

TOOLKIT

Combating illicit financial flows (IFFs) is a major challenge for all governments, and an increasingly important priority for the international community. IFFs are a significant barrier to sustainable development, and to the implementation of the Sustainable Development Goals (SDGs). Money lost each year through IFFs is estimated at USD 1 trillion from corruption¹, and about USD 1.6 trillion from global money laundering.² These flows strip resources that could finance much needed public services, such as health care, education, and other vital elements of sustainable development.

IFFs stem from corruption, crime, terrorism, and tax evasion; and use channels ranging in sophistication from cash smuggling and remittance transfers, to trade finance and shell companies. Because of the complex and cross-sectoral nature of IFFs, a wide range of policies and actions are needed to combat them. Law enforcement and customs authorities need to increase awareness, and the financial sector and vulnerable professions need to take preventive measures. Transparency in corporate structures is essential and steps must be taken to promote public sector integrity and support asset recovery. Inter-agency and international co-operation lies at the heart of the solution.

The cross-cutting nature of IFFs requires policymakers and other stakeholders to have a more strategic overview of IFFs. They must assess the potential trade-offs and synergies in an inter-disciplinary manner, better inform policy making upstream, and help government actors to take more effective action. This module aims to address this challenge by providing a simplified framework and self-screening tool for countries to help them plan for, avoid, and resolve the most significant trade-offs or policy inconsistencies and apply existing international standards in a coherent and effective way. It can also raise awareness of the relevance of IFFs to achieving the SDGs, particularly target 16:4 which calls on countries to “significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organised crime” by 2030.

The module starts with a short “**Toolkit**” consisting of (i) a *checklist*; and (ii) *guidance* to enable policy makers to examine their policies and practices and identify key areas where progress is required.³ It follows with “**Annotations**” providing background information corresponding to each section in the toolkit. The screening checklist and guidance aim to help:

- Identify and raise awareness of the types, magnitudes and risks of IFFs;
- Consider the contextual factors that allow IFFs to thrive;
- Support coherence within and between national and international normative frameworks (vertical coherence); and
- Consider critical interactions across economic, social and environmental areas to address IFFs (horizontal coherence).

1. World Bank, *Myths and Realities of Governance and Corruption*, Daniel Kaufman (2005). Analysis is set out on page 96 of this chapter. Cost of contracts is from the Partnering Against Corruption Initiative.

2. UNODC estimate, from http://www.unodc.org/unodc/en/frontpage/2011/October/illicit-money_-how-much-is-out-there.html

3. Options for tracking progress in PCSD based on OECD data and indicators are explored in Chapter 6.

This module, which is written in non-technical language for a non-specialist audience, is based on the analytical ‘PCSD Framework’ introduced in Chapter 2. It covers a wide range of policy areas at a high level of generality and builds on work from across the OECD – in particular the 2014 report *Illicit financial flows from developing countries: Measuring OECD responses*. It has also benefited from input by the UN Office on Drugs and Crime, the World Bank, and the OECD Network of National Focal Points for Policy Coherence. Each of the issues included in this module is covered with much greater depth and precision in the guidance and policy documents of specialised bodies at the OECD and elsewhere. This module does not substitute for detailed guidance in each area, but can help governments fit the different elements together coherently, in order to build an effective whole-of-government response to the challenges posed by IFFs.

The OECD is at the centre of multilateral action in many of the specialised areas involved in fighting IFFs, and so is well-placed to provide a holistic view of the challenge, promote a more coherent policy response at global level, and support joined-up policymaking against IFFs.

Checklist: Overview of self-screening questions

Risk	
<ul style="list-style-type: none"> • What evidence does the government have on the types and levels of IFFs in the country? Is there a formal national risk assessment? and understanding of the: <ul style="list-style-type: none"> ✓ main domestic sources; ✓ main foreign sources and destinations; ✓ channels used for inflows and outflows; and ✓ domestic sectors affected by IFFs (and impact on the economy as a whole). • What indicators are used for assessing the scale and impact of IFFs in the country (e.g. estimates of tax gaps or the black economy)?[REF to indicators?] • What is the perceived or assessed level of priority given to IFFs? Is it commensurate to the risk? • Is the government prioritizing both the domestic and foreign sources of IFFs? 	<ul style="list-style-type: none"> • Establish the evidence-base for further analysis; • Quantify the risk and impact of IFFs and their distribution; • Identify knowledge-gaps.
Enabling environment	
<ul style="list-style-type: none"> • What non-policy drivers contribute to making a friendly or a hostile environment for IFFs and how so? <ul style="list-style-type: none"> ✓ How much domestic proceeds-generating crime is there? ✓ Which government institutions are relevant for IFFs? Do they have an accountability framework and a culture of integrity? ✓ What resources and capacity are available for preventive measures, supervision, risk mitigation and justice sector implementation? Is there a comprehensive body of legislation? ✓ How large and globalised is the financial sector? What connections with countries that have high levels of IFFs (including borders, trade, or cultural links)? ✓ Are there secrecy and transparency provisions that can help or hinder IFFs (including in banking and ownership of legal persons)? 	<ul style="list-style-type: none"> • Identify the most relevant enablers and disablers.
Compliance with international norms / International co-operation	
<p><i>Compliance with international norms</i></p> <ul style="list-style-type: none"> • Which of the international standards and bodies is the country a party to? • What is the country’s assessed level of compliance? What is their assessed level of effectiveness? • Are there action plans to improve the level of compliance and implementation? 	<ul style="list-style-type: none"> • Identify whether the basic building-blocks (laws, regulations, institutions) for countering IFFs are in place. • Identify priority reforms,

	and outside sources of advice and assistance.
<p><i>International co-operation</i></p> <ul style="list-style-type: none"> • What is the level of international co-operation (as set out in the UN conventions and other standards)? <ul style="list-style-type: none"> ✓ Can authorities co-operate effectively (in both directions) with the main foreign sources and destinations of IFFs? ✓ What resources are allocated to co-operation with key countries? ✓ Do the authorities take part in the exchange of tax information on request, or in automatic exchange of information (AEOI)? ✓ Is smuggling taken into account when considering prohibitions or duties? • Does development co-operation help to counter IFFs? • Do national supervisors have influence over financial institutions' measures against IFFs? Or are the implementing group policies overseen by foreign supervisors? 	<ul style="list-style-type: none"> • Review the main international factors affecting IFFs. • Identify potential for international action to reinforce domestic measures (and vice versa).

Strategy	
<ul style="list-style-type: none"> • Is there a national strategy(ies) which includes measures to combat IFFs? • Are resources made available through the budget (or off budget through donors and donor requests) commensurate to risk? • Are IFFs considered as separate issues (e.g. as corruption, money laundering, tax evasion etc.) or in a comprehensive manner? <ul style="list-style-type: none"> ✓ If considered separately, how do the strategies for different types of IFFs take account of each other? ✓ If there is a single IFF strategy, how does it relate to wider contextual strategies (e.g. for taxation, law enforcement)? ✓ Are there plans for risk mitigation, crisis management and asset recovery? 	<ul style="list-style-type: none"> • Level of commitment and priorities in combating IFFs. • Clear government objectives. • Role of the centre of government in countering IFFs.

Institutional arrangements	
<p><i>Who are the actors?</i></p> <ul style="list-style-type: none"> • Who has overall responsibility for IFFs within government? <ul style="list-style-type: none"> ✓ Is there a responsible minister at Cabinet level? ✓ How is the centre of government involved? ✓ Is there a clear accountability framework (e.g. to a committee of the legislature)? ✓ Is responsibility for IFFs divided between several different areas (e.g. tax, justice, corruption)? • Which government actors (ministries, agencies or organisations) make policy or contribute to national strategy on IFFs? 	<ul style="list-style-type: none"> • Identify the main actors within government and how responsibilities are assigned.
<ul style="list-style-type: none"> • Which sectors and actors outside government are required to implement measures to combat IFFs? • Which other actors are affected by IFFs and measures to combat them? • Are there any consultative bodies where policymakers can discuss IFFs and policies to combat them with non-government actors? 	<ul style="list-style-type: none"> • Identify the main non-government stakeholders - including regulated sectors and others. • Check if key stakeholders have a voice in the policy process.

Coordination and policy making	
<ul style="list-style-type: none"> • Which government actors are involved in implementing measures to combat IFFs? <ul style="list-style-type: none"> ✓ Do relevant agencies have clear objectives regarding IFFs? ✓ Do investigators, prosecutors, FIUs, supervisors, and other relevant agencies 	<ul style="list-style-type: none"> • Identify whether there are co-ordination mechanisms, and whether they perform all the relevant functions.

<ul style="list-style-type: none"> have sufficient operational independence? ✓ Is feedback from operational agencies taken into account by policymakers? • Is there an inter-agency coordination mechanism? Does it include: <ul style="list-style-type: none"> ✓ A central secretariat? ✓ Multi-agency involvement in assessing the risks of IFFs? ✓ Inter-agency decision-making on policies to combat IFFs? ✓ Oversight and coordination of the operational agencies responsible for implementation of policies to combat IFFs? • Are there agreements or memoranda in place to allow information sharing between different operational authorities? • Does the government allow for/encourage case-focussed collaboration projects? • Are there other (formal and informal) mechanisms to improve awareness and understanding, or to encourage cooperation, between the different agencies involved in combating IFFs? 	
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Making use of evidence and effective implementation	
<ul style="list-style-type: none"> • Do policy-makers receive and make use of: <ul style="list-style-type: none"> ✓ Data and statistics on the implementation and effect of measures to combat IFFs? ✓ Indicators of changes or trends in the sources, methods, and risks of IFFs? ✓ Feedback from operational agencies on the implementation of policies to counter IFFs? ✓ Feedback from non-government actors on the impact of preventive measures and controls? • Are there periodic reporting or accountability mechanisms on the impact of measures to combat IFFs (e.g. annual reports to parliament)? • Is there sufficient capacity to assess new evidence or developments and to amend or reform policies in response? 	<ul style="list-style-type: none"> • Review the data collection, monitoring, and reporting arrangements. • Identify accountability processes which can maintain responsive and up-to-date policies.

Rooting the response to IFFs in the SDGs	
<ul style="list-style-type: none"> • Is the government framing its approach to IFFs in the context of the SDGs, particularly target 16.4 ? • Does the government take into account the interactions between different SDG goals and targets bearing on IFFs? • Does the government's (political) interests and priorities align with specific goals and/or targets, and is there coherence between them? 	<ul style="list-style-type: none"> • Ensure high-level political support. • Identify linkages which are not adequately understood or reflected in policies.

Managing trade-offs and policy conflicts	
<p><i>Policy inter-linkages</i></p> <ul style="list-style-type: none"> • How well are counter-IFF measures implemented within the criminal justice system? Is there adequate capacity to investigate and prosecute for offences related to IFFs and their predicate crimes? • How are counter-IFF obligations on the financial sector and other regulated businesses supervised? <ul style="list-style-type: none"> ✓ Which supervisors have responsibility for counter-IFF measures? Do they take a consistent approach? ✓ How is supervision of counter-IFF measures linked with other types of supervision? Are the approach taken and sanctions applied consistent? ✓ Is the private sector aware of its obligations? Does the private sector have an opinion on the effect of the IFF regulatory framework on business? 	<ul style="list-style-type: none"> • Review the interaction of counter-IFFs policies with the most relevant other areas of policy. • Identify any linkages which are not adequately understood or reflected in policies.

<ul style="list-style-type: none"> • What measures are used to promote integrity and prevent corruption in government and public administration? • What controls and transparency measures are applied to the formation of legal persons and arrangements? <ul style="list-style-type: none"> ✓ Can companies be prosecuted for criminal offences (including for foreign bribery offences)? 	
<p><i>Trade-offs and conflicts</i></p> <ul style="list-style-type: none"> • What proportion of the population uses the formal financial sector? What proportion relies on the informal sector for access to financial services? Does the government have policies to promote financial inclusion? Are these taken into account in IFF policies? • Do remittance providers and NPOs have adequate access to banking services? <ul style="list-style-type: none"> ✓ Is there adequate supervision of NPO and MVTS sectors to be adequate? ✓ Is there a policy dialogue about access, involving banks, NPOs, and remittance providers? ✓ Does the government have policies to promote the availability of remittance channels? • How do data protection laws interact with anti-IFF measures or transparency requirements? Is there consultation between data protection authorities and anti-IFF authorities? • Is there a formal voluntary tax compliance programme? If so, what controls are applied to prevent it being misused? • Do the preventive measures required of financial institutions and other private sector firms reflect their role and risk? <ul style="list-style-type: none"> ✓ Are additional measures applied in those sectors which are most exposed to IFFs? ✓ Are low-risk sectors allowed to apply streamlined measures? ✓ Do the measures applied reflect both domestic and foreign risks? 	<ul style="list-style-type: none"> • Monitor and manage the risks of specific policy conflicts arising.

1. Guidance

In scope and nature, IFFs are a truly global phenomenon affecting every country. Nonetheless, the ways in which a country is affected, and the means at hand to respond to them, are determined by specific national contexts and institutional arrangements. This tool is designed with the aim to enable policy makers to identify the issues that are most relevant to their specific context and needs, and to easily move to the sections that they want to focus on more deeply. Each of the action items outlined here have corresponding *Annotations* that contain more detailed background information and further references.

1.1 *Identify and raise awareness of the types, magnitudes and risks of illicit financial flows*

An important step in the process of addressing illicit financial flows (IFFs), governments and other relevant actors need to build an evidence-base to guide further action. It is crucial to map the territory and to identify the types of IFFs, quantify their magnitudes, and assess the threat they pose. At times, this might be necessary in order to put IFFs on the political agenda in the first place because decision makers may lack awareness of the challenge. The lack of data, however, should not be an excuse to postpone taking action, as obtaining good data can be difficult, and developing strong measurement methodologies can take time.

The nature of the challenge posed by illicit financial flows varies a great deal between countries – according to the nature of their economy and financial sector, their administrative structure, and their

international connections – as well as their level of capacity, resources, crime, and security. Policy coherence always begins with understanding the country’s risk environment for IFFs, in order to effectively prioritise the most relevant areas, and allocate resources appropriately.

The impact of IFFs on the ability of countries to use their own revenues and resources for financing sustainable development is enormous:

- Losses from corruption are estimated to be more than 1 trillion dollars per year; with corruption adding up to 25% to the cost of government contracts in developing countries.⁴
- Estimates of global losses from tax evasion vary widely, but all are large. The US Senate estimates revenue losses from tax evasion by U.S.-based firms and individuals at around 100 billion dollars a year⁵, while a World Bank study estimates losses through tax evasion at 8-12% of GDP in Malawi, and 9% of GDP in Namibia.⁶
- The estimated amount of money laundered globally in 2009 was \$1.6 trillion, or 2.7 per cent of global GDP.⁷

These figures are significantly larger than ODA, which in 2014 totalled \$135.1bn according to DAC figures. Combating IFFs could potentially contribute more resources to support sustainable development than a doubling of global ODA, and would also bring improved governance and stability, and help to reduce crime and violence.

Questions for self-screening: Risk	
<ul style="list-style-type: none"> • What evidence does the government have on the types and levels of IFFs in the country? Is there a formal national risk assessment? and understanding of the: <ul style="list-style-type: none"> ✓ main domestic sources; ✓ main foreign sources and destinations; ✓ channels used for inflows and outflows; and ✓ domestic sectors affected by IFFs (and impact on the economy as a whole). • What indicators are used for assessing the scale and impact of IFFs in the country (e.g. estimates of tax gaps or the black economy)?[REF to indicators?] • What is the perceived or assessed level of priority given to IFFs? Is it commensurate to the risk? • Is the government prioritizing both the domestic and foreign sources of IFFs? 	<ul style="list-style-type: none"> • Establish the evidence-base for further analysis; • Quantify the risk and impact of IFFs and their distribution; • Identify knowledge-gaps.

1.2 Consider the contextual factors that allow illicit financial flows to thrive

Contextual factors can be divided into enabling environments (**enablers**) which have a positive impact on sustainable development outcomes, and systemic conditions (**disablers**) which have a negative impact on

4. World Bank, Myths and Realities of Governance and Corruption, Daniel Kaufman (2005). Analysis is set out on page 96 of this chapter. Cost of contracts is from the Partnering Against Corruption Initiative.

5. <http://www.oecd.org/ctp/fightingtaxevasion.htm>

6. http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/Illegotten_money_and_economy.pdf

7. UNODC estimate, from http://www.unodc.org/unodc/en/frontpage/2011/October/illicit-money_-how-much-is-out-there.html

sustainable development outcomes. The role of policies is to strengthen enabling environments and to remove or minimise the effect of systemic conditions.

In order to curb illicit financial flows (IFFs), it is therefore imperative to:

- a) Understand the scale of domestic crime, notably proceeds-generating crime and organised crime.
- b) Assess the strength and integrity of public institutions (including law enforcement, tax authorities, and financial supervisors).
- c) Ensure good governance, rule of law, and strong institutions, including the involvement of civil society and independent media.
- d) Analyse the size of the financial sector, including international and offshore financial centres, as this might impact the country's exposure to IFFs originating domestically, and from other countries.
- e) Examine the role of the international environment, the impact of geographical location and cultural links, as these also influence the risks of IFFs from other countries.
- f) Identify the degree of secrecy/transparency in public and private institutions, e.g. bank secrecy, transparency of beneficial ownership⁸ of legal persons and arrangements.
- g) Survey the composition of the national economy; and explore how this composition may encourage or discourage illicit flows.

The *Annotations* discuss these factors in more detail.

Questions for self-screening: Enabling environment	
<ul style="list-style-type: none"> • What non-policy drivers contribute to making a friendly or a hostile environment for IFFs and how so? <ul style="list-style-type: none"> ✓ How much domestic proceeds-generating crime is there? ✓ Which government institutions are relevant for IFFs? Do they have an accountability framework and a culture of integrity? ✓ What resources and capacity are available for preventive measures, supervision, risk mitigation and justice sector implementation? Is there a comprehensive body of legislation? ✓ How large and globalised is the financial sector? What connections with countries that have high levels of IFFs (including borders, trade, or cultural links)? ✓ Are there secrecy and transparency provisions that can help or hinder IFFs (including in banking and ownership of legal persons)? 	<ul style="list-style-type: none"> • Identify the most relevant enablers and disablers.

8 Note that OECD standards do not require publicly available beneficial ownership information, only that which is available to the authorities.

1.3 Support coherence within and between national and international normative frameworks (vertical coherence)

1.3.1 Align national efforts with international initiatives and standards and strengthen international co-operation

The international framework is governed by a large array of different, legally binding agreements; international standards developed by the OECD; and numerous voluntary standards and bodies. A comprehensive list is provided in the *Annotations*. This international normative framework is generally considered as coherent and the multitude of agreements and treaties refer to (and build on) each other. Coherence is further enhanced by the OECD’s increasing focus on illicit financial flows (IFFs) through the following inter-governmental groups: the OECD Working Group on Bribery; the Global Forum on Transparency and Exchange of Information for Tax Purposes; the Oslo Dialogue, (supporting a whole of government approach to fighting tax crime and other financial crimes), and the Financial Action Task Force (FATF).

Recent years have seen the development of clearer international standards for combating IFFs, widening global participation in key international bodies, and greater cooperation between specialised agencies. In spite of substantial changes over recent years, considerable scope for coherence improvements remains at the interface between this multi-faceted framework and the different nation states. There is uneven progress across OECD countries in curbing IFFs, and developing countries are particularly dependent on coherent international action to tackle the links in the IFFs chain that are beyond the scope of their national policy making (OECD, 2014).

To improve coherence, it is essential to: engage with **international norms and standards**, including peer review mechanisms, multilateral co-operation initiatives, and information exchange mechanisms; establish **bilateral co-operation**, in particular with countries which are key sources and destinations for IFFs; and identify how **development assistance** policies can support measures to combat IFFs.

Questions for self-screening: Compliance with international norms / International co-operation	
<p><i>Compliance with international norms</i></p> <ul style="list-style-type: none"> • Which of the international standards and bodies is the country a party to? • What is the country’s assessed level of compliance? What is their assessed level of effectiveness? • Are there action plans to improve the level of compliance and implementation? 	<ul style="list-style-type: none"> • Identify whether the basic building-blocks (laws, regulations, institutions) for countering IFFs are in place. • Identify priority reforms, and outside sources of advice and assistance.
<p><i>International co-operation</i></p> <ul style="list-style-type: none"> • What is the level of international co-operation (as set out in the UN conventions and other standards)? <ul style="list-style-type: none"> ✓ Can authorities co-operate effectively (in both directions) with the main foreign sources and destinations of IFFs? ✓ What resources are allocated to co-operation with key countries? ✓ Do the authorities take part in the exchange of tax information on request, or in automatic exchange of information (AEOI)? ✓ Is smuggling taken into account when considering prohibitions or duties? • Does development co-operation help to counter IFFs? • Do national supervisors have influence over financial institutions’ measures against IFFs? Or are the implementing group policies overseen by foreign supervisors? 	<ul style="list-style-type: none"> • Review the main international factors affecting IFFs. • Identify potential for international action to reinforce domestic measures (and vice versa).

1.3.2 Ensure political commitment and leadership at the highest level to mobilise both state and non-state actors

All policy issues that cut across traditional policy-making boundaries cannot be addressed effectively by a single policy unit located within a policy silo at a lower level of the administration. Instead, support from the highest level and whole-of-government approaches are instrumental for a successful strategy to counter IFFs. The issue should be firmly rooted in all relevant national strategies and also needs to be mainstreamed across ministries and other public bodies, as well as non-government institutions to achieve universal ownership.

Questions for self-screening: Strategy	
<ul style="list-style-type: none"> • Is there a national strategy(ies) which includes measures to combat IFFs? • Are resources made available through the budget (or off budget through donors and donor requests) commensurate to risk? • Are IFFs considered as separate issues (e.g. as corruption, money laundering, tax evasion etc.) or in a comprehensive manner? <ul style="list-style-type: none"> ✓ If considered separately, how do the strategies for different types of IFFs take account of each other? ✓ If there is a single IFF strategy, how does it relate to wider contextual strategies (e.g. for taxation, law enforcement)? ✓ Are there plans for risk mitigation, crisis management and asset recovery? 	<ul style="list-style-type: none"> • Level of commitment and priorities in combating IFFs. • Clear government objectives. • Role of the centre of government in countering IFFs.

1.3.3 Enhance national inter-agency co-ordination mechanisms to strengthen co-operation to combat IFFs

The complexity of IFFs is mirrored by the variety of actors that are involved in combatting these flows (Figure 1). In order to ensure an effective response, governments need to build institutional mechanisms that assign clear responsibilities and facilitate straight-forward co-ordination and collaboration between the different agencies both on the level of policy design and implementation.

Figure 1. Key actors involved in combating IFFs: Why is coherence instrumental to combat IFFs?



In addition, the government should reach out to non-state actors and incorporate them into the effort to stem IFFs. This includes the financial sector as well as regulated professions, such as lawyers and accountants since they are in charge of implementing a substantial share of the preventive measures devised by policy makers. Private companies, too, have a role to play in the process and their participation could provide valuable feedback about the direct impact of new policies, and help to ensure better coherence. In general, feedback mechanisms and statistical tools are essential to avoid or address unintended consequences and incoherent outcomes.

Specifically, the *Annotations* outline a five-step process for understanding and connecting the different actors: (i) mapping the actors; (ii) building inter-agency coherence mechanisms; (iii) working across disciplines; (iv) fostering dialogue beyond government; and (v) facilitating practical co-ordination.

Questions for self-screening: Institutional arrangements	
<p><i>Who are the actors?</i></p> <ul style="list-style-type: none"> • Who has overall responsibility for IFFs within government? <ul style="list-style-type: none"> ✓ Is there a responsible minister at Cabinet level? ✓ How is the centre of government involved? ✓ Is there a clear accountability framework (e.g. to a committee of the legislature)? ✓ Is responsibility for IFFs divided between several different areas (e.g. tax, justice, corruption)? • Which government actors (ministries, agencies or organisations) make policy or contribute to national strategy on IFFs? 	<ul style="list-style-type: none"> • Identify the main actors within government and how responsibilities are assigned.
<ul style="list-style-type: none"> • Which sectors and actors outside government are required to implement measures to combat IFFs? • Which other actors are affected by IFFs and measures to combat them? • Are there any consultative bodies where policymakers can discuss IFFs and policies to combat them with non-government actors? 	<ul style="list-style-type: none"> • Identify the main non-government stakeholders - including regulated sectors and others. • Check if key stakeholders have a voice in the policy process.

Questions for self-screening: Coordination and policy making	
<ul style="list-style-type: none"> • Which government actors are involved in implementing measures to combat IFFs? <ul style="list-style-type: none"> ✓ Do relevant agencies have clear objectives regarding IFFs? ✓ Do investigators, prosecutors, FIUs, supervisors, and other relevant agencies have sufficient operational independence? ✓ Is feedback from operational agencies taken into account by policymakers? • Is there an inter-agency coordination mechanism? Does it include: <ul style="list-style-type: none"> ✓ A central secretariat? ✓ Multi-agency involvement in assessing the risks of IFFs? ✓ Inter-agency decision-making on policies to combat IFFs? ✓ Oversight and coordination of the operational agencies responsible for implementation of policies to combat IFFs? • Are there agreements or memoranda in place to allow information sharing between different operational authorities? • Does the government allow for/encourage case-focussed collaboration projects? • Are there other (formal and informal) mechanisms to improve awareness and understanding, or to encourage cooperation, between the different agencies involved in combating IFFs? 	<ul style="list-style-type: none"> • Identify whether there are co-ordination mechanisms, and whether they perform all the relevant functions.

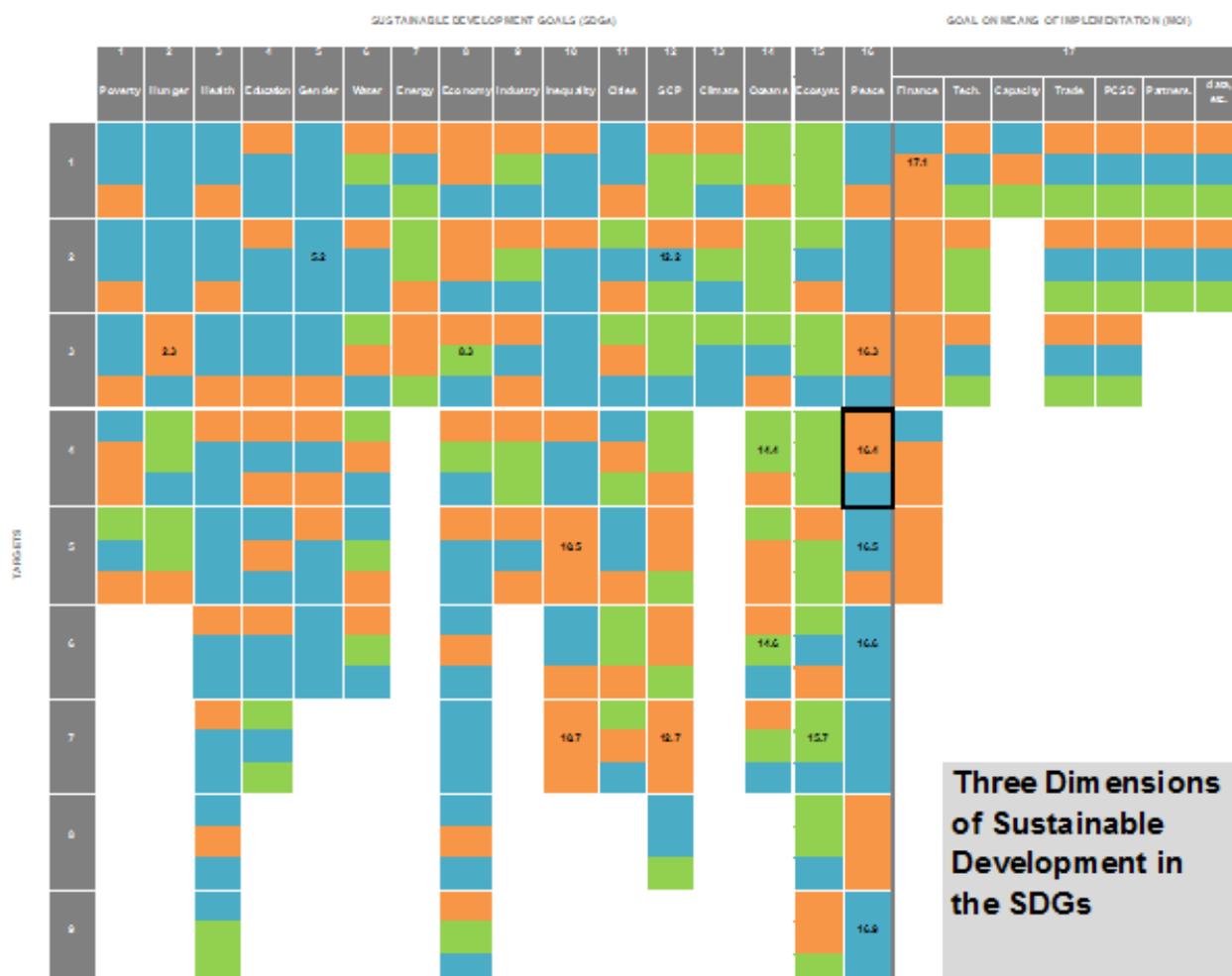
Questions for self-screening: Making use of evidence and effective implementation	
<ul style="list-style-type: none"> • Do policy-makers receive and make use of: <ul style="list-style-type: none"> ✓ Data and statistics on the implementation and effect of measures to combat IFFs? ✓ Indicators of changes or trends in the sources, methods, and risks of IFFs? ✓ Feedback from operational agencies on the implementation of policies to counter IFFs? ✓ Feedback from non-government actors on the impact of preventive measures and controls? • Are there periodic reporting or accountability mechanisms on the impact of measures to combat IFFs (e.g. annual reports to parliament)? • Is there sufficient capacity to assess new evidence or developments and to amend or reform policies in response? 	<ul style="list-style-type: none"> • Review the data collection, monitoring, and reporting arrangements. • Identify accountability processes which can maintain responsive and up-to-date policies.

1.4 Consider critical interactions across economic, social and environmental areas to address IFFs (horizontal coherence)

1.4.1 Apply an integrated approach to address IFFs in the context of the SDGs

The Sustainable Development Goals (SDGs) are indivisible in nature. This implies that in order to make progress on IFFs, policy makers will need to consider inter-linkages and critical interactions between target 16.4 and all other goals. This involves identifying **synergies** with some goals (e.g. Goal 8: sustained, inclusive, and sustainable growth), as well as **trade-offs** with other goals (e.g. Goal 10: Inequality). To illustrate potential interactions between different goals and targets relevant for tackling IFFs, Table 1 provides an integrated perspective of the SDG framework. This table should be read in conjunction with Table 2 which provides a preliminary analysis of the main interactions in terms of synergies, trade-offs and policy conflicts, highlighting those targets that could also help create conditions for discouraging IFFs.

Table 1. Illicit financial flows in the SDGs framework



Three Dimensions of Sustainable Development in the SDGs

Table 2. SDG targets related to Illicit Financial Flows

SDG	Summary of Target	Relevance to IFFs
Enablers and Disablers: Factors which make an essential contribution to combating illicit financial flows, e.g. as a precondition for certain measures, or as structural factors which could undermine the effectiveness of anti-IFF measures.		
10.5	Regulation of Financial markets	Some measures to counter IFFs rely on requiring preventive measures by financial institutions, supported by supervision.
16.3	Rule of Law	An essential precondition for anti-IFF measures
16.5	Reduce corruption	Corruption of key institutions can undermine anti-IFF measures
16.6	Sound institutions	An essential precondition for anti-IFF measures
16.9	Identity documentation	Required for many anti-IFF preventive measures
16.10	Public access to information	Transparency to relevant government authorities can discourage crime and enhance anti-IFF measures
16.a	Institutions to combat crime	An essential precondition for anti-IFF measures
Potential Trade-offs and Policy Conflicts: Areas where there is a risk that excessively strict, or poorly targeted anti-IFF measures could undermine implementation of other SDG targets.		
8.3	SME development	Longer company registration process, with additional information requirements.
8.10	Access to financial services	Financial inclusion issues – e.g. with poor people who lack good identity

		documentation
10.c	Cheaper remittances	De-risking means money remitters lack access to financial system... potential to drive remitters underground (with cost to recipients). Also cost of compliance may make remittances more expensive...
16.10	<i>Public access to information</i>	Data protection rules, business secrecy, and censorship may conflict with measures to counter IFFs.
Synergies: SDG targets on which progress could be mutually reinforcing with efforts to curb IFFs.		
2.3	Agricultural productivity/incomes	Drug production is a major source of illicit funds. Measures promoting agricultural productivity and rural incomes can reduce pressure on farmers to grow narcotics.
16.5	<i>Reduce corruption</i>	Corruption is a major source of illicit funds.
17.1	Strengthen domestic resource mobilisation	Tax evasion is a major source of illicit funds, which weakens the capacity of countries to fund their own development through domestic resource mobilisation.
3.a	Tobacco control	Illicit trade in tobacco products generates illicit funds
5.2	Violence against women	Human trafficking generates illicit funds
10.5	Regulation of Financial markets	Poorly-supervised financial institutions are important facilitators of tax evasion and other sources of illicit funds
10.7	Safe migration	Smuggling migrants generates illicit funds
12.7	Public Procurement	Public procurement, public works and construction, are at high risk of corruption, and major sources of funds
12, 14, 15	Sustainable use of oceans and terrestrial ecosystems	Exploitation of natural resources is a driver of corruption and source of illicit funds. This includes forestry and fisheries, as well as extractive industries.

Questions for self-screening: Rooting the response to IFFs in the SDGs	
<ul style="list-style-type: none"> Is the government framing its approach to IFFs in the context of the SDGs, particularly target 16.4 ? Does the government take into account the interactions between different SDG goals and targets bearing on IFFs? Does the government's (political) interests and priorities align with specific goals and/or targets, and is there coherence between them? 	<ul style="list-style-type: none"> Ensure high-level political support. Identify linkages which are not adequately understood or reflected in policies.

1.4.2 Promote synergies and identify potential trade-offs across different sectors to combat IFFs

As IFFs cut across traditional policy sectors, the responses will inevitably interact with other policies and at times even interfere with their specific policy objectives. In order to stand a chance of success, measures to counter IFFs have to be carefully embedded into the specific sectoral frameworks. Mapping out potential frictions and incompatibilities could guide policy design so as to exploit synergies, and to avoid unintended consequences. Table 3 lists twelve different policy areas, including potential trade-offs and synergies, each of which are explored at greater length in the *Annotations*.

Table 3. Trade-offs and synergies in relation to IFFs

Trade-offs	
Taxation	<p>Balance economically efficient taxation with considerations about which taxes are more prone to entail IFFs.</p> <p>Balance revenue recovery and administrative resource constraints with the need to deter further tax evasions and maintain public support and compliance.</p>
Business regulation	Balance the need for transparency and regulation of the establishment of companies with the consideration of creating a business-friendly environment and minimising compliance costs.
Export promotion	Prohibit bribing of foreign officials while maintaining competitiveness with other companies abroad.
Financial markets and financial	IFFs can cause real estate bubbles, exchange rate volatility, and general financial

stability	instability. They could also destabilise systemically relevant institutions.
Financial inclusion	Balance the need for stringent reporting rules with concerns for access to financial services of poor people with insufficient identity documentation. Increase regulation and administrative oversight of financial institutions without shutting down the informal financial sector.
Migrant remittances	Crack down on IFFs while not discouraging migrant remittances.
De-risking	De-risk without negatively affecting financial inclusion and remittance flows.
NGOs and CSOs	Maintain access to finance for civil society organisations while preventing the misuse of NGOs for IFFs.
Data protection	Balance the need for transparency and reporting with privacy and data protection rules.
Diplomatic relations	Balance the need to combat IFFs with diplomatic concerns about tensions between countries/governments about high-profile cases.
Synergies	
Government and Public Administration	IFFs can erode the authorities' capacities and perceived legitimacy, while sound institutions are more likely to succeed in combatting IFF.
ODA	Improving institutional arrangements and administrative capacities in developing countries could help combat IFFs, increase domestic resource mobilisation, and contribute to achieving other (developmental) targets.

Questions for self-screening: Managing trade-offs and policy conflicts	
<p><i>Policy inter-linkages</i></p> <ul style="list-style-type: none"> • How well are counter-IFF measures implemented within the criminal justice system? Is there adequate capacity to investigate and prosecute for offences related to IFFs and their predicate crimes? • How are counter-IFF obligations on the financial sector and other regulated businesses supervised? <ul style="list-style-type: none"> ✓ Which supervisors have responsibility for counter-IFF measures? Do they take a consistent approach? ✓ How is supervision of counter-IFF measures linked with other types of supervision? Are the approach taken and sanctions applied consistent? ✓ Is the private sector aware of its obligations? Does the private sector have an opinion on the effect of the IFF regulatory framework on business? • What measures are used to promote integrity and prevent corruption in government and public administration? • What controls and transparency measures are applied to the formation of legal persons and arrangements? <ul style="list-style-type: none"> ✓ Can companies be prosecuted for criminal offences (including for foreign bribery offences)? 	<ul style="list-style-type: none"> • Review the interaction of counter-IFFs policies with the most relevant other areas of policy. • Identify any linkages which are not adequately understood or reflected in policies.
<p><i>Trade-offs and conflicts</i></p> <ul style="list-style-type: none"> • What proportion of the population uses the formal financial sector? What proportion relies on the informal sector for access to financial services? Does the government have policies to promote financial inclusion? Are these taken into account in IFF policies? • Do remittance providers and NPOs have adequate access to banking services? <ul style="list-style-type: none"> ✓ Is there adequate supervision of NPO and MVTS sectors to be adequate? ✓ Is there a policy dialogue about access, involving banks, NPOs, and remittance providers? ✓ Does the government have policies to promote the availability of remittance 	<ul style="list-style-type: none"> • Monitor and manage the risks of specific policy conflicts arising.

channels?

- How do data protection laws interact with anti-IFF measures or transparency requirements? Is there consultation between data protection authorities and anti-IFF authorities?
- Is there a formal voluntary tax compliance programme? If so, what controls are applied to prevent it being misused?
- Do the preventive measures required of financial institutions and other private sector firms reflect their role and risk?
 - ✓ Are additional measures applied in those sectors which are most exposed to IFFs?
 - ✓ Are low-risk sectors allowed to apply streamlined measures?
 - ✓ Do the measures applied reflect both domestic and foreign risks?

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