

## [FACTI Inbox] FACTI Panel NGO Consultation call4comments,Comms,ConceptNotes,



**Tom Cardamone** [via](#) factipanel.org  
to info

May 1, 2020, 5:47 PM (5 days ago)

To all FACTI Panel Members,

It was my pleasure to attend the NGO consultation on Tuesday, April 28 and I very much appreciate the opportunity to present some ideas for the Panel's consideration. I am following up those brief comments on trade integrity with a bit more context below. I would be happy to discuss these further with you and the Panel if there is interest.

Global Financial Integrity (GFI) is a Washington, DC-based think tank that works to advance sustainable development by curtailing illicit financial flows, particularly those related to misinvoiced trade transactions. To address this problem we provide groundbreaking research and analysis, fact-based advocacy, pragmatic policy solutions for governments and multilateral institutions, and a cloud-based risk assessment tool for developing country customs departments. Our core mission is to help developing countries capture more domestic resources in order to achieve the Sustainable Development Goals (SDGs). GFI pioneered the term 'illicit financial flows' shortly after our launch in 2006 and was instrumental in securing the inclusion of the issue in the Addis Ababa Action Agenda and in the UN 2030 Sustainable Development Goals. We seek to create permanent change by helping developing country governments to significantly curtail illicit financial outflows so that more domestic resources can be mobilized for national economic development goals.

With the emergence of the COVID-19 pandemic it has become readily apparent that the countries with the fewest health resources will be hit hardest. In the immediate term the focus must be on the health response but this critical challenge raises important questions. Are imported medicines and medical equipment safe and effective? Are they properly priced? Who are the suppliers and are they qualified to provide these goods? In the mid- to long-term governments will need to bolster their health systems in order to lessen the reaction time between future outbreaks and a coordinated response. But that takes financial resources that are often lacking which, again, raises key questions. How can governments increase revenues? How can illicit financial flows be curtailed? What role does transparency play in boosting domestic resources? Taken together these questions are focused on the legitimacy of global trade and the ability of developing countries to capture as much revenue as possible from that trade.

The international community has underscored the importance of trade integrity – which we define as trade transactions that are legal, transparent and properly priced – especially in times of crisis. In late March the G20 Trade and Investment Ministers noted that “as we fight the pandemic . . . , we will continue to work together to deliver a free, fair, non-discriminatory, transparent, predictable and stable trade and investment environment, and to keep our markets open.” And in mid-April the IMF Managing Director's Global Policy Agenda stated that “the Fund will continue to support efforts to modernize the rules-based trading system through advocacy, policy advice, and analyses.” GFI was encouraged to note that ECOSOC, in its Final Draft of the Outcome Document on April 17, echoed these ideas. These are the very principals GFI aims to promote and improve upon in its recently-launched Trade Integrity Program.

International trade is the lifeblood of the global economy. However, there are severe and protracted challenges which diminish the value developing countries garner from their global trade transactions. Indeed, developing country governments are losing massive amounts of vitally important revenue due to opacity, corruption and criminal activity related to international trade. This lost revenue is the low-hanging fruit which can help countries recover from the COVID-19 pandemic and fund social programs needed to reach the SDGs. Our research has shown that from 2008-2017 there was an [\\$8.7 trillion value gap](#) between what developing nations reported as the value of imports and exports with advanced economies, and what the rich countries noted as the value of their trade with poor countries. This translates into a potential loss of revenue as high as \$1.5 trillion during the period. Additionally, from our 2017 [report on transnational crime](#) we know that the illegal trade in legitimate business sectors such as timber, fish, and mining generate as much as a quarter-trillion in illicit proceeds each year thus robbing governments of even more income. Further, [opacity of free trade zones](#) (FTZs) facilitates corruption, trade-based money laundering, and smuggling which siphons even more money out of developing economies. Simply put, the global trade system is not working for poor nations and the opportunity cost of the lost revenue due to these activities is a debilitating and chronic condition for many countries.

Given the financial needs of developing countries, the myriad ways in which revenue can be diverted from global trade transactions, the recent focus put on the importance of trade by multilateral institutions, and the accountability cluster of work of the FACTI Panel, **Global Financial Integrity**

**believes that the Panel promote the concept of “trade integrity” defined as international trade transactions which are legal, properly priced and transparent.**

To work toward trade integrity the FACTI Panel should encourage multilaterals and governments to:

- 1) put special focus on international trade and specifically the BO of freight forwarders, shippers and other firms that are in the business of moving cargo
- 2) undertake high-level discussions regarding the feasibility of having all governments post all of their trade transactions online. This transparency will enable civil society, academics, researchers and journalists to determine whether the developing country governments are capturing the maximum revenue from trade transactions.
- 3) investigate the feasibility of using distributed ledger technology in international trade transactions to address the information asymmetry which facilitates trade misinvoicing
- 4) promote public-private cooperation to develop information sharing strategies which will curtail trade-based money laundering
- 5) seek efforts to improve transparency and accountability in free trade zones which are infamous for their opacity.

Keeping in mind the goals promoted by the U.N.'s Decade of Action and the European Union's Collect More/Spend Better approach to sustainable development, we believe the activities listed above will help governments significantly curtail trade-related tax evasion and illicit financial flows while simultaneously boosting DRM. It is essential that transparency, accountability and integrity are at the heart of global trade and we believe a concerted effort is needed at the highest levels of international institutions to establish and ensure these attributes. Reacting forcefully to the COVID-19 epidemic and fulfilling the promise of the Sustainable Development Goals will require nothing less.

Be assured that Global Financial Integrity is ready to engage with the FACTI Panel in promoting activities to help the international community – both public and private organizations – as well as individual developing countries to integrate the concept of trade integrity into their understanding of and execution of global trade. We commit our subject matter expertise, groundbreaking research, and global advocacy effectiveness to our shared goal of promoting sustainable development.

With best regards,

Tom Cardamone

President & CEO

[tcardamone@gfintegrity.org](mailto:tcardamone@gfintegrity.org)

@TCardamoneJrGFI

@illicitflows