

Stepping up measures against illicit yields financial dividends, says new TRACIT report

- Key findings show that countries that are poorly equipped to tackle illicit trade also suffer from poor credit ratings.
- Recommendations encourage countries to strengthen governance and institutional measures against illicit trade to generate positive impacts on credit scores.

New York, January 20, 2021 – Today, the Transnational Alliance to Combat Illicit Trade launched a new report, *The Link Between Illicit Trade and Sovereign Credit Ratings*. The organization known for fighting illicit trade in markets worldwide, presented the findings during a webinar exploring connections between illicit trade, credit ratings, and investment at a national level.

“As Finance Ministers grapple with measures to stimulate growth, boost employment and attract investment, a first order of business should be to plug the fiscal leakages associated with illicit trade,” said TRACIT Director-General Jeffrey Hardy. ***“This report shows that correcting regulatory and economic circumstances that enable illicit trade can improve sovereign credit ratings and reduce the cost of raising capital in the international financial markets.”***

The report presents a comparison between the credit ratings attributed by major international agencies and the scores on structural capabilities to combat illicit trade assigned to 84 countries by the Global Illicit Trade Environment Index, constructed by The Economist Intelligence Unit.

“Our analysis shows a strong relationship between a government’s credit worthiness and its structural ability to tackle illicit trade,” said Dr. Ulrika Bonnier, TRACIT’s Director of Programs. ***“We found that countries with high scores on their capacity to fight illicit trade also had the highest credit ratings.”***

The report indicates that where a country’s underlying conditions make it vulnerable to illicit trade, it has fewer prospects to create legitimate employment, improve economic performance or move away from informal economic activity. These circumstances underpin credit ratings determinations by international rating agencies and can result in lower credit rating scores – with the unfortunate consequences of limiting access to and increasing the cost of borrowing capital, further dampening the economic and financial forecast and nurturing the perpetuation of the structural conditions where illicit trade proliferates.

The panel discussion featured remarks from Colombia’s Vice-Minister of Foreign Trade, H.E. Laura Valdivieso. ***“Combatting illicit trade is a top priority for Colombia,”*** said Ms. Valdivieso. ***“This is not an issue that is solely the responsibility of Ministries of Trade. All parts of governments need to be aligned and actively play their individual roles against illicit trade’s threats to society, the economy, and development.”***

Mr. János Bertok, Deputy Director of the Public Governance and Territorial Development Directorate of the Organisation for Economic Cooperation and Development (OECD) addressed the relationship between illicit trade, good governance and investment. ***“In times of crisis such as the current Covid-19 pandemic with its economic and social repercussions, public governance matters more than ever,”*** said Mr. Bertok. ***“Strong regulatory environments and institutions equipped to combat corruption, ensure***

good governance, and rule of law are key in the fight against illicit trade, in sovereign credit rating determinations, and in building a 'new normal' once the crisis has passed."

Mr. Patrice Cochelin, Analytical Manager, Sovereign & International Public Finance Ratings at S&P Global addressed the link between illicit trade prevention and sovereign credit ratings. *"How governments combat illicit trade, ensure that official statistics reflect the reality of economic activity, including trade flows, is an important part of S&P Global Ratings' research, and dialogue with sovereign issuers,"* said Mr. Cochelin. *"This can influence many parts of ratings build-up, notably our institutional, economic, external, and fiscal assessments."*

The findings from the report suggest that governmental efforts and policies to prioritize the fight against illicit trade, and the underlying conditions that facilitate it, can have a significant positive impact on sovereign credit scores. Addressing the regulatory environment and economic circumstances that enable illicit trade can improve the environment upon which a country's credit ratings are based.

"The bottom line is that governments should not only prioritize and increase efforts to combat illicit trade because of the severe repercussions it has on society, the economy, and development – but also because it is in their own financial interest to do so." said Mr. Hardy.

About TRACIT

The Transnational Alliance to Combat Illicit Trade ([TRACIT](#)) is an independent, private sector initiative to mitigate the economic and social damages of illicit trade by strengthening government enforcement mechanisms and mobilizing businesses across industry sectors most impacted by illicit trade.

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