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Student Officer:	Marené van Wyk, Lakshita Vij, and Shreya Bhatt
Position:	Head Chair, Deputy Chairs

Introduction

In our rapidly globalizing world, illicit financial flows (IFFs), or the illegal movement of money and capital from one country to another, seem to take place more frequently as they are being illegally earned, transferred, and utilized, which is detrimental for our economy. According to the United Nations Office on Drugs and Crime (UNODC), criminals, namely drug traffickers, have potentially laundered more than \$1.6 trillion in 2009 alone. To put this number into perspective, that was 2.7% of 2009 global GDP. It is estimated hence by UNODC in their “Estimating illicit financial flows resulting from drug trafficking and other transnational organized crime” report that less than 1% of global illicit financial flows is currently being seized.

These flows generally tend to originate from developing countries, are destined for developed countries, and are usually the fragment of another crime - such as maintenance of drug cartels, human trafficking, corruption, or terrorism. They facilitate transnational organized crime, foster corruption, undermine governance, and decrease tax revenues. Illicit financial flows take many forms, such as bribes paid by companies to conduct illegal resource exploitation as companies transfer revenue from unauthorized resource extraction, which is detrimental for the environment as well. In addition, money embezzled from tax collection fuels illicit financial flows in the natural resource sector through smuggling, transfer mispricing and other methods. UNODC concluded that the largest income for transnational organized crime is produced from the selling or the production of illicit drugs, which accounts for between 17% and 25% of all crime proceeds. As a result these drug-related proceeds made available money laundering through the financial system where the money laundering would be equivalent to 0.4% - 0.6% of global GDP.

This situation affects development, as most countries are unable to maximize their gains from natural resource wealth, with corrupt government officials and companies benefiting at the expense of the wider population. Moreover, the stability of the government institution also affects the plausibility of international illicit flows. Governance challenges caused by corrupt officials, political instability, weak tax administration, parallel currency markets, and the absence of the rule of law are opportunities for illicit financial flows to thrive.

These flows not only thrive because it is easy for them to leave a country, but rather due to tax havens, it is equally convenient for them to be transferred to another nation. Tax havens and financial secrecy jurisdictions serve as destination points for illicit financial flows through tax evasion and money laundering. Their nature allows for secrecy and ease of registration, which is often taken advantage of by business owners who use fake corporations as fronts. Another issue is that of capacity constraints, which have made it difficult to tackle the issue of illicit financial flows. One clear example is customs and revenue services, which are unable to deal with the issue of mispricing in the trade of goods, and services, thus results in the problem persisting.

Definition of Key Terms

Organisation for Economic Co-operation and Development (OECD) countries

Established in 1960, 18 European countries as well as the United States of America (USA) and Canada combined forces to create an organisation solely dedicated to the economic development of all countries. However, presently there are 35 member countries part of the OECD and include a variation of countries from different economic standpoints.

Donor agencies

Donor agencies provide financial aid to projects that have been developed to meet specific strategic objectives. These donor agencies can be governmental based or lone agencies run by Non-Governmental Organisation (NGOs).

Illicit financial flows

According to the Global Financial Integrity, Illicit financial flows (IFFs) are illegal movements of capital from one country to another most commonly as money laundering, bribery and/or corruption. An IFF can also be classified when the funds are illegally earned, transferred from one account to another, and/or utilized.

Mandate

A mandate is an official commission by which an organisation is elected to perform an action/service, without payment and with protection against any loss by that organisation. This gives a certain party authority to carry out a certain task.

Black market

The black market is mostly an online space where there is the illegal trade or trafficking of scarce commodities that are seen as illegal if sold at a known location. This is done so that the ability of interception of the illegal good by law enforcement is not possible.

Drug trafficking

According to the UNODC, the definition of drug trafficking is the global trade of illicit substances (known as narcotics/drugs) including the cultivation, manufacture, distribution and sale of these substances. The trafficking of these substances are subject to drug prohibition laws meaning that if an individual is caught with these substances, then there is a possibility of them being charged of drug trafficking.

Rent Seeking

Rent-seeking is the use of the resources of a company, an organization or an individual to obtain economic gain from others without reciprocating any benefits to society through wealth creation.

Tax evasion

Tax evasion is an illegal practice where a person, organization or corporation intentionally avoids paying his true tax liability.

Bitcoin

Bitcoin is a digital currency created in 2009. Bitcoin offers the promise of lower transaction fees than traditional online payment mechanisms and is operated by a decentralized authority, unlike government-issued currencies.

Deep Web

The “Deep Web” is the world that exists underneath the “Surface” Internet, invisible to the majority to us. The deep Web contains 7,500 terabytes of information compared to nineteen terabytes of information in the surface Web.

Background Information

Illicit financial inflows frequently occur when incoming imports are under-invoiced for the purpose of VAT tax evasion as well as avoiding customs duties. Recent data collected by the Global Financial Integrity estimates that in the year 2014, the magnitude of the illicit inflows ranges from \$1.4 to \$2.5 trillion; the money taken away from developing countries that could have been used to increase economic stance. The combination of illicit flows, consisting of both outflows and inflows, arises from the

imbalance of payments and the direction of trade, leading to an IFF estimate of 14% to 24% of a developing country's total merchandise trade. This proves to be harmful to a developing country's economic standing as money is being transferred away from the economy and into corrupt practices. Hence, corruption is most likely to occur in underdeveloped countries due to the lack of cemented financial law enforcement. To confirm this, a new 'gravity model' developed by UNODC to show the likely laundering flows was based on the potential attractiveness of certain locations to money launderers. It showed that the largest outflows would take place in countries in North America (US\$10 billion), South America (US\$7 billion) and Europe (US\$7 billion). It was also obtained that these regions would collectively account for over 95% of all global cocaine profit-related outflows. The model further suggests, in terms of net outflows, that the main destination favoured by money launderers outside the aforementioned regions where the profits were generated would be countries located in the Caribbean region.

A joint issue brief by UNODC and the Organisation for Economic Co-operation and Development (OECD) named "Coherent policies for combatting Illicit Financial Flows" and released in 2016 stated the impact that IFFs had on sustainable development. IFFs have a direct and dire effect on a country's ability to raise, retain and use its own resources to finance national sustainable development. The Addis Ababa Action Agenda (AAAA) urged all countries to ratify and accede to the United Nations Convention against Corruption; to support the Stolen Asset Recovery Initiative; to combat money laundering and terrorism financing; and to ensure effective implementation of the United Nations Convention against Transnational Organized Crime. Although a precise definition of IFFs is still needed, some efforts have been made to measure how well countries are fighting against them. As a result, UNODC is actively involved in working closely with a variety of member states, multilateral organisations, non-governmental organisations (NGOs) as well as other stakeholders, to improve policies in measuring or being an indicator of IFFs. Additionally, UNODC has been involved in long-term work in helping Member States develop data and trend analysis as well as increase data collection capacity on crime. The cooperation between UNODC and international agencies and NGOs promotes international cooperation by delivering essential information and aid to these organisations to target the roots of IFFs.

Additionally, UNODC is mandated to address the international drug problem as well as focusing on ensuring access to controlled drugs solely for the use in the medical field. There is also further support of Member States in achieving the 3rd Sustainable Development Goal, particularly SDG 3.5: substance abuse prevention and treatment; 3.3: communicable diseases, including HIV; and 3.8 on access to controlled drugs. UNODC is also the advocate of the United Nations Standard Minimum Rules for the Treatment of Prisoners and helps the implementation of international standards and UN resolutions that call for global access to health care, namely HIV prevention, treatment and care/rehabilitation services, for people occupying prison cells.

The 2010 UNODC World Drug Report states that at current levels, there is a 340 tonne global consumption of heroin with an annual flow of 430-450 tonnes of heroin into the international heroin market. Myanmar and the Lao People's Democratic Republic produce opium (heroin's primary ingredient) from which about 50 tonnes of heroin is made. However, perhaps the most shocking is that 380 tonnes of both heroin and morphine, is produced exclusively from opium originating in Afghanistan. While approximately 5 tons are consumed or seized in Afghanistan, the remaining 375 tonnes is trafficked worldwide via the black market or routes flowing into and through countries bordering Afghanistan.

Illicit financial flows originating in developing countries

One of the main ways in combating illicit financial flows is dependent of the quality of both international and national regulations and in their enforcement. Money laundering, tax evasion and bribery are some of the key ways that individuals in underdeveloped countries take part in illicit financial flows and that lead to the most money being drained out of the economy. This is due to the inadequate level of regulations being implemented in underdeveloped countries and hence leading individuals finding ways to avoid transferring money through legal pathways.

In money laundering, funds are laundered to disguise their origin and certain counter-terrorist financing are effective in preventing illicit funds from being held, received, or transferred to banks or other financial centers.

The role of donor agencies

Donor agencies have become increasingly involved in combatting IFFs. These agencies support researchers working on this issue whilst simultaneously also supporting countries' efforts in fighting tax evasion, money laundering, and national corruption. Donor agencies link countries susceptible to IFF to countries that can handle these issues such as OECD nations. Additionally, these OECD countries can strengthen their own capabilities in preventive and investigative areas against economic and financial crime.

Major Countries and Organizations Involved

United Nations Office on Drugs and Crime (UNODC)

UNODC is an office of the UN that is dedicated to the fight against illicit drugs and international crime. It was established in 1997 by merging the United Nations Drug Control Programme and the

Centre for International Crime Prevention. The UNODC specializes in the field of fighting against organized crime and illegal trafficking; corruption; crime prevention and criminal justice reform; drug abuse prevention and health and terrorism prevention. Corruption specifically is a result of illicit financial flows and hence has a major effect to a country's economic and social development. Hence, UNODC works on decreasing the grip that corrupt individuals have on governmental organisations, country borders and international trading channels.

How UNODC targets this issue is through supporting and encouraging interventions based on a public health, human rights, and a focus on development. This is to help prevent drug use whilst treating disorders caused by the use of drugs. Alongside this it promotes safe access to controlled drugs solely for the use in the medical field, while preventing their alteration and abuse. UNODC provides alternative livelihoods for individuals that were previously dependent of illicit drugs and hence helps them move away from these problems and contribute to the economy in an alternative way.

Yury Fedotov, Executive Director of UNODC acknowledged that "Tracking the flows of illicit funds generated by drug trafficking and organized crime and analysing how they are laundered through the world's financial systems remain daunting tasks". This confirms just how challenging it is to discovery the originating roots of IFFS and all else associated with it. The 2016 UNODC Annual Report mentions the strategies moving forward for UNODC to underpin the main causes of Drugs, health and trafficking; transnational organized crime; corruption; and terrorism.

UNODC's mandate addresses the global drug problem from the Economic and Social Council (ESC), the Commission on Narcotic Drugs (CND) and three main international drug control treaties: the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988, the Convention on Psychotropic Substances of 1971, and the Single Convention on Narcotic Drugs of 1961.

UNODC's drug prevention, treatment and rehabilitation efforts focus primarily on decreasing vulnerability; mainly on high-risk group including youth, prisoners, people who have previously been trafficked and people affected with HIV and AIDS. The Law Enforcement, Organized Crime and Anti-Money-Laundering Unit of UNODC which is responsible for carrying out the Global Programme against Money-Laundering, Proceeds of Crime and the Financing of Terrorism, along with the broad objective of the Global Programme is to intensify the ability of Member States to implement and enforce measures against money-laundering, and financing terrorism.

UNODC is mandated to help Governments establish the necessary domestic legal framework to investigate and prosecute criminal offenses, and increase international law enforcement co-operation.

UNODC's work also enables Member States to prevent further crime whilst assisting and protecting both victims and witnesses.

Organisation for Economic Co-operation and Development (OECD)

The mission of OECD is to promote international policies that will enhance the economic as well as the social well-being of people around the world. This is done by providing a forum in which governments can work together and share experiences/seek solutions to problems faced by all of them. OECD also specifically looks at the issues that directly affect individuals' everyday lives in terms of tax and social security. Hence, OECD also targets terrorists, tax avoiders, and corrupt businessmen.

It is important to look at the work that OECD is doing as they specifically target the individuals responsible for trafficking of Illicit Financial Flows (IFFs), in order to improve both the economic and social well-beings on people living all over the world. One of their largest targets is to re-establish healthy public finances to cement a basis for future sustainable economic growth.

Financial Action Task Force (FATF)

Established in 1989, FATF is a non-UN intergovernmental body, which strives to set standards and stimulate effective implementation of legal and regulatory measures for prevention of money laundering, terrorist financing and other similar categories that might be a threat to the international financial system.

However, even though these implemented FATF policies are effective in the principle of stopping money laundering, it comes down mainly to enforcement. Hence through prosecuting individuals with criminal charges and imposing appropriate penalties on employees in financial intuitions who are responsible for allowing money laundering to occur, will prove to be beneficial for combating against IFFs.

The State of Japan

Japan was ranked as one of the least corrupt countries in the world according to the Business Insider. However, according several sources including GAN there is a traditional practice, called amakudari, where retired government officials are assigned to top positions within Japanese companies. This is seen as a form of corruption due to the placement of these officials being solely due to the association with the government.

Japanese anti-corruption regulations that should be noted are the Penal Code and the Unfair Competition Prevention Act. The Penal Code forbids facilitation payments whilst the Ethics Act sets

limitations for the cost of gifts, which need to be registered and approved by senior officials. Additionally, Japan has signed the United Nations Convention against Corruption, but has not yet taken it into effect.

The Grand Duchy of Luxembourg

Luxembourg tops the World Economic Forum's (WEF) ranking of being the least corrupt country. However, recent revelations involving the former Prime Minister and current European Commission President Jean-Claude Juncker surfaced on The Guardian Newspaper, alleging that the former PM and Juncker secretly blocked EU efforts to tackle tax avoidance by multinational corporations. This effectively tainted some of the transparency in the country but the legal framework criminalises bribery, gifts, and abuse of office and hence these offenses are not widespread in Luxembourg.

Afghanistan

Due to the insufficient access to formal banking services an estimated 90% of financial flows in Afghanistan pass through the hawala, the “non-bank informal” financial sector and only 10% flow through “formal” financial channels. The role of the hawala system was enhanced during the Taliban regime when they fully replaced the formal banking system which played host to its misuse for illicit purposes. Because of low levels of financial intermediation, the formal banking sector operates primarily in foreign currency. The high amounts of foreign currency such as U.S. dollars and Pakistani rupees in circulation outside of the formal banking sector implicate the lack of currency exchange through traditional banks. Hence, combined with the lack of basic commercial laws including mortgage, secured transactions, and commercial arbitration laws, this has resulted in a flourishing non-bank informal financial sector involved in both internal and external trade finance, leading to a lack of transparency to distinguish between licit and illicit financial flows.

Ethiopia

Ethiopia is one of the top ten African countries that are facing the issue of illicit financial flows, one of the main facilitators of which is corruption. Ethiopia has made progress in terms of developing its legal and institutional framework to mitigate the effects of corruption however; the enforcement of these reforms is crucial in order for the nation to effectively combat corruption. Sectors that still need further legal improvements in order to effectively target the illicit flows are business regulations, taxation, and media and civil society, where the prevention and detection of corruption are essential steps in ending illicit financial flows.

Relevant UN Treaties and Events

- Declaration on the Critical Economic Situation in Africa, 3 December 1984 (**A/RES/39/29**)

- Illicit Financial Flows: concepts and scope, Peter Chowla Tatiana Falcao December 5, 2016
- E/2011/30, Commission on Crime Prevention and Criminal Justice, Report on 20th session
- Strengthening international cooperation in preventing and combating illicit financial flows linked to drug trafficking, from the anti-money-laundering perspective, Resolution 58/6, UNODC
- Report of the High Level Panel on Illicit Financial Flows from Africa, Commissioned by the AU/ECA Conference of Ministers of Finance, Planning and Economic Development
- Urges International Action to Break Links Between Terrorists Transnational Organized Crime, Resolution 2195 (2014), Security Council
- The negative impact of the non-repatriation of funds of illicit origin to the countries of origin on the enjoyment of human rights, and the importance of improving international cooperation, A/HRC/34/L.16/Rev.1
- Investment and Financial Flow to address climate change, UNFCCC
- Tracking the Illicit Financial flows from pirate activities off the Horn of Africa, World Bank and UNODC
- The World Bank Group's Response to Illicit Financial Flows: A Stocktaking; march 22, 2016
- Corruption and illicit financial flows The limits and possibilities of current approaches, Anti Corruption Resource Center

Previous Attempts to solve the Issue

The Monterrey consensus was adopted at the Monterrey Conference in 2002 and has become the basis of international development cooperation and allowed countries to arrive at agreements on issues such as debt relief, fighting corruption, and policy coherence. One of its main aims was to discuss the mobilization of international resources for development of foreign direct investment and other private flows and addressing the systemic issues involved in order to enhance coherence and consistency of international monetary and trading systems.

The United Nations Convention Against Corruption is the only existing legally binding anti-corruption agreement and has been ratified by the majority of the United Nations Member States. Its far-reaching approach and mandatory nature give it an integral role in supporting international cooperation to develop a comprehensive, functional solution to this global issue. The Convention is extensively detailed, addressing the five central components of the issue: preventive measures, criminalization and law enforcement, international cooperation, asset recovery, and technical assistance and information exchange. The various forms of corruption are also covered within the Convention, such as bribery, trading in influence, abuse of functions, and various acts of corruption in the private sector. The extensive preventive measures, criminalization and law enforcement measures and international cooperation measures have made it an important step towards solving the issue.

The Stolen Asset Recovery (StAR) Initiative is a collaborative effort by the World Bank Group and the United Nations Office on Drugs and Crime (UNODC) to support international efforts to end safe havens for corrupt funds by working with developing countries and financial centers to prevent the laundering of the proceeds of corruption and to facilitate more systematic and timely return of stolen assets. One of the main advantages of the StAR is that it creates a platform for international dialogue among different jurisdictions involved in asset recovery. Over the past decade StAR has assisted countries in developing legal frameworks, institutional expertise, and the skills necessary to trace and return stolen assets through effective partnerships with global organizations such as the Conference of States parties to UNCAC, the G8, the G20, and the Financial Action Task Force.

Possible Solutions

The possible solutions to this issue could be the tracking of the source of each and every financial exchange made, to ensure complete and total transparency in terms of finance is maintained. Along with this, the validity of each and every asset given to large finance institutions could be checked, and the amount of money carried internationally should be strictly monitored with strict penalties. Another solution could be having harsher punishments for financial crimes like corruption and tax evasion to instill greater fear of getting caught within the citizens. A system for exchanging tax information between countries must be established so that the citizen of a particular nation is not able to evade tax by investing or saving money elsewhere. Counterfeiting of products should be banned, especially that of alcohol and medicines. Nations, along with all this, should enable better technological infrastructure to help in intercepting criminal networks which may conduct illicit financial flows. The use of bitcoins is usually synonymous with illegal activities, but perhaps creating a public visible virtual ledger, which does not record names, but instead unique digital signatures. The accuracy of these public transaction ledgers can then, be maintained by other computers, that work out a computationally difficult problem in order to validate whether the transaction was real. In this system, they can be rewarded with new Bitcoins, so there is a financial incentive to devote computational bandwidth to maintaining the integrity of the accounting system. Drug Trafficking is another large component of illicit financial flows. To stop drug trafficking, one solution is to raise awareness about the possibility of addiction, providing better healthcare services so there is no abuse of prescription drugs and no shortage as well. Governments need to establish clear plans and timelines to remove the domestic and international obstacles to such provision. They also should allocate the necessary funding for an international program — to be overseen by the World Health Organization and developed in partnership with the United Nations Office on Drugs and Crime and the International Narcotics Control Board — to ensure equitable and affordable access to these medicines where they are unavailable. Using the criminal justice system to force people arrested for drug possession into “treatment” often does more harm than good. Another way, in which we

can address Drug Trafficking with Illicit Financial Flows is to improve transparency, In global terms, arm's length principle, or the condition that the parties to a transaction are independent and on an equal footing, automatic exchange of information between nations, country-by-country and project-by-project reporting, public registries of beneficial ownership, and asset recovery should be conducted. The emergence parallel markets or black markets are another reason for illicit financial flows. Perhaps the harmonization of the informal sector, such as agriculture, and other smaller sectors, land, and real estate trade should be more strongly enforced in the economy as to control and benefit from the abnormal profits, if any, earned by these sectors. Another solution could be to compare discrepancies between the value of exports reported by a country and the value of imports reported by its key trading partners, the quantum of money transferred from that country through the use of the international trade system can be estimated. Stronger action should be taken to prevent counterfeiting of currency as in enforcing stricter criteria and standards regarding what all components of a bank note classify it as a nation's real currency. Demonetization - or removing some denominations of the existing currency - is another solution, as those with black currency would have notes which would not be valid anymore.

With regards to tax evasion, Sub-Saharan African countries still acquire less than 17% of their gross domestic product (GDP) in tax revenues. Hence a solution could be to increase communication on the subject between these countries in similar geographic location so that exchange of information will become recognised for its effectiveness. But yet again, since there is a disparity in the financial legal system, the transferring of information between these countries could prove ineffective.

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Appendix or Appendices

I http://www.un.org/esa/ffd/wp-content/uploads/2016/01/Coherent-policies-for-combatting-Illicit-Financial-Flows_UNODC-OECD_IATF-Issue-Brief.pdf

This report is useful because it provides viable solutions taken by the UN towards fighting illicit financial flows

II <http://www.ohchr.org/EN/Issues/Development/IEDebt/Pages/Consultation.aspx>

This website outlines the efforts of the Human Rights Commission in fighting the issue of illicit financial flows and could be useful in coming up with new solutions.

III <http://www.copenhagenconsensus.com/post-2015-consensus/illicit-financial-flows>

This website provides the expert opinions of teams of economists, NGOs and international agencies to identify the targets with the greatest benefit-to-cost ratio for the UN's post-2015 development goals and could be useful in identifying specific areas to target possible solutions.