking forums should continue to: (a) evolve according to new risks; (b) find new paths and technical solutions to increase effectiveness; (c) close implementation gaps and systemic vulnerabilities (including those caused by low capacity); and (d) build political will. In this context, high-level international political coordination, involving policy areas currently discussed in silos, can help close gaps between policy frameworks and enhance synergies.

64. Member States should address this coordination gap through an annual meeting using the existing multilateral architecture, while being inclusive of organizations, institutions and stakeholders working in relevant areas. The Economic and Social Council is already mandated in the Charter to serve the function of coordinating the international system. It is the most legitimate forum with inclusive participation for conducting global coordination. It has a long track record of serving as an effective host for coordination among Member States, international institutions (including United Nations system and non-United Nations entities) and external stakeholders.

The functions of an Council-based coordination mechanism could include reviewing progress on financial integrity issues, providing data and other information, and fostering intergovernmental agreements to address illicit financial flows and promote financial integrity. It could benefit from existing intergovernmental forums and peer review mechanisms, while seeking to create synergies, agree priorities and communicate calls for action. The coordination could be designed in multiple ways, based on the existing calendar of Council meetings and events.¹⁶ Member States will be able to discuss in depth and agree upon global priorities in tackling illicit financial flows and promoting financial integrity for sustainable development.

VIII. Conclusions

65. Member States have made many laudable commitments that can contribute to eliminating illicit financial flows. There has been much action over the previous decades, and a noticeable push to strengthen international frameworks after agreement on the 2030 Agenda and Addis Ababa Action Agenda in 2015. Despite this progress, there remain many challenges. In anti-corruption work there are weaknesses in implementation. For tax-related illicit financial flows and money-laundering, implementation problems are compounded by shortcomings in the international frameworks. An absence of political coordination across areas undercuts effectiveness. The result is a weakening of trust, undermined social contract and insufficient public resources available for investment in sustainable development.

66. First, actions are needed in three broad areas: better implementation of existing norms; strengthening of international norms to close gaps and respond to evolving risks; and improvement of national enforcement capacity.

67. Transparency has to be the foundation. To build trust, both national authorities and the public need more and better information. Developing countries should not be outside of information-sharing mechanisms on tax. Ensuring that information on beneficial ownership is available to relevant authorities is a necessary first step towards financial integrity, but better standards on beneficial ownership are also needed.

68. Stronger regulations and their enforcement are essential. Political will to implement anti-money-laundering and anti-corruption reforms should be complemented by accountability. Tax norms need strengthening to address digitalization and globalization in ways that meet the needs and capacities of developing countries. A global convention on tax with universal participation may help with this effort. Trade and customs enforcement must also evolve. Coherent regulatory systems with real consequences are needed for professions that enable illicit financial flows. All of the rules need to adapt to new technologies. Each of these will require robust capacity-building efforts to ensure that countries of all income levels can benefit.

69. Second, enhanced international cooperation and coordination is indispensable. Innovation is needed in global governance mechanisms. Strengthening financial integrity for sustainable development needs coherent policy and coordinated international systems. Member States should work together proactively and effectively within and across the international frameworks related to illicit financial flows. The United Nations stands ready to play its part.

¹⁶ Jose Antonio Ocampo, *A Global Coordination Mechanism on Illicit Financial Flows: Implementation Note on FACTI Panel Recommendation 14A* (New York, 2021).