



THE WORLD BANK



IFC International
Finance Corporation
World Bank Group

Illicit Financial Flows

Mr. Jean Pesme, Manager, Financial Market Integrity and Coordinator, StAR Initiative

Financial & Private Sector Development

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?

Sources

Licit Sources

Illicit Sources

Corruption, drug trafficking, human trafficking, smuggling, tax crime, etc.

Methods

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

Proceeds of Crime

Corruption/ Bribery



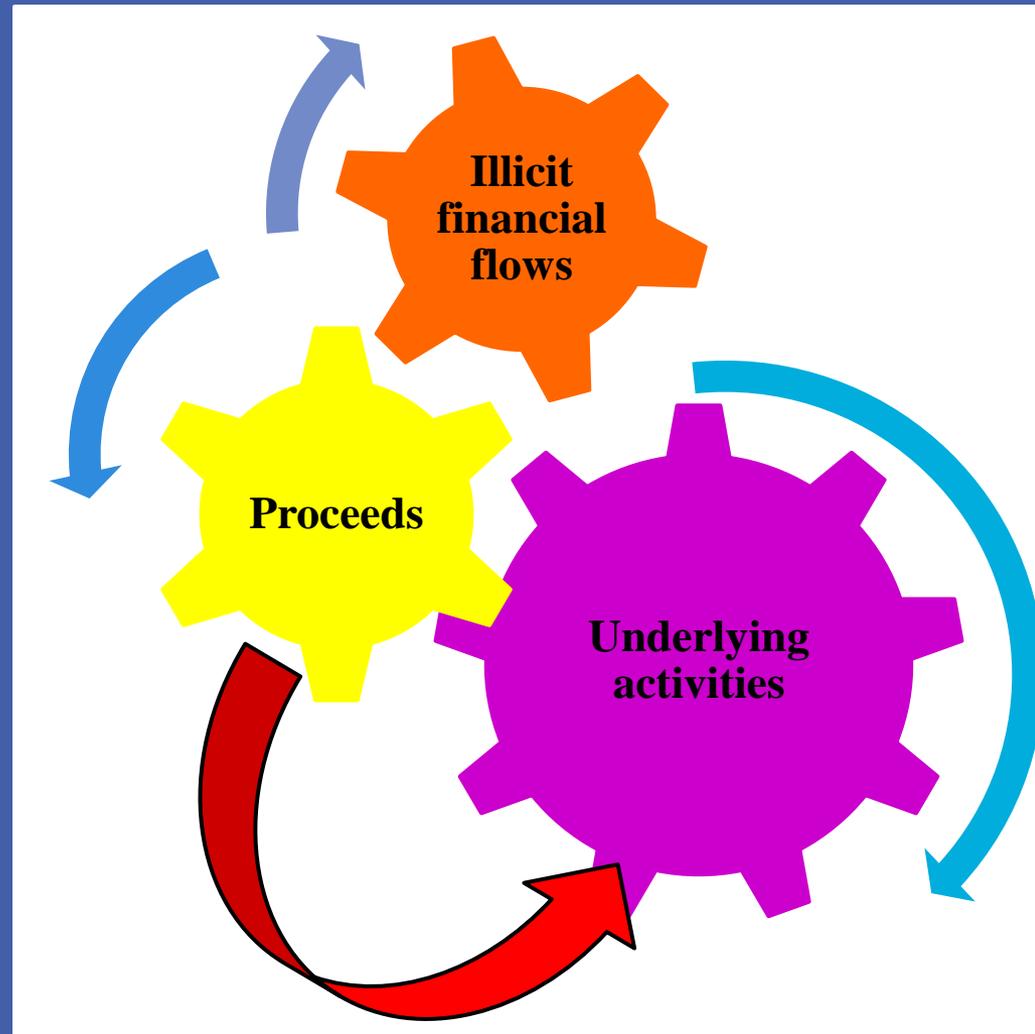
Not all IFF are illegal– need to confront this paradox
 Underlying activities are of very different nature
 - status of global policy response differ
 - operational tools differ

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?

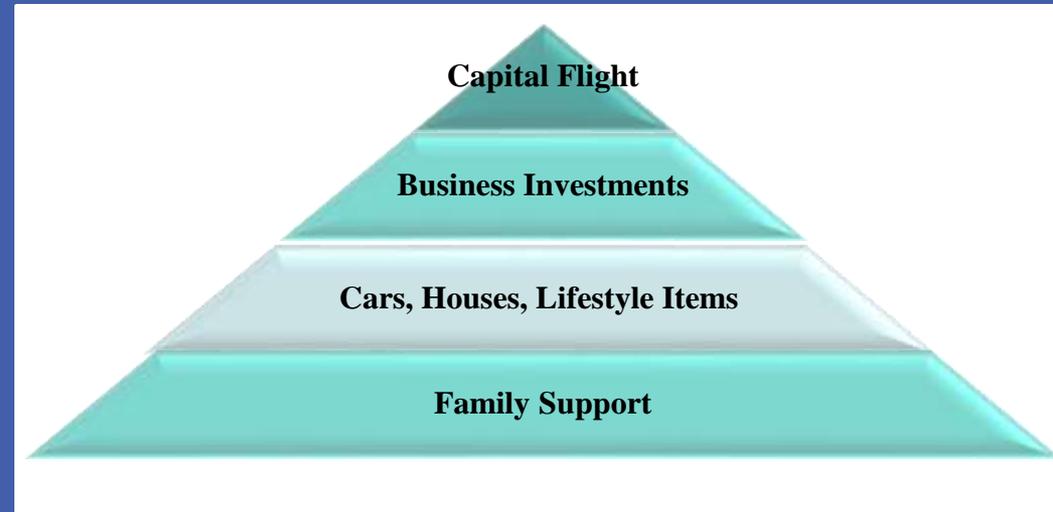
- **What is really the issue at stake?**
 - Underlying activities themselves?
 - Are all outflows negative?
 - What about the inflows?
- **Are we talking about following the money as a tool, as an end in itself, or both?**



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

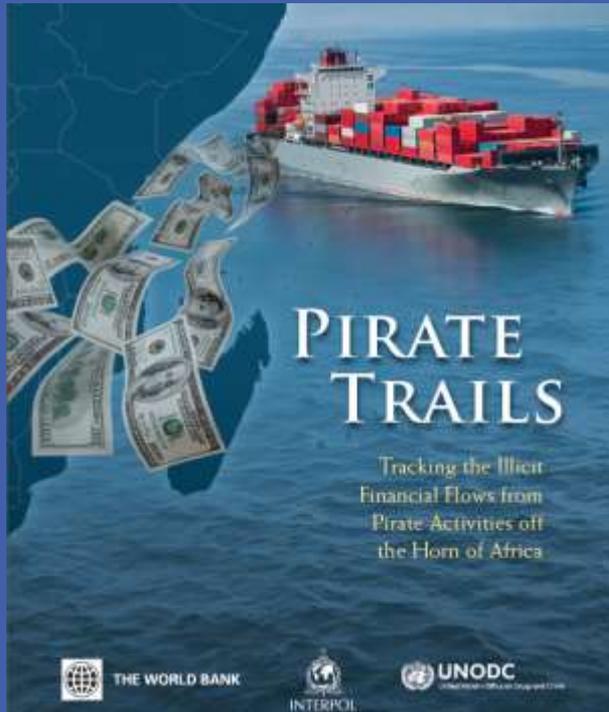
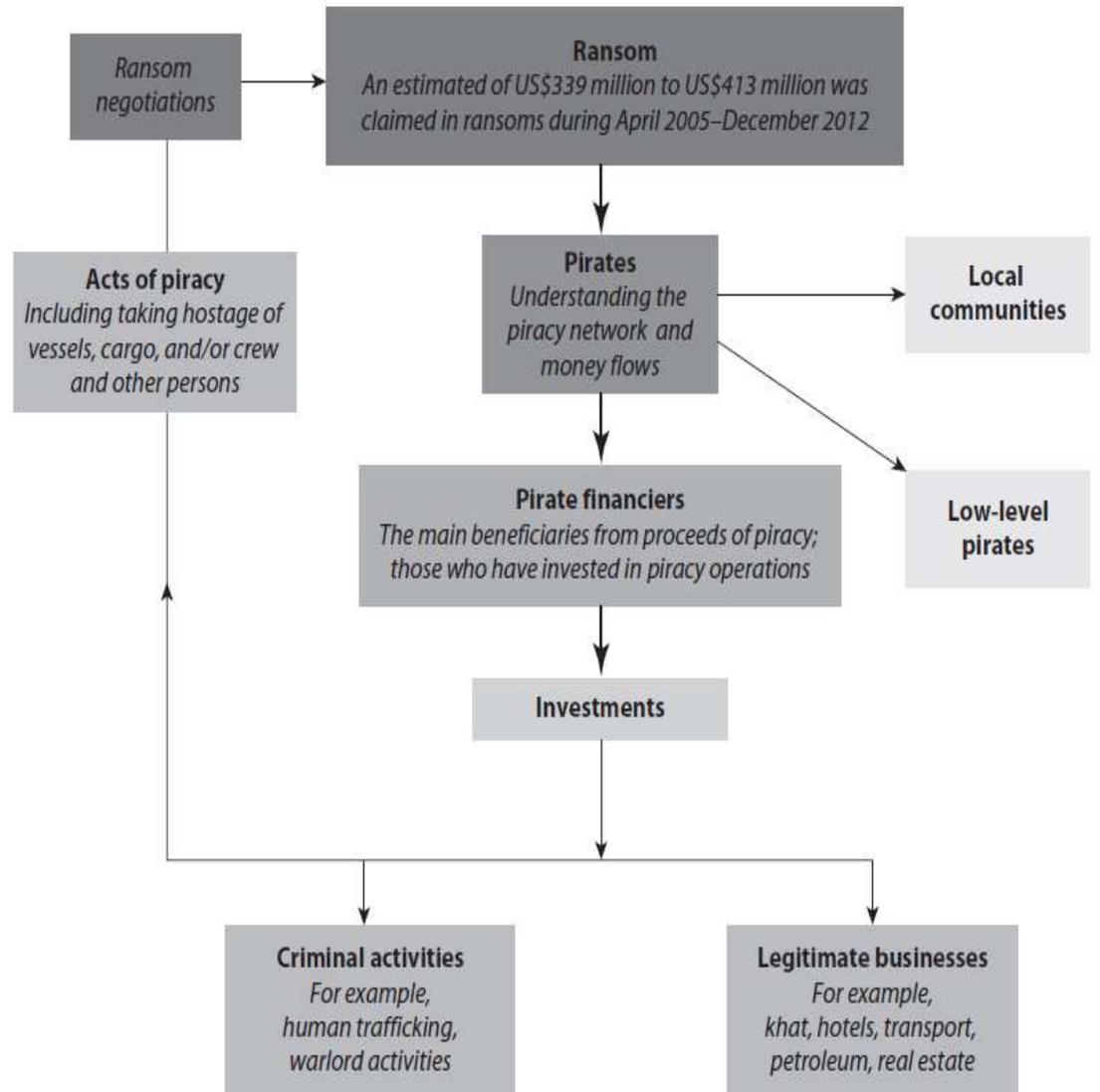


Figure ES.1 Financial Flows of Proceeds of Piracy



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

