

# Illicit Financial Flows: Making Sense of Confusion

Alex Erskine<sup>1</sup>, 13 March 2018

## Part I. Search for Meaning

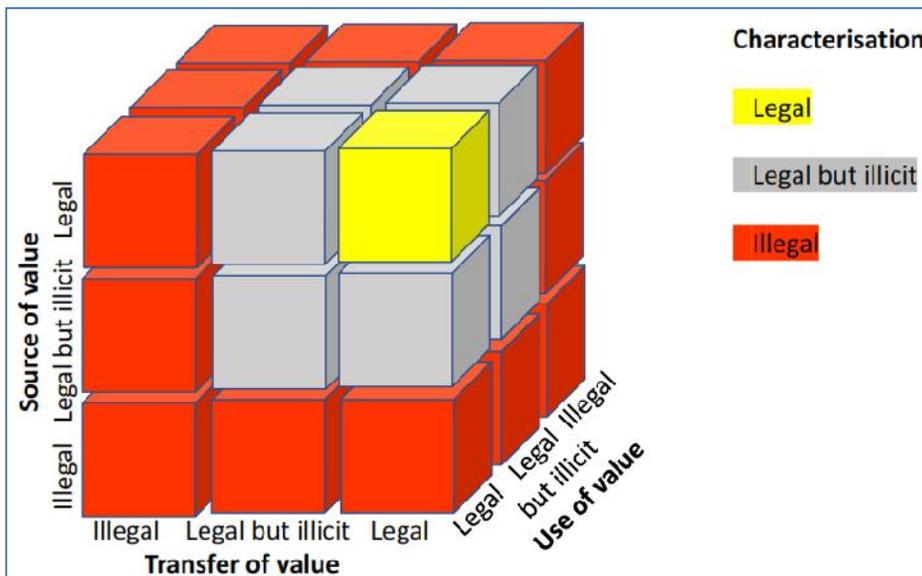
This is the first of three notes on *illicit financial flows*. They are a serious constraint and challenge for all countries, but especially for developing countries. It is a surprisingly complex and still relatively new topic.

The three notes aim to improve the understanding of illicit financial flows and increase the prospect of better policies. This note, **Part I, Search for Meaning**, provides an overview of the concept of illicit financial flows and the reasons why the definition is not yet settled. It ends with an annotated list of readings and an annex exploring the popularity of the term. **Part II, Count the Devils**, will focus on ways to quantify illicit financial flows. **Part III, Tackle the Drivers**, will outline what can be done better to reduce illicit financial flows and yet promote sustainable development, building on analysing drivers and facilitators.

### Overview of illicit financial flows

The concept of illicit financial flows is they are cross-border transfers of value that “ought not happen”, because a source, transfer or use of the flows is illegal or otherwise illicit. See Figure 1. Only the cross-border flows of value whose sources, transfers and uses are all legal and licit are **not** illicit financial flows.

**Figure 1.** Illicit and licit financial flows based on characterisation of sources, transfers or uses



N.B. Not drawn to scale. Be aware of the false clarity of the characterisations: the 3-D blocks and intervening divisions should be indeterminate and fuzzy. Source: the author, inspired by [Chowla and Falcao 2016](#).

Illicit financial outflows typically leave a developing country worse off, with less economic activity, a worse balance of payments position, a weaker fiscal position and more governance problems: all-in-all making

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sustainable development more difficult. Inflows will likely involve further governance problems. Provided development prospects are maintained or improved, less illicit financial flows will be better.

You might think this is not too hard a set of issues, so the world can get cracking. But you would be wrong. Most thinking stalls at the start, failing to flesh out the details of the concept, undermining subsequent effort. Everyone has their own opinion of what comprise illicit financial flows, and headline estimates of their extent have been fatally flawed, along with ensuing policy recommendations.

### The foundation is weak

In 2015, the 193 members of the United Nations agreed to significantly reduce illicit financial flows by 2030 to help advance sustainable development<sup>2</sup>. International agencies<sup>3</sup>, governments and – belatedly – businesses are now beginning to consider what can help achieve that target without taking away the opportunities for international trade and investment that underpins rising welfare in many countries, developed and developing. (At this stage business seems to confuse *illicit financial flows* with the narrower concept of *illicit trade*<sup>4</sup>, a misperception that business should quickly correct.)

But the foundations for this quest are not secure. The United Nations' members agreed on the target without defining the term. Countries have no laws against *illicit financial flows*, only laws against specific activities, intentions and outcomes which are now being described collectively as *illicit financial flows*.

### Defining illicit financial flows

We can only assess magnitudes of illicit financial flows, sharpen analysis of their harms to development and make coherent progress in curbing them if we know what they are<sup>5</sup>. There is general agreement that the potential sources are *economic activities*, i.e. activities undertaken for financial benefit. Passions run hot on what is included and what is excluded: the participants in the discourse have yet to fully agree.

The disagreements stem mainly from the word *illicit*, which includes *illegal* and/or *morally wrong*<sup>6</sup>. Both create confusion without further qualifications, such as identifying whose laws and whose moral values.

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<sup>2</sup> United Nations 2015. [Transforming our world: the 2030 Agenda for Sustainable Development](#). There are [17 SDG goals and 169 targets](#) (“which are integrated and indivisible”). Reducing illicit financial flows is in SDG goal 16 (Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels), target 16.4 (By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime) and sub-target 16.4.1 (substantially reduce illicit financial flows).

<sup>3</sup> Encouraged by the G20 group of nations, international agencies are leading, e.g. actions led by the OECD on Base Erosion and Profit Shifting and more recently UNODC-UNCTAD on the SDG Indicator on illicit financial flows.

<sup>4</sup> The [World Economic Forum](#) (WEF) sees illicit financial flows to be a risk that is part of “[illicit trade](#)”, even though the other components of the WEF’s illicit trade risk (“tax evasion, human trafficking, counterfeiting and/or organized crime ...”) fall inside most normal views of potential sources of illicit financial flows. Similarly the agenda for The Economist Events’ second [Global Illicit Trade Summit](#) in March 2018 really focuses on illicit financial flows. However, it is encouraging that business is beginning to recognise this area as a global economic risk. The WEF [Global Risks Perception Survey 2017–2018](#) ranks illicit trade 9th out of 30 societal, economic, environmental, technological and geopolitical risks in terms of likelihood of occurring globally within the next 10 years, though its impact is not thought likely to be a major economic or industry negative within the next 10 years.

<sup>5</sup> Fredrik Eriksson of U4 Anti-Corruption Centre has separately addressed [many of these issues](#).

<sup>6</sup> Much of the illicit financial flows literature erroneously defines *illicit* as *forbidden by law, rules, or custom*. *Forbidden by law* and *rules* seems clear enough. *Custom* completely misses the point: *morally wrong* hits the point, e.g. avoiding taxes has been a *custom* throughout history, but it is *morally wrong* from a tax justice perspective.

The other words, *financial* and *flows*, and whether *flows must cross the border* also need to be clarified. Because these matters remain under-investigated and unsettled, consequential definitional issues also remain unresolved. The discourse will benefit if there is clarity soon on whether illicit financial flows are:

- ) *illegal* in terms of sources, transfers and/or uses, or a broader grouping *illegal plus legal but illicit*;
  - o in either case, we must decide whose laws (the country's or international) apply; and
  - o if *legal but illicit* is to be added, we must decide whose moral perspective is to be used;
- ) *value* transfers, rather than *money* or *financial* transfers;
- ) *cross-border*, or also flows that are purely *domestic*; and
- ) only perpetrated by *business* and/or *government officials*, or also perpetrated by *individuals*.

That will help governments, donors and others with consistency orient global and country thinking towards illicit financial flows that fit the clarified definition and accelerate the search for effective actions.

### The thorny issue of the difference between illegal and illicit

The issue turns out to be a battle (and a choice) between **principle** and **pragmatism**. As in Figure 1, there is a category between *legal* (yellow) and *illegal* (red), described as *legal but illicit* (grey), which covers those sources, transfers and/or uses that are not illegal but are morally wrong. Most analysis has jumped to assume that the law is key and only focuses on flows whose source, transfer or use is illegal. But there is a polarising dispute whether to also include flows from *tax avoidance* (a legal activity but morally wrong from a tax justice perspective) as well as flows from *tax evasion* (illegal almost everywhere).

At present this debate is not settled<sup>7</sup>. The literature tends to list some activities thought typical of being the source/transfer/use of illicit financial flows (e.g. economic crimes including drug smuggling, corruption, tax evasion, money laundering and financing terrorism) or a small range of actors (e.g. international business and government officials). To foster a more systematic discussion, Table 1 below sets out examples from a few potential sources of illicit financial outflows, be they *illegal* or *legal but illicit*.

**Table 1.** Examples of illicit financial outflows if based on *illegality* or *illicitness* of source of outflow

Source of IFF outflow	Illegal (i.e. economic activities that typically* are crimes)	Legal but illicit (i.e. economic activities that are morally wrong, even though legal*)	Moral perspective
Taxation	Tax evasion	Tax avoidance, including through legally accessing tax concessions and incentives	Tax justice
Wildlife	Poaching, smuggling	Licensed 'farming' or sports hunting	Animal rights
Forests	Unlicensed felling, smuggling	Licensed felling and exports, especially if the full resource value is not paid to the country	Environmental sustainability
Mining, incl. gold/gems	Unlicensed extraction, smuggling	Licensed extraction and legal exports, especially if the full resource value is not paid to the country	Tax justice
Drugs	Unlicensed cultivation, trafficking	Licensed cultivation, legal trade and sales, especially if damaging dependencies develop	Health concerns
Gambling	Unlicensed casinos & sports betting	Licensed casinos and sports betting	Anti-gambling
Tourism	Sex slavery, illegal brothels	Legal commercial sex industry, legal brothels	Human rights
Organ trade	Coerced organ harvesting	Commercial 'transplantation tourism' services	Human rights
Corruption	Illegal exploitation of power for private benefit	Legal exploitation of power for private benefit	Governance, fairness

Note: examples only, not a comprehensive listing. \* The *legal but illicit* column would necessarily include the activities listed in the *illegal* column if relevant law did not make them a crime. Source: the author

<sup>7</sup> The discussion here sets aside any problem of laws made against some economic activities which are not illicit.

Note this is only a selection of perspectives on what is *legal but illicit*, i.e. morally wrong. Clearly more work needs to be done on what is *legal but illicit*. There appears to be no comprehensive listing: such a listing is vital if the coverage of *illicit financial flows* is to include both *illegal*<sup>8</sup> activities and also *legal but illicit* activities. Research discipline<sup>9</sup> suggests no cherry-picking: it is inconsistent to include morally wrong (but legal) tax avoidance together with tax evasion as a potential source of illicit financial flows without also including other morally wrong activities that are potential sources, such as licenced/legal gambling or commercial ‘transplantation tourism’ services.

A wider – principled – definition increases the likely amount of illicit financial flows, see Figure 1. The single **yellow** block represents all the flows where the sources, transfers and uses of the value are all *legal* and are not *illicit/morally wrong*. The **grey** blocks (seven) represent the flows where one at least of the sources, transfers and uses is *legal but illicit*, i.e., *morally wrong*. The **red** blocks (19) represent all the flows where one at least of the sources, transfers or uses is *illegal*. If we include in illicit financial flows all flows that involve one or more *illegal* source, transfer or use and, additionally, all legal flows that involve one or more *legal but illicit* source, transfer or use, the single **yellow** all-legal block is outnumbered 26:1. Relaxing the criteria to *illegal* versus *legal* cuts the adverse ratio to 19:8.

But this discussion proceeds from a distraction. In the end, *principle* will win and the *pragmatic choice* to use legality/illegality to drive the selection of sources, transfers or uses that fuel illicit financial flows will be proven temporary. Illegality was probably chosen partly from what researchers thought governments could agree. In the end that agreement is likely to wilt, because individual countries’ laws relating to economic activities do differ, sometimes significantly. Some may have no laws against what is treated as criminal in most other countries (for example, there may be weak laws against tax evasion, corruption or unlicensed casinos), so eventually the common standard will have to be applied through the *legal but illicit* criteria, acting as a catch-all. Let this issue rest here temporarily: it will reopen next page.

### The usually uncontroversial issues of financial, flows and cross-border

Turning to the other words, *financial* and *flows*, there has been an apparently firm but often unspoken consensus that what is meant is the *transfer of value from one country and into another*.

- ) *Financial* is not confined to money or even to financial products. It extends to *all resources (tangible and intangible) and assets*, not just financial capital. It seems best summarised as *value*;
- ) *Flows* are a movement over time (potentially accumulating to a stock). However, in some instances what may be illicit is the *absence of a flow*, e.g. no payment for goods or services that have been transferred. Again, the *transfer of value* covers that situation.

In the illicit financial flows discourse, there has been little formal opposition to defining the financial flows of concern as being *transfer of value from one country and into another* (i.e. the flow crosses the border

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<sup>8</sup> Note that we are not talking of the proven-in-court-after-all-appeals type of illegality, rather reasonable-supposition-based-on-appearance-and precedent illegality. In other words, apply the duck test: “if it looks like a duck, swims like a duck, and quacks like a duck, then it probably is a duck”.

<sup>9</sup> One key factor underpinning selection of economic activities that are potential sources of illicit financial flows is that *money is fungible*: all equivalently-qualifying cross-border value transfers should be included. “Money is fungible” is shorthand for saying that what is being widely perceived as money in any form is a substitute for any other money amounting to the same value. This holds most clearly for values denominated in one currency, such as the US dollar. Complications for fungibility arise if values are held in forms that are not readily convertible to cash (and more so if they are held as commodities or as Bitcoin) but the principle remains.

from one country and crosses the border into another and possibly beyond). As a logical (but perhaps unrecognised) consequence, illicit financial flows are inextricably involved in the balance of payments of the countries, albeit often hidden, omitted or wrongly recorded<sup>10</sup>.

However, a stark exception has popped up. The gold and illicit financial flows project of the Global Initiative against Transactional Organised Crime (Global Initiative) supports illicit financial flows including *domestic (i.e. non-cross-border) flows*, as a result of the practical difficulties of distinguishing between illicitness and illegality especially if there are large informal sectors and porous borders as in West Africa<sup>11</sup>. Their inclusion of domestic flows into the illicit financial flows concept has been carried over into a prominent recent OECD publication<sup>12</sup>. The focus on harms to development from informality, illicitness and illegality is useful, especially for prioritisation of policy responses: however, the extension of the ambit of the concept of illicit financial flows to include purely domestic flows risks confusing further discourse.

### But wait ... there's more – on the issue of illegality versus legal but illicit

The pragmatic choice of *illegality* as the criteria was also probably driven by the relative ease of research. Estimating hidden activities is always hard, if not actually impossible. However, more is known about activities that are *illegal* because some of the accused are caught and prosecuted, the media carries reports and some statistics are published and, despite that, not much may be really known. In contrast much less is known about activities that are *legal but illicit* according to a moral code<sup>13</sup>.

Even regarding the law, a decision must be made whether it is *national* and/or *international* law that is the criteria for determining the activities fuelling illicit financial flows.

- ) National law cannot be ignored: it applies in-country and indicates what crimes are committed.
- ) International law would be better for comparability and consistency, if there were a global common set of law applicable to economic crimes. But beyond United Nations sanctions, there is little customary international law that applies to the crimes that lead to illicit financial flows<sup>14</sup>.
- ) However, some individual countries' laws do have near-global reach: for instance, the [US Foreign Corrupt Practices Act](#) (FCPA) and the [UK Bribery Act](#) help uncover corrupt acts in developing countries by firms that have operations in the US or UK. [US sanctions laws](#) have a similar power.

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<sup>10</sup> The balance of payments relates to flows across the border and is based on residency of the transactor. Its main components are the current account (which includes the trade account and primary incomes flows), the capital account, the financial account and the international investment position. **Part II** will address the measurement issues, while this note (**Part I**) continues to focus on the conceptual matters.

<sup>11</sup> Global Initiative against Transnational Organized Crime and Estelle Levin Ltd. 2017a. [Follow the Money: Financial Flows linked to Artisanal and Small-Scale Gold Mining – Tool for Intervention](#). Geneva, Switzerland and Cambridge United Kingdom. March. and Global Initiative against Transnational Organized Crime and Estelle Levin Ltd. 2017b. [Follow the Money: Financial Flows linked to Artisanal and Small-Scale Gold Mining in Sierra Leone: A Case Study](#). Geneva, Switzerland and Cambridge United Kingdom. March.

<sup>12</sup> OECD. 2018. [Illicit Financial Flows: The Economy of Illicit Trade in West Africa](#). OECD Publishing, Paris. Note: Written by Global Initiative. Until this publication, the OECD had maintained that illicit financial flows were cross-border transfers and did not include domestic transfers.

<sup>13</sup> The reports of the [International Consortium of Investigative Journalists](#) (ICIJ) such as the [Panama Papers](#) stand out as throwing light on some *legal but illicit* activities. Investigative journalism and whistleblowing are helping expand the understanding of ethics in business and finance. But the coverage is sporadic.

<sup>14</sup> Except when a state carries out/permits slavery, torture, genocide, wars or crimes against humanity.

For deciding what is *legal but illicit*, there is still less guidance: work is barely beginning on a comprehensive country or international listing of the *immorality* of economic actions that are legal<sup>15</sup>. This note suggests that the field of business ethics should take the lead. Failing that – or even building on any business ethics progress – the task may default to the United Nations, as was the [listing of human rights](#).

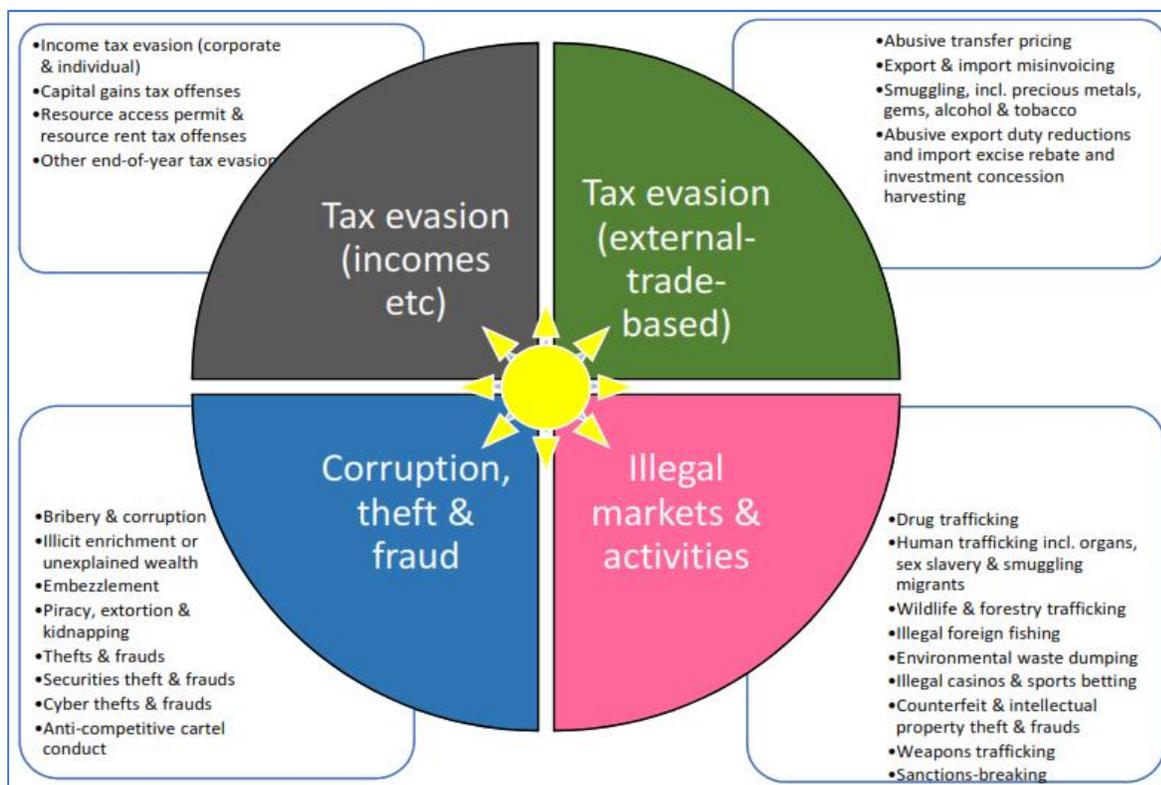
### The economic crimes that create the sources for illicit financial flows

Applying the current pragmatic criteria, *illegality*, a catalogue can be prepared of the types of economic activities undertaken for financial benefit that are (in most countries) illegal and so potentially lead to illicit financial flows. Three major categories of *illegal* sources for potential illicit financial flows emerge:

- i. Tax evasion;
- ii. Corruption, theft and frauds; and
- iii. Illegal markets and activities.

The first two are essentially stealing while the third often involves transacting between two more-or-less willing parties. These categories are still high-level: most of the literature only list a few crimes: the selection in Figure 2 below is intended to be more extensive, though it is still not comprehensive<sup>16</sup>.

**Figure 2.** Examples of economic crimes that are potential sources for illicit financial flows



Source: the author, drawing on the literature of illicit financial flows and other crimes

<sup>15</sup> Inevitably any listing of moral rights and wrongs will change over time, as will laws, i.e. slavery being made illegal, drug cultivation or use being legalised, and shifting moral views on use of tax havens, commercial contract secrecy and carbon emissions.

<sup>16</sup> Greed driving pursuit of financial gain through ever more unusual criminal economic activities seems insatiable.

In Figure 2 above:

- ) the economic crimes of *tax evasion* are split between external-trade-based tax evasion (which tends to be transaction-based) and evasion of income and other taxes (which tend to be collected – and evaded – later, e.g. after year-end);
- ) *corruption, theft & fraud* clearly qualify as economic crimes and include corruption/bribery (both grand and petty – though petty corruption/bribery proceeds are presumed rarely to flow abroad), cybercrimes (including, but not limited to, Nigerian 419 and ransomware scams) and securities crimes (such as insider trading and market manipulation), amongst others. Anti-competitive cartel conduct is included here because it is based on power; and
- ) the crimes in *illegal markets and activities* are more varied, though perhaps committed by the same organised criminals, and range from drug trafficking to breaking trade and other sanctions imposed by the UN;
  - o Because it is a market-based activity, counterfeiting and intellectual property<sup>17</sup> theft and fraud is included in this group rather than in its alternative home as part of *corruption, theft & fraud*.
  - o Illegal foreign fishing and wildlife poaching & smuggling also could as easily be in the theft and fraud category: the fish and wildlife certainly did not have choice.
  - o While crimes that inflict direct costs on another country's environment have been included (e.g. wildlife & forest trafficking, illegal foreign fishing and environmental waste dumping), what has not been included – but may have to be in due course particularly if it is being undertaken for economic advantage – is producing more CO<sub>2</sub> than committed under international agreements.

This categorisation and listing of economic crimes needs to be considered and added to<sup>18</sup>.

The sources, transfers and channels use will also change over time. Most funds cross the border through the banking channel. The innovative aspects of the channels for illicit financial flows traced below are:

- i. the explicit inclusion of a trade mispricing/mis invoicing channel – some may miss the banking channel;
- ii. inclusion of a securities channel, often overlooked but more important with foreign investment; and
- iii. a cryptocurrency channel<sup>19</sup>, a current growing risk.

In almost every case, irrespective of the channel used, money laundering is likely to have been involved in the transfer of value across the border. Further tax offenses also are a likely result.

The following Figures – Figures 3, 4 and 5 – illustrate some aspects of what makes an illicit financial flow.

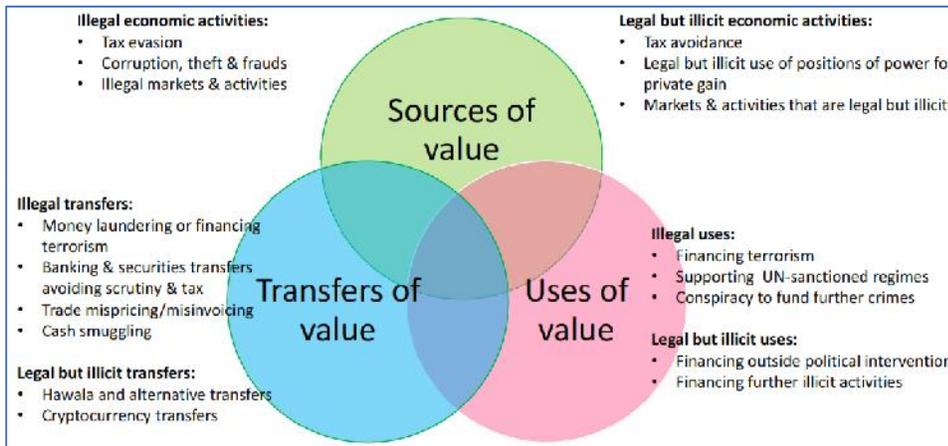
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<sup>17</sup> Its inclusion as a potential source of illicit financial flows may be contentious: some may regard IP rights as cultural imperialism or dispute the duration of copyright protection.

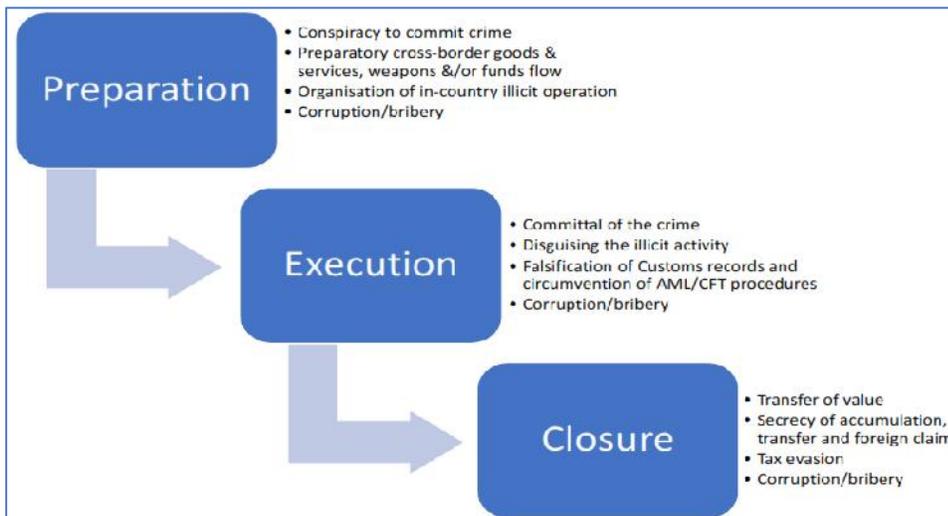
<sup>18</sup> A more minor task will be to define the borderline between economic crimes, other crimes where financial gain and its transfer abroad is incidental, and acts of war or terrorism.

<sup>19</sup> Though only semi-anonymous and traceable by law enforcement in many cases, those transacting in cryptocurrencies such as Bitcoin may well flout any existing financial regulations and taxation and Balance of Payments reporting requirements. See Foley et al 2018. Sean Foley, Jonathan R. Karlsen and Tālis J. Putniņš. 2018. [Sex, Drugs, and Bitcoin: How Much Illegal Activity Is Financed Through Cryptocurrencies?](#) 15 January.

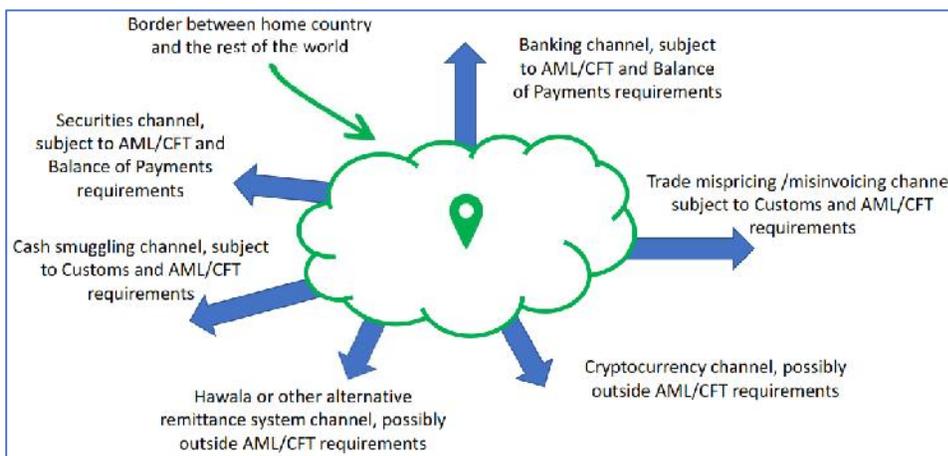
**Figure 3.** Sources, transfers or uses that make cross-border transfers of value into illicit financial flows



**Figure 4.** Typical steps in the conduct of an illegal activity leading to an illicit financial flow



**Figure 5.** Channels for transferring illicit financial flows



N.B. Figures 3 – 5 not drawn to scale. Source: the author

## Those in the discourse need to come to grips with the balance of payments

Despite the ambiguities above, the concept of illicit financial flows is primarily a balance of payments concept. Yes, aspects of illicit financial flows affect fiscal budgets, governance and development potential. But all the flows cross the border, there is a deterioration in the balance of payments in one country and a gain to another, and the task is to account for those flows – a key focus of **Part II, Count the Devils**.

Because money is fungible<sup>20</sup>, it does not matter if an illicit \$ value that is crossing the border is from an illicit market, tax or corruption activity, it is an illicit \$ value to the balance of payments. Nor does it make a difference if the illicit \$ value is from a multinational, a politically exposed person or a mere (doubtless well-to-do) resident individual or business, it is still an illicit \$ value affecting the balance of payments. The members of the UN and IMF have invested substantially over many decades in devising and improving the accounting framework and deriving estimates of countries' national accounts and balance of payments<sup>21</sup>. Eurostat has been leading the way for incorporating criminal activities and resulting flows into the national accounts and balance of payments<sup>22</sup>. It will be important to understand the accounting framework.

## When will the illicit financial flows agenda replace confusion with greater understanding?

There should be progress before long, driven by the 2030 deadline for the UN Sustainable Development Goals. As custodian agencies of SDG Indicator 16.4.1 "Total value of inward and outward illicit financial flows, in current United States dollars", [UNODC and UNCTAD](#) are leading the work to develop a statistical methodology and a measurement standard to estimate illicit financial flows.

But it will take time to get a clear and full sense of what is *legal but illicit*. Business should seek to play its part. The field of business ethics needs to explicitly address all types of economic activity leading to illicit financial flows<sup>23</sup>, not just [tax avoidance](#). One potentially useful contribution could come from banks and institutional investors<sup>24</sup>, for instance if the illicit financial flows agenda begins to be explicitly included in the approach of institutional investors to environmental, social and governance (ESG) issues of the companies (and the governments?) that issue the securities held in their portfolios<sup>25</sup>. This would be much better than waiting for a compilation of illicit/morally wrong economic activities by members of the UN, to be applied in the context of illicit financial flows.

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<sup>20</sup> See footnote 9.

<sup>21</sup> See the International Monetary Fund [Balance of Payments and International Investment Position Manuals](#), now in a 6<sup>th</sup> edition (BPM6) since first published in 1948. The BPM6 balance of payments framework is comprehensive and is harmonized with the United Nations [System of National Accounts](#).

<sup>22</sup> [Eurostat](#), the statistical body of the European Union, has been encouraging countries to implement the agreed frameworks and include illegal economic activities, which include many that are sources of illicit financial flows, in national accounts and balance of payments compilations. It has published a new [handbook](#) on how to do it. There will be many challenges, including those arising from the growth of global firms – see [BIS research](#).

<sup>23</sup> There has been a start. See [Blankenburg and Khan](#) 2012, [Andvig](#) 2013 and [Herkenrath](#) 2014.

<sup>24</sup> Led perhaps by sovereign funds such as Norway's Government Pension Fund Global (the Oil Fund).

<sup>25</sup> Already, the ESG focus on ethical and sustainable behaviour of companies is beginning to focus on tax strategies. See for instance OECD. 2017. [Investment governance and the integration of environmental, social and governance factors](#). Paris, Table 6 on page 40. One of the nine examples of issues affecting a corporations' financial performance is cited as the "governance issue of tax strategy: the valuation risk arising from reclaimed taxes and public opinion leading to boycotts".

## Annotated Reading List on Illicit Financial Flows

Apologies for contributions and authors who have been missed.

**Raymond Baker**, President, and numerous staff of **Global Financial Integrity** (GFI). Writings on illicit financial flows are to be found at [GFI](#). GFI's [annual updates](#) on illicit financial flows from developing countries get headlines, whereas GFI's crime/markets papers in [2011](#) and [2017](#) are pioneering.

**Fredrik Eriksson**, LLM, Senior Advisor at **U4 Anti-Corruption Resource Centre**. Writings on illicit financial flows and especially the links to, and the role of, corruption are to be found at [U4](#) and at [Medium.com](#)<sup>26</sup>.

**Alessandra Fontana**, a [Global Initiative Network expert](#) on governance, anti-corruption, money laundering and organised crime. Amongst the best contributions to understanding of illicit financial flows has been Alessandra Fontana. 2010. *What does not get measured, does not get done. The methods and limitations of measuring illicit financial flows*. U4 Brief. June.

**Maya Forstater**, independent consultant, currently Visiting Fellow at the Centre for Global Development. She has advanced the search for credible estimates of illicit financial flows by debunking some outlandish approaches and warning of overstatements. See writings on illicit financial flows at [CGD](#) and [here](#).

**International Monetary Fund (IMF)**. IMF Managing Director Christine Lagarde has said words to the effect that “we don't know how much illicit financial flows there are, but we do know it is a lot, it damages to development and we are working to reduce it, focusing on tax evasion, corruption and money laundering and the financing of terrorism”. The IMF has pioneered work on taxation and domestic resource mobilisation, for instance ‘[tax gap](#)’ analysis. Meanwhile, there is surprisingly little IMF research on illicit financial flows or its drivers (including exchange rate regimes).

**Global Initiative against Transnational Organized Crime** (Global Initiative) has contributed significantly to carrying forward the concept of illicit financial flows, with detailed studies, including on informal and artisan mining, including for gold and gems, in West Africa - [here](#) and [here](#) (both with Estelle Levin Ltd).

**High Level Panel (HLP)**. 2015. *Illicit Financial Flows. Report of the High Level Panel on Illicit Financial Flows from Africa*. (The Mbeki/HLP Report) Commissioned by the AU/ECA Conference of Ministers of Finance, Planning and Economic Development.

**Léonce Ndikumana**, Chair of Economics, Professor & Director, Africa Policy Program, Political Economy Research Institute, University of Massachusetts Amherst, and frequent co-author James K. **Boyce**, Professor Department of Economics, University of Massachusetts Amherst, and others. Writings on capital flight from Africa (and its links to illicit financial flows) are to be found at various sites including [here](#)<sup>27</sup>.

**Organisation for Economic Cooperation and Development (OECD)**. The OECD has helped develop the concept of illicit financial flows, both advancing a [definition](#) (illicit financial flows ... essentially are generated by methods, practices and crimes aiming to transfer financial capital out of a country in contravention of national or international laws) and more recently through writing a chapter on *policy coherence* and illicit financial flows in [Better Policies for Sustainable Development 2016](#). As mentioned, its

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<sup>26</sup> Fredrik Eriksson and the author are collaborating on a paper on illicit financial flows and corruption.

<sup>27</sup> Professor Ndikumana was a key member of the advisory committee for the Bank of Tanzania project, which involved the author.

publication on [illicit financial flows in West Africa](#) (written by Global Initiative) describes some purely domestic illicit flows as also being illicit financial flows.

**Volker Nitsch**, of Darmstadt University of Technology, Germany, has contributed careful and critical analyses of [some methods](#) employed for [estimating illicit financial flows from developing countries](#).

**Peter Reuter**, Professor in the School of Public Policy and Department of Criminology, University of Maryland. Writings on illicit financial flows (and especially on how hard they are to estimate) are at various sites including [here](#). Significant edited volume: Peter Reuter. 2012. *Draining Development? Controlling Flows of Illicit Funds from Developing Countries*. The World Bank. And Peter Reuter. 2017. *Illicit Financial Flows and Governance: The Importance of Disaggregation*. The World Bank.

**Tax Justice Network (TJN)**. TJN has long been an advocate of including tax avoidance along with tax evasion as a [major contributor](#) to illicit financial flows. [Alex Cobham](#) is now chief executive of TJN and is leading an interesting illicit financial flows [collaborative research paper process](#) with Petr Janský.

**Transparency International**. Writings on illicit financial flows (often advocating inclusion of tax avoidance along with tax evasion as a significant type of illicit financial flows) are [here](#).

**United Nations (UN) and its agencies**. UN agencies have addressed partial aspects of illicit financial flows. What will be riveting will be [source documents and accounts of progress](#) in joint UNODC-UNCTAD expert consultations on the SDG indicator on illicit financial flows over the next two years<sup>28</sup>. A useful scene setting is in Peter Chowla and Tatiana Falcao. 2016. *Illicit Financial Flows: concepts and scope*. Inter-Agency Task Force on Financing for Development. December.

**World Bank (WB)**. The WB has played an active role in developing the concept of illicit financial flows and ways they may be effectively curbed. The Peter Reuter (ed.) *Draining Development* 2012 publication stands out, along with a 2013 book on [Somali piracy](#) and a [publication with UNODC](#) on the same topic. More recent contributions include Peter Reuter's [background paper](#) for the *World Development Report 2017/2018*.

**Gabriel Zucman**, Assistant Professor of Economics at UC Berkeley, and Scandinavian collaborators, Annette Alstadsæter and Niels Johannesen, have pursued an innovative 'Piketty-esque' line of inquiry, researching [the accumulation of wealth held abroad](#), especially in tax havens. There are obvious links to some kinds of illicit financial flows that have to be traced through.

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<sup>28</sup> The author was a participant consulting to UNODC.

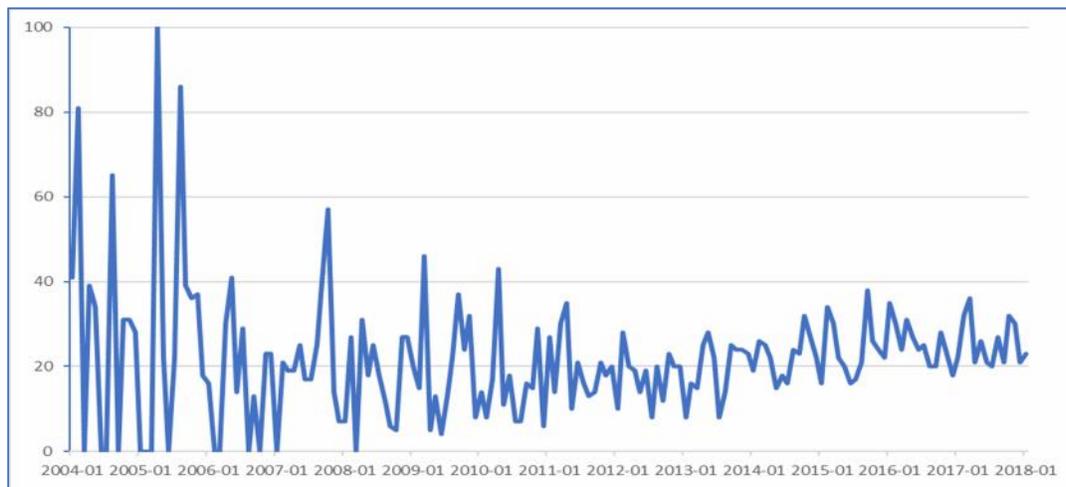
## **Annex: curiosities regarding the term *illicit financial flows***

Illicit financial flows is a poor term, provoking ambiguity and uncertainty. Despite more than 15 years of debate, the concept and definition are not settled. Nevertheless, in a great success for its proponents, it has been adopted by all UN member countries, and they have determined that illicit financial flows are to be substantially reduced by 2030.

Raymond Baker and Tom Cardamone of Global Financial Integrity (GFI, a US-based non-government organisation) do not take credit for inventing the term illicit financial flows but assert “it is fair to say that GFI aggressively advanced the terminology” after selecting it in 2006<sup>29</sup>. That is true: GFI’s publication of annual estimates of illicit financial flows has become the most prominent in the minds of many. But even with GFI’s efforts, interest in the illicit financial flows topic has not kept pace with interest in other areas and appears low overall, judging by analysis using two Google<sup>30</sup> tools, Trends and AdWords Keyword Planner.

Google Trends and its data explorer function give an indication over time of the popularity of a search topic relative to its peak within a randomised sample of all Google searches on all topics for the time period under review<sup>31 32</sup>. Figure A1 gives the results for worldwide searches for the topic *illicit financial flows* over the full period in the Google Trends database, which is monthly back to the start of 2004.

**Figure A1.** Searches for *illicit financial flows* relative to its peak share (=100) amongst all topic searches



Source: Google Trends, worldwide, monthly, January 2004 – January 2018

Figure A1 above indicates popularity as a share of all topic searches peaked in April 2005, and that 4 months in 2004 and 2005 had higher popularity than any month since. However, in more recent periods

<sup>29</sup> Global Financial Integrity. 2015. *Illicit Financial Flows: The Most Damaging Economic Condition Facing the Developing World*. United States of America, September. See especially Chapter 1.

<sup>30</sup> Searches using Google are thought to account of around 75 per cent of all internet searches in 2017 on various devices, according to Net Market Share.

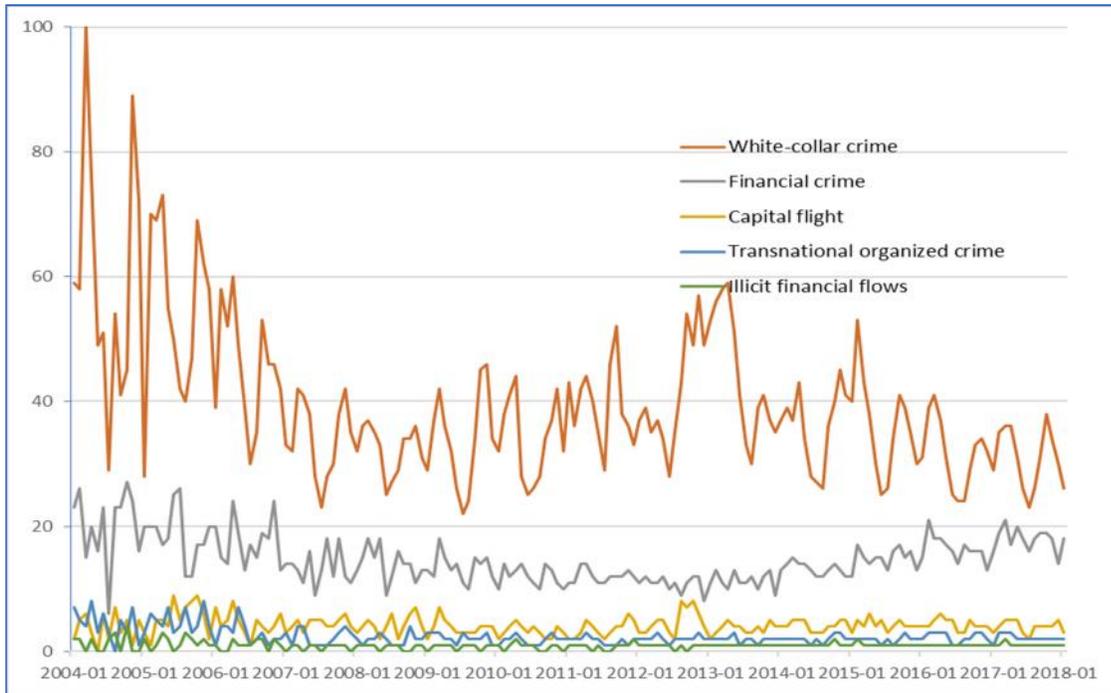
<sup>31</sup> Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular. Likewise a score of 0 means the term was less than 1% as popular as the peak. Source: Google Trends.

<sup>32</sup> Topics are a group of terms that share the same concept, in any language. Source: Google Trends.

*illicit financial flows* seems to be stabilising as a share of all search topics, at a quarter of its peak monthly searches, and on a gradual incline.

Figure A2 broadens the focus to *illicit financial flows* and four similar/related topics (*white collar crime*, *financial crime*, *capital flight* and *transnational organised crime*), to show the relative strength of the search interest of the topics over time.

**Figure A2.** Searches for *illicit financial flows* and other topics relative to their peak amongst all searches



Source: Google Trends, worldwide, monthly, January 2004 – January 2018

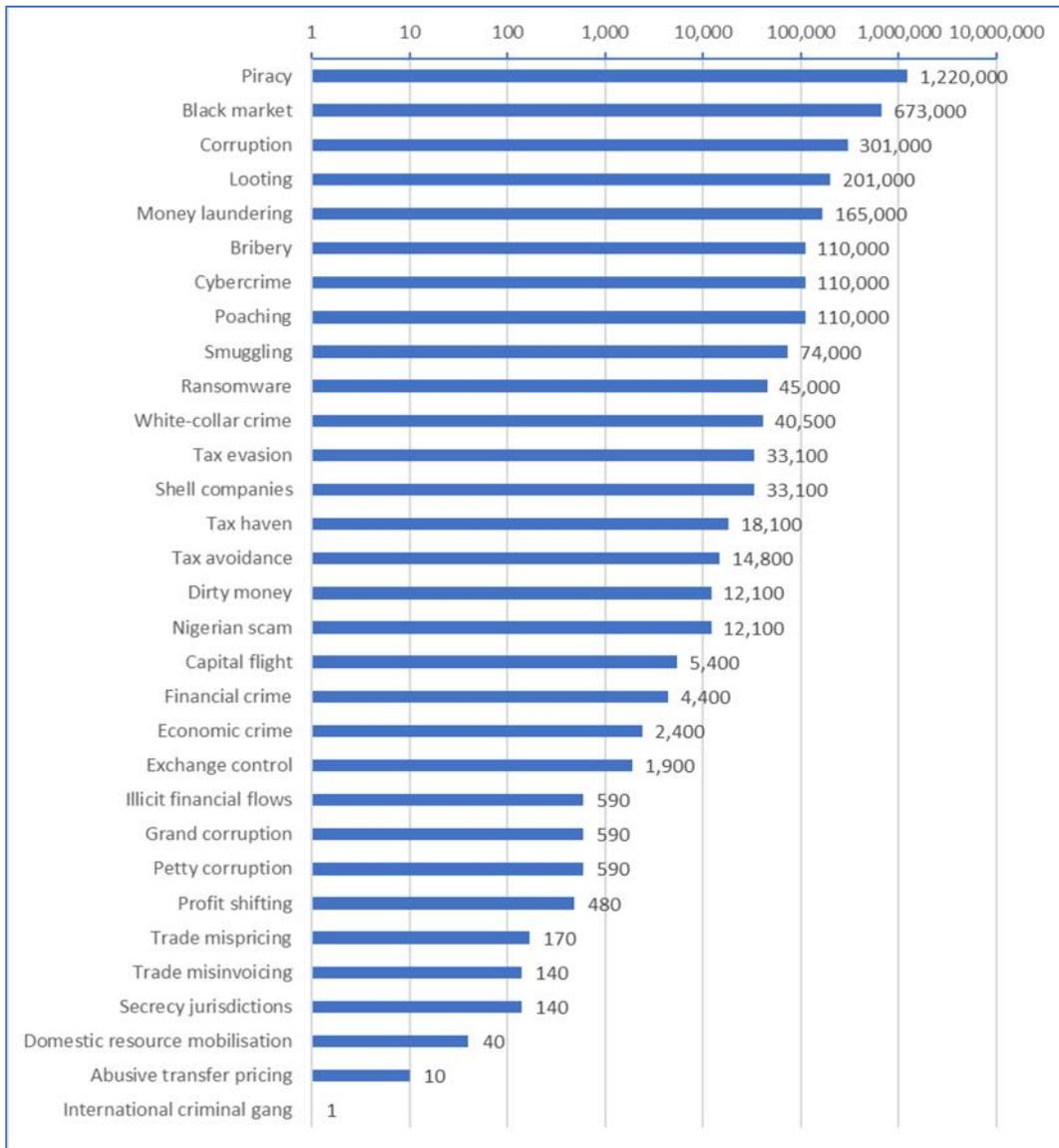
The four other terms are persistently more popular (compared to their peak popularity amongst all internet topic searches) than *illicit financial flows*. *Illicit financial flows* as a search topic does not appear to have been gaining ground in any relative sense.

The low search popularity for *illicit financial flows* also shows through in a more absolute sense. The count of keywords used in Google searches (in its AdWords Keyword Planner), as in Figure A3 overleaf, shows *illicit financial flows* is rarely searched for in comparison to some analogous terms<sup>33</sup>.

Note that Figure A3 uses a logarithmic scale, which helps show the frequencies of monthly searches for the lower ranking searches such as *illicit financial flows* in comparison to more popular terms, but visually the Figure might seem to underestimate the increase needed to match the more popular search terms.

<sup>33</sup> Google AdWords keyword search monthly average results are smoothed. These are the search terms that may trigger an advertisement to appear next to search results. Source: Google AdWords. N.B. Some other relevant keyword searches, such as “transnational crime”, “organized crime” and “drug smuggling”, were not successful.

**Figure A3.** Google AdWords keyword searches, worldwide (monthly average, latest 12 months, log scale)



Source: Google AdWords Keyword Planner searches, 21-23 January 2018.

Perhaps it is a pity that the chosen term *illicit financial flows* appears understandable. Maybe users think they know what they are talking about<sup>34</sup>. Imagine if we were able to relabel illicit financial flows as *milkshake duck*<sup>35</sup> or something similarly obtuse. Few could presume its meaning, and its definition may have gathered more attention. Alternatively, we could try *cross-border transfers of value whose source, transfer or use is illegal or immoral*.

<sup>34</sup> A darker interpretation is that, given the absence of clear and agreed definitions amongst various experts, the interested public may have given up the search and instead are focused on more productive pursuits.

<sup>35</sup> Macquarie Dictionary, 2018. [The Committee's Choice for Word of the Year 2017 goes to...](#) News, Australia, 15 January.