Forum: The Economic and Social Council

Issue: Strengthening international cooperation to combat illicit financial flows

Student Officer: Dev Manish Dalal

Position: Deputy President Chair at the Economic and Social Council

Introduction

The rise and integration of the global economy coincided with the rise of modern globalization in the mid 19th century. Right towards the end of the second world war and its devastating economic and political effects, the Bretton woods conference was held. Representatives from over 44 nations convened and launched two major international financial organizations: the International Monetary fund and the World Bank. Their was to " *ensure the rule of law in international financial transactions, promoting market-based growth and poverty alleviation, set new rules and possibilities for all the actors of the global economy".*

This meant that countries could now interact with financial markets not only though the trade of commodities but also through the exchange of capital and funds itself. This was the gist of globalization. It allowed capital to be shifted from developed countries to developing countries where the average ROI was much higher. Such movements often help boost global welfare and revenue which increases overall welfare. However, its costs far outweigh its benefits. They are often referred to as "Illicit Financial Flows"

The notion of IFFs emerged in the late 20th century and was initially an umbrella term to address malignant financial activities. The term initially only covered activities like the movement of capital without pinpointing its source. It has now grown to encompass activities ranging from tax evasion to cross border financial transactions that has been obtained illegally or is used for illegal purposes.

A key issue however is that, there is no exact scale that can measure the effects of IFFs, especially on developing countries. Their direct economic impacts are very hard to quantify. Yet, IFFs deprive nations of considerable resources and investment funds; funds which could be used for the betterment of the public; funds used for infrastructure development, education, security, political stability; funds that would have otherwise spurred economic growth.

Illicit financial flows are complex in nature and require strong multilateral cooperation to combat. Many international policies view IFFs as symptoms of developing economies. While it is reckless to strike down such assumptions, IFFs must be dealt with at the root through international cooperation and legislations. It is essential that prior to developing solutions against IFFs, we first conceptualize the term and provide examples of various IFFs.

The definition of IFFs has been rather vague and unclear till date. This is due to a lack of distinction between the term "Illicit" and "Illegal". Many organizations such as the OECD, IMF and the World Bank have juggled around several definitions of IFFs. The World Bank defines IFFs as ***"cross-border movement of capital associated with illegal activity or more explicitly, money that is illegally earned, transferred or used that crosses borders".*** It also defines three primary sectors related to IFFs being funds which are illegal (corruption, tax evasion etc), obtained from illegal activities (smuggling, wildlife, trafficking, drugs etc) and funds which are used for illegal purposes (terrorist financing, organized crime). The IMF recognizes IFFs as ***"the movement of money across borders that is illegal in its source (e.g. corruption, smuggling), its transfer (e.g. tax evasion), or its use (e.g. terrorist financing)."*** Both definitions by the World Bank and the IMF are similar to each other and equally vague.

In 2014, the OECD released a comprehensive report detailing IFFs and their impacts. It provided great clarity on the types of activities within IFFs such as money laundering, tax evasion, bribery by MNCs and corrupt officials, terrorist financing and trade mispricing. The OECD later released another definition of the IFFs which also included its examples and sources.

"Illicit financial flows (IFFs) means all cross-border financial transfers which contravene national or international laws. Thisis a wide category which encompasses several different types of financial transfers, made for different of reasons.

It can include:

Funds with criminal origin, such as the proceeds of crime (including corruption);

Funds with a criminal destination, such as bribery, terrorist financing or conflict financing;

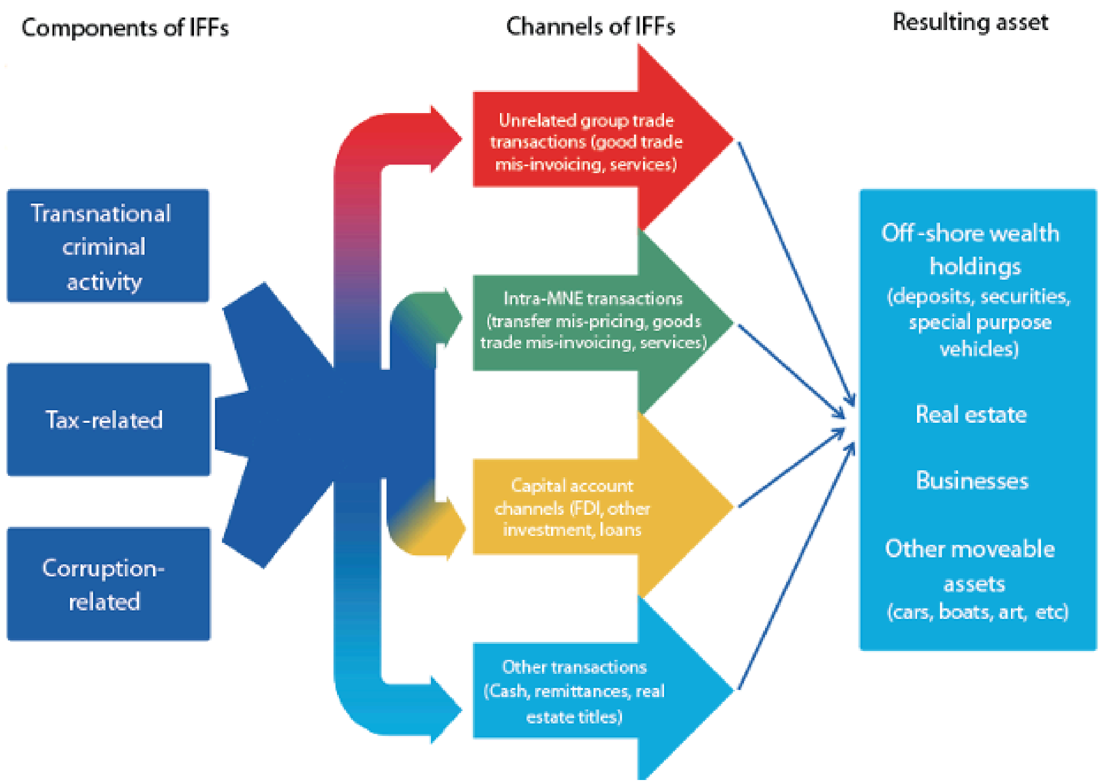
Funds associated with tax evasion;

Transfers to, by, or for, entities subject to financial sanctions; and Transfers which seek to evade anti-money laundering /counterterrorist financing measures or other legal requirements…"

These are just a few of the various definitions provided by organizations on IFFs. However we can deduce a common gist from each of them. The obvious characteristic of IFFs are their illegality associated with the flow of money. They must be illegal in its source, illegal in its use, or illegal in its transfer.

Components of IFFs

IFFs are an extremely complex phenomenon and require extensive analysis of data and financial knowledge to keep track of. It is easier to do so by analyzing the basic concepts of IFFs and the channels and methods used to transfer funds internationally. These components would be best explained by a figure developed by the IATF to understand the various components and channels serving IFFs.



Definition of Key Terms

Illicit Financial Flows

Illegal movement/transfer of money . Money can be illegal in its source (corruption, smuggling, fraud, embezzlement, identity theft etc.), in its transfer (tax evasions, bribery, trade mispricing, black money, and shell companies), or its use (funding terrorist activities, gambling, hawala system etc.). Essentially, Illicit financial flows disappear from a countries records and never come back.

Money Laundering

Process of disguising financial assets so that they can be used without being detected as produced illegally. This process is colloquially called converting “Black” (Illegal) money to “White” (Legitimate) money. Money obtained illegally can be transformed into funds with “legitimate” origins. A prominent case was the Russian ML Scheme which ran from 2014 to 2016. It was known for the illegal transfer of over 820 million USD of funds from Russia to the UK, Cyprus and Czech Republic.

Shell Companies

Organization that does not have any active business operation or significant assets. In short, it exists only on paper with no office or employees. They are generally used to conceal the true ownership of assets and aid in transnational money laundering. The Panama Papers case is one of the best examples to show how shell companies work. It was a leak of over 11.5 million documents which exposed how shell companies were used to store funds in offshore accounts, tax evasion and the movement of money in “parallel economies” situated in tax havens.

Tax Havens

Countries or regions with very low to no taxes at all. These countries are often used to store wealth and conduct financial transactions while escaping high taxes in their home countries. Companies and individuals often shift their assets and profits to tax havens to escape their tax liabilities. They also allow people to conceal their illegal profits through offshore accounts and shell companies. A few well known examples of Tax Havens are Switzerland, United Arab Emirates, Hong Kong, Singapore, Luxembourg and the Cayman Islands.

Base Erosion and Profit Shifting

Tax planning strategies that multinational organizations use to exploit loopholes and ambiguity in taxation laws to shift their profits to Tax havens. This system also involves eroding taxable payments by means of royalties and interest.

Underground Banking

Process through which money is transfered through informal rather than formal banking channels. These systems run parallel to, but generally independent of the formal banking sector. It allows money to be transfered accross borders without being physically relocated. The hawala system is a great example of how this network operates. The Hawala system employs methods such as Under-Invoicing and Over-Invoicing to shift money. This system is also used by individuals and corporations to avoid paying taxes in their home countries.

Placement, Layering and Integration/Extraction

Three main processes used to launder money within and beyond borders. **Illicit** funds are placed within the formal financial system (Placement). Then, they are redistributed through a series of small amounts (This is also called Structuring and Smurfing), disguising its source and method of transfer. Lastly, these **licit** funds are then reintegrated into the economy by purchase of real estate, stocks, bonds, cryptocurrency etc. and can be deposited legally into bank accounts.

Black Market Peso Exchange

It is a trade based money laundering system mostly used by cartels and drug traffickers in Latin America and the United States. Colombian and Mexican cartels sell drug related US dollars to BPM exchangers in colombia who in turn, structure and smurf the funds and store it in US bank accounts (Integration of funds into the economy). These exchangers then sell financial assets like checks or bank transfers to colombian importers who use it to buy goods from abroad.

Beneficial Owner

A person/corporation who is the real owner of an entity(estate, stocks, accounts etc) even though the legal owner is someone else. Many IFFs are carried out by complex beneficial ownership structures which conceal the true owner of financial assets and make it extremely difficult for authorities to detect such entities. The

Panama and Pandora papers show how beneficial ownership was used to launder money across borders and hide assets from authorities.

Financial Intelligence Units (FIUs)

Specialized national agencies which overlook and investigate financial transactions to detect and combat Illicit Financial Flows. They serve as centres for reports on suspicious transaction reports, relevant ML information and terrorist finances. Prominent examples of FIUs around the world are the **FinCEN** in the United States and **AUSTRAC** in Australia. They also work with international organizations and non profits such as the **Financial Action Task Force** (FATF) to coordinate global efforts against IFFs.

Transfer Pricing

Technique used by multinational corporations to shift profits from the base of operations and into tax havens. It refers to the pricing of goods, services, intellectual properties and more within the subsidiaries of a multinational corporation. Amazon has been accused of similar cases. It allegedly used transfer prices through its subsidiaries in Luxembourg and availed over 250 million Euros in Tax Benefits.

Trade Misinvoicing

Practice through which atleast one party in a international transaction intentionally under reports the value and volume of traded goods or services. This is a common method used by criminals to shift large sums of money accross borders.

Foreign Account tax compliance Act (FATCA)

This is a US law that requires tax payers to report any financial assets they might be holding outside the country to the Internal Revenue Service. This act works alongside FinCEN to combat tax evasion and transparency. Any foreign financial institutions holding financial accounts owned by American tax payers or in which american tax payers hold significant ownership are required to report these accounts to the IRS and FinCEN under the FATCA.

Automatic Exchange of Information (AEIO)

Global system where countries automatically share information about financial accounts held by individuals and entities including trusts and foundations with other countries. Information shared includes interests, dividends, and sales proceeds from financial assets. It improves transparency in international banking and financial transactions. This helps detect undeclared unpaid taxes and undeclared income. The Organization for Economic Co-operation and development (OECD) along with the EU and other inter-governmental organizations have collaborated to make AEIO an international standard.

Common Reporting Standard

It is a framework developed by the OECD to aid in AEIO between countries. Financial jurisdictions acquire information from their own financial institutions about suspicious foreign accounts and share these details with other jurisdictions annually. Information exchanged includes different types of accounts held by the person, financial transactions involving that account and account balance.

Capital Flight

Refers to the rapid outflow of financial capital from a country due to its economic or political instability. It can occur legally, but mostly takes place through illegal transfer such as money laundering and underground banking, both of which are suitable to move large amounts of money internationaly. For example, France experienced a huge outflux of wealthy individuals and corporations after it introduced its own version of the wealth tax. Another example, is the collapse of the Zimbabwean economy as a result of massive capital flight.

Foreign Direct Investment

Investment by an individual or an entity that serves business interests in other countries. It occurs when an investor establishes business activities in a foreign country, acquires assets abroad or has interest in a foreign business. This method is often used for IFFs for two reasons. FDIs are an excellent way to justify large cross border transactions as they express a pursuit for more stable economic risks and returns. Secondly, FDIs often reduce the cost of transaction between various countries as a result of various methods including fake loans and falsified documents.

Asset Recovery

Process of tracing, freezing, confiscating and returning assets that have been obtained through illegal means. This not only includes physical assets obtained as a result of IFFs, but also financial assets itself.

Key Issues

Illicit vs Illegal

While similar in name, illegal and illicit are vastly unique to each other. Illegal activities refer to activities that explicitly violate laws and regulations and must be punished appropriately. This includes activities like terrorist financing, smuggling and tax evasion.

On the other hand illicit activities are activities that are considered unethical or socially unacceptable, but dont necessarily break laws. These activities often fall into the gray areas of laws and regulations as there are no clear boundaries on what is what. Examples of such activities could include profit shifting, tax avoidance.

The challenge with Illicit financial flows however, is that it is an umbrella term. It covers both illegal (terrorist financing, money laundering , smuggling, tax evasion etc) activities but also activities that exploit weaknesses in legalities (tax avoidance, profit shifting etc.). Such activities might be illegal in one country but perfectly legal in another; leading to challenges in enforcement and conviction. This leads to gaps in enforcement where unethical but legal practices continue to be used by individuals and MNCs for their own financial benefits. For instance, while tax evasion is illegal and punishable by law, aggressive tax avoidance is usually not illegal, but nevertheless is unethical and contributes to economic harm.

Legal loopholes

Legal loopholes are often exploited by various entities including MNCs for Illicit benefits without breaking the law. For example, most countries dont have strict or well defined laws of beneficial ownership. This allows individuals to hide their assets and funds under the name of someone else. Another example is BEPS which stands for Base erosion and Profit shifting. Apple has faced significant criticism for employing a form of profit shifting strategy often dubbed the “Double Irish” strategy. It involves shifting profits and assets to subsidiaries of Apple within low tax jurisdictions such as Ireland. Even though this strategy is legal under current international laws, it has been widely criticised for it allows the company to reduce ita tax burden at the cost of public benefit.

Risk to national and international security

Even though the political and economical impacts of IFFs have been widely discussed, its impact on national and global security has often been overlooked. Cross border movement of capital is often used to conceal activities that threaten security such as terrorist financing. IFFs allow transnational crime networks to transfer and spend their illegal revenue. These funds are also used to fund terrorist organizations and insurgent groups which threaten both national and international security. Most of the world largest terrorist organizations make use of diverse and far stretching financial operations carry out their operations.

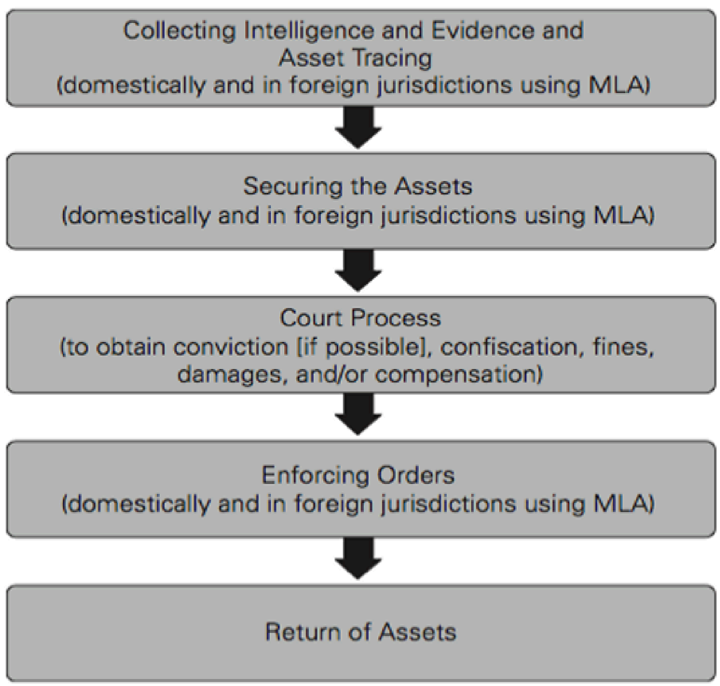
Corruption

Corruption which is enabled by IFFs pose a serious threat to security and undermine democracy. The abuse of power for private benefit has serious impacts on the security of a nation. According to the world bank, the global cost of corruption is over 2.6 trillion US Dollars, over 5% of the Worlds GDP. Moreover, over 1 trillion USD are paid in bribes by individuals and corporations in the USA. For example, in Venezuela, IFFs related to corruption, narcotics, capital flight and petroleum have resulted in severe impoverishment, rise in crime, social turbulence and rufugee outflux.

IFFs have greatly detrimental effects for security as they create channels through which the rule of law is broken, impunity is provided, and impel state actors to value authoritarianism and insecurity over democracy, free rule, human rights and security.

Lack of trust between international jurisdictions in asset recovery

The process of recovering assets is rather versatile, involving multiple steps and technicalities. In any case, it is important to establish a strong strategy that not only holds criminal organizations accountable for their deeds and ensures repatriation of assets but also ensures that international jurisdictions effectively collaborate for a quick and speedy recovery of assets.



Asset recovery is heavily dependent on mutual trust and cooperation between various foreign jurisdictions. Trust between jurisdictions allows for timely responses, securing evidence and emergency initiatives. Without it, asset recovery can be greatly delayed or can even fail due to the lack of trust and subsequently, Automatic exchange of Information (AEIO).

Obtaining access to information in a foreign country requires a Mutual Legal assistance (MLA) request to be fullfilled or through a tort claim disclosure. These conditions are much more likely to be successful when countries have treaties in place to facilitate international cooperation.

However, more often than not, jurisdictions dont trust one another or dont have faith in their legal systems. This leads to delays in obtaining MLA and ultimately hampers the progress of asset recovery.

For example, the asset recovery process after the Marcos Regime in Phillipines was greatly delayed as a result of challenges in communication and trust between the multiple jurisdictions (both national and foreign) involved in the case.

Impact on Developing countries

Developing countries are some of the biggest stakeholders in the IFF circuit. Although an exact estimating tool hasnt been developed, reports suggest that nearly 1 trillion US Dollars are drained from developing countries in the form of money laundering, corruption, bribery, trafficking and tax evasion.

Economic and social Impacts

IFFs deplete the economies of developing countries and contribute towards poverty and constantly undermine any hopes for sustainable development. This is followed by a reduction in domestic expenditure and investment. They strip resources that could be used for the betterment of the public including hospitals, schools, roads and more and escape the so called "Fragility trap"; thus weakening their financial system and its effectiveness. Even though, these practices occur all around the world, developing countries are most severely affected given their little economies and resources. While there are no official reports, it is generally agreed that IFFs drain more money out of developing countries than the funds they receive from aid and foreign trade.

For example, corruption is notorious for diverting money from public benefits to personal uses. Public use of money is much more positive than the private use of it by corrupted individuals.

Another prominent example is the impact of downsized tax revenue. This limits the ability of governments to fund public services and carry reforms. Moreover, this compels developing countries to seek foreign aid to cover public need and ensure adequate development.

Moreover, the diversion of social resources through IFFs are responsible for worsening social inequality. Wealth generated through IFFs and criminal activities is concentrated within the elite minority of a nation, depriving the public sector of its needs and rights. Thus, the rich get richer and the poor get poorer

Thus, IFFs are greatly detrimental to a countries financial sector. Money laundering undermines the integrity of the financial sector of a country which inturn hampers long term economic growth and and welfare.

Political Impact

The Economic and Political effects of IFFs on a country go hand in hand with one another. IFFs also put political stability at risk, especially in developing whose governments have been ravaged by conflict and corruption. The inability of the government to fund their own projects of development damages the confidence that citizens have in them. This leads to political instability and hampers development in terms of adequate development of a country and ensuring basic human rights.

For example, IFFs are closely linked with corruption which erode public trust in governmental offices. Corrupt practices and officials, divert public money away for private benefit. This again makes the government less accountable for their actions and policies.

Lack of Financial Transparency

One of the key obstacles with tracing and recovering illicit funds is a lack of financial transparency: investigators must first scan through tons of financial records to match the funds to their true owners and those who benefit from the ownership of those assets i.e. beneficial owners.

Without clear information on who owns what, investigations on corruption and money laundering can fade out and stall. When jurisdictions do not share sensitive information with one another (either due to a lack of trust or due to variations in legal systems), it becomes nearly impossible to build a solid case and recover all illicit assets from other countries. For instance, in 2022, the USA climbed to the top of global rankings in terms of transparency, reaching its worst ranking since the great reccession of 2009.

Financial Secrecy

Financial secrecy allows individuals, organizations or even governments to hide assets, avoid taxes, and launder money through offshore accounts.

Countries that provide high financial secrecy i.e. do not easily disclose information regarding banking accounts or financial assets are often used as tax havens by individuals and organizations. They help MNCs and wealthy people to hide assets, and avoid paying taxes by shifting capital to tax havens. This means that investigative authorities have no real access to the value held within offshore accounts. For example, Panama, Luxembourg, Croatia, Switzerland, Cayman Islands, British Virgin islands and several other carribean islands have been notorious for their taxing regulations and high financial secrecy.

In sub-saharan africa itself, over 1 trillion USD has left the region over the past 50 years with most of it being in offshore accounts in regions with high secrecy and low taxes. This is money that could have been used for the betterment of the public; infrastructure and education; and their services.

Moreover, financial secrecy is a huge barrier to international cooperation with regards to asset recovery. Many countries refrain from sharing sensitive financial information to jurisdictions with a lack of transparency and accountability.

Perhaps the best example of this would be the 1MDB Scandal involving Malaysia. It involved the embezzlement of billions of dollars from a Malaysian Government Fund. These funds were used for private benefits by several individuals and corporations including the former prime minister Najib Razak. This event brought in the attention of the entire world with countries like the USA, Switzerland and Singapore conducting separate investigations. Majority of these funds were transferred through countries such as Switzerland and Singapore which were reluctant in sharing this information due to their secrecy laws. Moreover, the US Justice department moved to recover assets linked to 1MDB, totalling voer 1.8 Billion USD. However, issues with beneficial ownership and the political will of the Malaysian government to cooperate with global investigations severely hampered any effort to repatriate assets.

Weak Legal Frameworks and AML systems

Weak AML and legal frameworks are one of the main reasons contributing to the persistence of IFFs. They are responsible for facilitating corruption, tax evasion, exploitation of developing countries, money laundering and much more; thus undermining the effectiveness of a countries financial and legal system.

Weak Legal frameworks

Even if countries have existing AML laws on paper, weak legal frameworks can result in inadequate action taken against IFFs. The lack of implementation means that criminal networks, terrorist organizations, wealthy individuals and MNCs can carry out Illicit Financial Transfers with impunity. This leads to a vicious cycle where individuals and organizations presume that the risk of IFFs is minimal (often due to weak enforcement) and thus heavily partake in such activities. This proliferation of illegal activities undermines the trust of civilians in their governement which again weakens their political stability and legal frameworks.

Weak AML frameworks

Weak AML systems can obstruct international cooperation because countries may be reluctant in sharing information with jurisdiction that dont have the necessary frameworks in place to combat IFFs or with jurisdictions that show a lack of transparency or political will to cooperate.

They also allow professionals within organizations such as lawyers and accountants to become enablers for IFFs by providing services that conceal the true ownership of assets. They often exploit loopholes in legal systems and make use of lax regulations on taxation to facilitate IFFs.

1. Danske Bank Scandal;

   The Danske Bank Scandal was one of the biggest financial frauds in European history, primarily involving Non Resident accounts from Russia and other Post-Soviet States. Over 200 Billion Euros were smuggled through the Estonian Branch of Danske.

   The Estonian Branch had very weak AML laws in place, which allowed huge sums of capital to be transferred without routine checks and scrutiny (capital flight). Even after multiple warnings from internal auditors and whistleblowers, the management failed to take up concrete action against these issues. For instance, Howard Wilkinson, who was a whistleblower at Danske raised multiple concerns about large non resident accounts, but these were largely ignored by the management of the bank.

   The Danish Financial Supervisory Authority (DFSA) launched its own investigation against the Danske bank but was hugely criticized for its leniency within its investigation. DFSA failed to take any solid action against key authorities despite having evidence of their involvement and of serious failures in the system.
2. Singapore: Strong AML, but Weak legal enforcement

Singapore is well known for its strong provisions against Money Laundering, but has been criticised for a lack of effective enforcement measures.

Despite having serious AML laws in place, no legal entity in Singapore has ever been convicted of IFFs (even though Singapore has been linked to IFFs worldwide). The FATF has identified this gap as a huge vulnerability in the AML capabilities of Singapore. This statistic also reflects Singapores reluctance to pursue complex corporate cases which criminals can and have been exploiting for decades.

Additionally, Legal frameworks have been inconsistent throughout Singapore. For example, banks and other national financial institutions have strong AML and legal frameworks set in place, however other sectors like tourism, real estate or even gaming dont have the same standard of laws in place. This inconsistency is often exploited by money launderers and criminal organizations in the form of loopholes or profit shifting.

Major Parties Involved and Their Views

United States of America

The USA, being the worlds largest economy, plays a crucial role in eradicating IFFs. It has a strong focus on IFFs and has established several initiatives that combat IFFs. These include:

1. **Bank Secrecy Act**

   This was one of the first legistlations passed that took a stand against IFFs. It requires financial institutions to maintain comprehensive financial records and report transactions to the government. It is compulsory for Currency Transaction Reports to be filed for transactions above 10,000 USD. Moreover, banks must file SARs for any suspicious transactions or transactions above 5000 USD for no legitimate reason.

2. **PATRIOT Act**

This act is officially known as Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 was established in response to the September 11/2001 attacks. It included key measures for combatting IFFs, specifically terrorist financing and money laundering, both of which were used to fund the 9/11 attacks.

The act mandates financial institutions to submit reports on large sums of money being moved through their systems. Banks must maintain Beneficial ownership directories and facilitate interagency transfers of such information. Moreover, this act prevents US individuals and companies from creating correspondent accounts with foreign banks that have no physical presence. Any person who tries to do this must be verified by financial institutions who maintain a beneficial ownership registry for them. This act also facilitates international cooperation as it allows for US jurisdicton over foreign money launderers who use US banks for their illicit purposes.

South Africa

South Africa has been a prominent figure in the African Continent. Its economy is the most diverse, industrialized and technologically advanced in the continent. However, it has not been free of its own problems. SA has experienced heavy corruption throughout its history. Every year, over 89 Billion USD leave the continent through IFFs. This accounts for over 4% of Africa's GDP; money which could have been used for public development.

An example of such corruption within South Africa was the "State Capture Scandal". It involved members of the Gupta Family which had close ties with former president Jacob Zuma, who exploiting this connection over govt contracts and channeled huge sums of money out of the country. Investigative reports suggest that over R60 Trillion was laundered out of the country.

South Africa has also been a crucial country in AML efforts in Africa. For example, the High Level Panel on IFFs was established in 2012 and is chaired by former South African Prime Minister Thabo Mbeki. This panel deals with several issues including the link between IFFs and corruption; something that South Africa is struggling with.

India

India is perhaps one of the most significant economies within southeast asia and even globally, ranking 5th largest. It has also suffered excessive money laundering, corruption and terrorist financing. According to the Corruption Perception Index published by Transparency in 2023, India had a score of 39/100, indicating severe corruption with detrimental effects to the economy. This situation has worsened to the extent that India's economy has been dubbed as an economy under siege by IFFs.

For example, India and Mauritius had a double taxation treaty signed to their names. This was heavily exploited by multiple MNCs to avoid paying their taxes. They practiced what is know as treaty shopping which exploited loopholes and inconsistencies to create a supposed paper trail for their goods and services. Thus, they paid much lesser taxes than what was expected of them to pay. Developing countries lose billions in revenue due to such strategies employed by MNCs. The Double Tax treaty caused such vast revenue flow between the two countries that Mauritius was the largest investor in India, (atleast on paper). Foreign investment from Mauritius accounted for over 13 billion USD in 2018, which was over 36% of Indias total investment.

In 2016, India renegotiated this treaty and closed down this loophole forever by reinstituting capital taxes on investors who bought shares in Indian companies. Even though this loophole was effectively shut down, other means of IFFs such as mutual funds and exchange derivatives werent addressed. So, alternative methods for IFFs still exist in India and are still in use.

United Kingdom of Great Britain

The British economy is the 6th largest in the world and second largest economy in Europe. Yet, according to the NCA, it loses over 4 billion euros to tax evasion and over 100 billion USD to rampant money laundering.

The capital city of the UK, London is the worlds second largest financial hub. This has huge implications on its ability to counter IFFs. Over 40% of the worlds dirty money is routed through London and onto various other destinations from there on. This is money that has been stolen from Africa, by corrupt bussinessmen, bent politicians and even warlords; 40% of which is routed through London and the UKs overseas territories.

The UK has taken efforts against these issues. In 2016, it established a public register of beneficial ownership (officially known as the Register of Persons with Significant Control) which required companies and trusts to disclose the true owners of their assets and report any suspicious transactions. However, this progress has not been consistent all throughout the UK. Britains overseas territories for example (Including the Cayman Islands and British Virgin Islands) have been widely used as tax havens and offshore accounting centres. They are known for their corporate taxing laws and strict financial secrecy. Even though mainland UK has established the PSC, these territories have failed to incorporate these efforts into their independent legal systems.

The Criminal Finances act of 2017 allowed law enforcement to seize and recover assets without the need for conviction of criminals. This greatly boosted progress in Asset recovery. The UK has also made strides in international cooperation. For example, it signed an agreement with the UAE in 2021 that focused on curbing terrorism related IFFs as well as money laundering from sectors like tourism and real estate.

Development of Issue/Timeline

Date	Event	Outcome
July 1 - 22 1944	Bretton Woods Conference	This conference was held after WWII. It established a new global financial order and established international organizations such as the IMF and the World Bank. These organizations are essential in fighting against IFFs and have made significant strides against it.
Mid 19th Century	Rise of Modern Globalization	This period marked a huge shift towards financial liberation, deregulation and the integration of global markets into one huge economy. This period was marked by the deregulation of financial markets allowing for freeer movement of funds (and subsequently a rise in IFFs) and by the rise of offshore financial centres which exploited taxation laws and tax havens.

September 30, 1961	Establishment of the Organization for Economic cooperation and Development	The OECD was initially established to promote social and economic well being. Over time, it became one of the key figures in fighting IFFs, especially through its initiatives such as Anti - Base Erosion and Profit Shifting (BEPS)
July 1989	Financial Action Task Force	The FATF was formed by the G7 in 1989. Its aim was to lead global efforts against all financial crimes including IFFs, and to promote the implementation of effetive legal and administrative frameworks against money laundering, terrorist financing, and other forms of IFFs. It recommendations now constitute the global standard in fighting against IFFs. Such standards include regulation of virtual assets, beneficial ownership directories and financial sanctions.

15 November 2000	Palermo Convention	This UN Convention was one of the first to directly deal with organized crime. While it covered all aspects regarding transnational organized crime, it also focused on the financial aspect of it. It includes clauses and provisions against money laundering, smuggling, terrorism and international cooperation regarding IFFs.
2014	Establishment of the **Automatic Exhange of Information** under the **Common Reporting Standard.**	The AEIO was developed as a response to the global need for transparency and lack financial secrecy. It was ratified by both the G20 and the OECD as part of their efforts to promote transparency within its members and through initiatives such as BEPS. Financial institutions are required to share any and all required information on accounts held by foreign citizens.

Novermber 5 2014	LuxLeaks Scandal	This scandal exposed how Luxembourg used its strict financial secrecy laws to grant secret taxation deals to MNCs allowing them to avoid taxes. It was brought to light by two whistleblowers who leaked hundreds of documents which showed preferential taxation deals with over 300 MNCs. It allowed MNCs to route their profits through firms in Luxembourg and pay minimal taxes.
April 3 2016	Panama Papers	It was a massive leak of over 11.5 million documents from a Panamean Legal firm knows as Mossack Fonseca. These documents spanned over 40 years and exposed the identities and activities of over 214,000 companies. The leak showed how the system was abusedf and exploited to store funds and assets in tax havens.

		The Scandal involved multiple prominent people including Vladimir Putin, Xi Jinping, Lionel Messi and Icelandic PM Sigmundur Davíð who later resigned due to heavy protests in Iceland.
September 2020	FinCEN Files Leak	The Fincen Files were over 2700 leaked documents filed by private auditors, banks and other financial institutions. These documents ranged from 1999 to 2017 and detailed over 2 Trillion USDs in suspected transactions and Illicit flows. It exposed multiple banks such as HSBC, JP Morgan, Deutsche bank for facilitating several transaction despite the, being flagged as Suspicious Activities. Banks often delayed submitting Suspicious Activity Reports (SARs) for months or even years in order to allow illicit activities to continue without immediate interference

January 17 2024	EU 6th Anti Money Laundering Directive	The EU launched the 6AMLD to strengthen the EUs framework against IFFs and money laundering. It includes several provisions that are crucial in fighting IFFs. These include the advocation of a risk based approach, strengthening of FIUs, enhanced sanctions and increased criminal liability upon conviction. It also mandates the further development of public registries for beneficial ownership.

Previous Attempts to Solve the Issue

2010 El Salvador declaration

Illicit financial flows were discussed within the UN multiple times over the course of its history, however it was the El Salvador declaration that served as the wake-up call for its devastating effects.

Clause 23 of the document encourages member states to:

"*encourage Member States to consider developing strategies or policies to combat illicit capital flows and to curb the harmful effects of jurisdictions and territories uncooperative in tax matters*"

Moreover, this resolution also covers concepts such as Asset recovery and its implications.

Clause 24 of the document urges member states to"

"(…) on all Member States within their national legal systems to adopt effective mechanisms for the seizure, restraint and confiscation of proceeds of crime and to strengthen international cooperation to ensure effective and prompt asset recovery (…)"

This resolution constituted one of the first written documents concerning Illicit financial funds and marked the beginning of a long string of actions taken up by the international community against IFFs. Infact, the ECOSOC officially took up this issue and launched discussions among member states on "*Strengthening international cooperation in combating the harmful effects of illicit financial flows resulting from criminal activities".*

The resolution was further solidified as the General Assembly adopted it in 2011 and set a model on efforts against IFFs.

Sustainable Development Goals

IFFs have a significant impact on development as they lead to reduced tax revenues which in turns affects the ability of governments to finance sustainable development.

The UN officially recognized IFFs as a criteria for achieving sustainable development by 2030 through its 17 Sustainable Development goals; particularly SDG 16 i.e. *"Promote peaceful and inclusive societies for sustainable development".*

SDG 16.4 specifically focuses on the topic of IFFs however, and aims to " *Significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime"*

Moreover, SDG 16.4 is interconnected with various other Sustainable development goals including:

1. SDG 1 - "*Zero Poverty"*
2. SDG 8 - Economic Growth

3. SDG 16.5 - Reduction of Corruption and Bribery
4. SDG 16.6 - Effective, accountable and transparent institutions at all times

Addis Ababa Action Agenda

This resolution, also called the Addis Ababa Declaration was developed during the Third International Conference on Finance for development. It acknowledges that IFFs drain resources from countries that could have been used for infrastructure development, education, healthcare and more.

The AAAA was essential in laying the foundation for the Sustainable development goals. With regards to IFFs, it contributed to the establishment of SDG 16.4 which directly involves IFFs. The AAAA was adopted by the General Assemblies and ECOSOC in July 2015.

Member states are encouraged to consider:

"underline the need to promote peaceful and inclusive societies for achieving sustainable development and to build effective, accountable and inclusive institutions at all levels. Good governance, the rule of law, human rights, fundamental freedoms, equal access to fair justice systems and measures to combat corruption and curb illicit financial flows will be integral to our efforts".

This established a clear link between Sustainable development and IFFs. Delegates are encouraged to go through clauses 23 and 24 of the AAAA which explicitly deal with Illicit Financial Flows.

Countries need to strengthen their own regulations to combat tax evasion, money laundering, smuggling and all forms of Illicit Financial Flows. This includes effective taxation policies that ensure fair and equitable payment of taxes by entities as well as enhancing transparency in financial transactions and corporate structures to deter any opportunities for illicit activities.

The AAAA also focuses greatly on asset recovery which is one of the most crucial aspects of the fight against IFFs. It emphasizes the need for enhanced international cooperation between countries. This includes mutual legal assistance and advocation for transparency and sharing of sensitive information. Moreover, this resolution calls for non conviction based repatriation of assets. This mechanism allows for funds and assets to be returned to their home countries without requiring a criminal conviction.

Inter agency task force on Financing for development

Inter Agency Task Force on Financing for Development

The Addis Ababa declaration called for a designated task force, the Inter Agency Task force on Financing for development. It comprises over 50 UN Agencies, financial experts, representatives from member states, and other relevant international institutions. The main coordinator of this force is the "Financing for sustainable development office" which is led by the ECOSOC. The mandate of the IATF-Ffd includes a wide variety of domains including the complete elimination of IFFs, risk and policy assesments, asset recovery, international cooperation, and capacity building.

The IATF aims to combat IFFs through a collection of 7 key objectives:

- Domestic public resources.
- Domestic and international private business and finance.
- International development cooperation.
- International trade as an engine for development.

- Debt sustainability.
- Addressing systemic issues.
- Science, technology, innovation, and capacity building.

Possible Solutions

Financial Transparency

Shell companies and trusts have often been used to launder money and conceal the true ownership of assets and funds. They are one of the most prominent methods by which criminals, tax evaders, corrupt officials and others move large sums of money accross borders. This issue was made clear during the Panama Papers Scandal where multiple individuals made use of shell companies and complex beneficial ownership structures. Many a times, investigators often stumble upon the “Corporate Veil” of shell companies due to which efforts stall.

The obvious solution to this would be to make it mandatory for countries to maintain a public beneficial ownership directory. Publicly accessible directories make it easy for officials to effetively track the true ownership of an asset and trade it back to its beneficial owner. This has already been tried out in parts of the world with the EUs 5th AML directive making this provision compulsory.

Moreover, a publicly available beneficial ownership directry holds companies and trusts accountable by making the true owners identities publicly available.

Strict regulations on tax havens

Tax havens are a crucial juncture in the fight against IFFs. They allow people and corporations to avoid paying taxes by hiding their wealth in low-zero tax regions and exploiting their lenient taxation laws and high financial secrecy.

It is necessary to impose strict regulations on tax havens including compliance with international standards to ensure that no loopholes are left open.

Moreover, it is important that such countries adhere to tax-sharing agreements such as the CRS; this allows for easy transfer of crucial information regarding to taxation and IFFs.

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