Illicit Financial Flows

Mr. Jean Pesme,  Manager, Financial Market Integrity and Coordinator, StAR Initiative
Why are we talking about Illicit Financial Flows?

- Advocacy perspective
- Development perspective
- Policy and operational response

Clarity and rigor on definition
Clarity and rigor on analysis of impact
What are we talking about?

Licit Sources
- Abusive transfer pricing: between subsidiaries of the same multinational
- Tax evasion: by individuals and small/medium enterprises
- Trade mispricing: manipulations of invoices for transferring funds, mainly through unrelated companies

Illicit Sources
- Corruption, drug trafficking, human trafficking, smuggling, tax crime, etc.
- Proceeds of Crime
- Corruption/Bribery

Not all IFF are illegal– need to confront this paradox
Underlying activities are of very different nature
- status of global policy response differ
- operational tools differ
Why does it matter?

- “Big numbers” trigger attention, but do not draw a path forward - “Grain of salt”
- Which perspective?
  - Moral argument?
  - Justice argument?
  - Development argument?
Why does it matter?

- What is really the issue at stake?
  - Underlying activities themselves?
  - Are all outflows negative?
  - What about the inflows?
- Are we talking about following the money as a tool, as an end in itself, or both?
Analysis – couple of examples

Objective of the Study (Pioneering study)

- Introduce economics into the debate about ill-gotten money and development
- Attempt to quantify the economic magnitude of ill-gotten money and determine its macro relevance
- Attempt to bridge the gap of understanding between economists and AML communities

Ill-Gotten Money and the Economy
Experiences from Malawi and Namibia (2011)

- Malawi: Corruption estimate is 5 percent of GDP; tax evasion 8-12 percent of GDP
- Namibia, estimate of tax fraud 9 percent of GDP
Developing a Methodology

Structured interviews & analysis of available data

Need to cross check with multiple sources

Interviews with relevant Stakeholders

Open and Closed Sources of data

Figure ES.1 Financial Flows of Proceeds of Piracy

- Ransom negotiations
  - Ransom
    - An estimated of US$339 million to US$413 million was claimed in ransoms during April 2005–December 2012

- Acts of piracy
  - Including taking hostage of vessels, cargo, and/or crew and other persons

- Pirates
  - Understanding the piracy network and money flows

- Pirate financiers
  - The main beneficiaries from proceeds of piracy; those who have invested in piracy operations

- Investments

- Criminal activities
  - For example, human trafficking, warlord activities

- Legitimate businesses
  - For example, khat, hotels, transport, petroleum, real estate

- Local communities

- Low-level pirates
Justice For Forests: Combating Illegal Logging

- Crime for profit: US$10 billion generated annually
- Law enforcement challenges:
  - Organized crime syndicates - high level corruption
  - International dimension
- Adding to the toolkit - “follow the money” approach:
  - Go beyond the forest; look at flows along the value chain
  - Target big fish versus small fish
  - Use the “follow the money” tools
  - Confiscate assets and proceeds of crime
Food For Thought

- Acknowledge methodological challenges and need to deepen understanding – more work needed
  - Be more rigorous in definition of IFFs
  - Test ideas
- Avoid making it financial centers versus developing countries
  - Engage financial centers
- Work with the private sector – financial sector
- Engage with civil society

*Acknowledge that IFF may be a convenient political umbrella, but merges different realities*