The Framework for Policy Coherence for Sustainable Development

Thematic Module - Illicit Financial Flows

The Framework on Policy Coherence for Sustainable Development represents a deliverable of the OECD Strategy on Development, endorsed by Ministers in 2012, and responds to the mandate to update tools and instruments to align with international agreements, in particular the Sustainable Development Goals.

The Framework consists of one generic module and three thematic modules on food security, illicit financial flows, and green growth. Each module has undergone a thorough internal review process at the OECD, and also benefited from inputs from the Informal OECD Network of Focal Points for Policy Coherence.

The Framework has been developed as part of the PCD Unit’s work programme for 2015-16 and will be published in the PCD Unit’s annual publication entitled Better Policies for Sustainable Development, 2016, forthcoming in July this year. An online and user-friendly version will be developed in the forthcoming months.

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This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.
ACRONYMS AND ABBREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABC</td>
<td>Anti-Bribery Convention</td>
</tr>
<tr>
<td>AEOI</td>
<td>Automatic Exchange of Financial Account Information</td>
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<td>BCBS</td>
<td>Basel Committee on Banking Supervision</td>
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<td>CFT</td>
<td>Combating the Financing of Terrorism</td>
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<td>CSOs</td>
<td>Civil Society Organisations</td>
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<tr>
<td>CTPA</td>
<td>Centre for Tax Policy and Administration</td>
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<td>DAC</td>
<td>Development Assistance Committee</td>
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<td>DCD</td>
<td>Development Co-operation Directorate</td>
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<td>EITI</td>
<td>Extractive Industries Transparency Initiative</td>
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<td>EOIR</td>
<td>Exchange of Tax Information on Request</td>
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<td>FATF</td>
<td>Financial Action Task Force</td>
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<td>FIU</td>
<td>Financial Integrity Unit</td>
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<td>GAFILAT</td>
<td>Financial Action Task Force of Latin America</td>
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<td>GOV</td>
<td>Public Governance and Territorial Development Directorate</td>
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<td>IAIS</td>
<td>International Association of Insurance Supervisors</td>
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<td>ICHA</td>
<td>International Corruption Hunters Alliance</td>
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<td>IFFs</td>
<td>Illicit Financial Flows</td>
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<td>IFIs</td>
<td>International Financial Institutions</td>
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<td>IOSCO</td>
<td>International Organization of Securities Commission</td>
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<td>ML</td>
<td>Money Laundering</td>
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<td>MVTS</td>
<td>Money and Value Transfer Services</td>
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<td>NGOs</td>
<td>Non-Governmental Organisations</td>
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<td>NPOs</td>
<td>Non-Profit Organisations</td>
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<td>ODA</td>
<td>Official Development Assistance</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PCSD</td>
<td>Policy Coherence for Sustainable Development</td>
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<td>SDGs</td>
<td>Sustainable Development Goals</td>
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<td>STAR</td>
<td>Stolen Asset Recovery Initiative</td>
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<td>TNB</td>
<td>Trust and Business</td>
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<tr>
<td>TF</td>
<td>Terrorist Financing</td>
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<tr>
<td>UNCAC</td>
<td>United Nations Convention Against Corruption</td>
</tr>
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<td>UNTOC</td>
<td>United Nations Convention Against Transnational Organized Crime</td>
</tr>
<tr>
<td>VTC</td>
<td>Voluntary Tax Compliance</td>
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INTRODUCTION

1. 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 corruption\(^1\), 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.

2. 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.

3. 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).

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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.
3. Options for tracking progress in PCSD based on OECD data and indicators are explored in Chapter 6.
4. 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.

5. 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

<table>
<thead>
<tr>
<th>Risk</th>
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</table>
| • 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:  
  - 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)?  
• 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? |
| • Establish the evidence-base for further analysis;  
• Quantify the risk and impact of IFFs and their distribution;  
• Identify knowledge-gaps. |

<table>
<thead>
<tr>
<th>Enabling environment</th>
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</table>
| • What non-policy drivers contribute to making a friendly or a hostile environment for IFFs and how so?  
  - 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)? |
| • Identify the most relevant enablers and disablers. |

<table>
<thead>
<tr>
<th>Compliance with international norms / International co-operation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compliance with international norms</strong></td>
</tr>
<tr>
<td>• Which of the international standards and bodies is the country a party to?</td>
</tr>
<tr>
<td>• What is the country’s assessed level of compliance? What is their assessed level of effectiveness?</td>
</tr>
<tr>
<td>• Are there action plans to improve the level of compliance and implementation?</td>
</tr>
</tbody>
</table>
| • Identify whether the basic building-blocks (laws, regulations, institutions) for countering IFFs are in place.  
• Identify priority reforms, |
### International co-operation

- **What is the level of international co-operation (as set out in the UN conventions and other standards)?**
  - 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?**
- **Review the main international factors affecting IFFs.**
- **Identify potential for international action to reinforce domestic measures (and vice versa).**

### Strategy

- **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?**
  - 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?
- **Level of commitment and priorities in combating IFFs.**
- **Clear government objectives.**
- **Role of the centre of government in countering IFFs.**

### Institutional arrangements

**Who are the actors?**

- **Who has overall responsibility for IFFs within government?**
  - 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?**
- **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?**
- **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

- **Which government actors are involved in implementing measures to combat IFFs?**
  - Do relevant agencies have clear objectives regarding IFFs?
  - Do investigators, prosecutors, FIUs, supervisors, and other relevant agencies
- **Identify whether there are co-ordination mechanisms, and whether they perform all the relevant functions.**
<table>
<thead>
<tr>
<th>Have sufficient operational independence?</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔ Is feedback from operational agencies taken into account by policymakers?</td>
</tr>
<tr>
<td>✔ Is there an inter-agency coordination mechanism? Does it include:</td>
</tr>
<tr>
<td>✔ A central secretariat?</td>
</tr>
<tr>
<td>✔ Multi-agency involvement in assessing the risks of IFFs?</td>
</tr>
<tr>
<td>✔ Inter-agency decision-making on policies to combat IFFs?</td>
</tr>
<tr>
<td>✔ Oversight and coordination of the operational agencies responsible for implementation of policies to combat IFFs?</td>
</tr>
<tr>
<td>✔ Are there agreements or memoranda in place to allow information sharing between different operational authorities?</td>
</tr>
<tr>
<td>✔ Does the government allow for/encourage case-focused collaboration projects?</td>
</tr>
<tr>
<td>✔ Are there other (formal and informal) mechanisms to improve awareness and understanding, or to encourage cooperation, between the different agencies involved in combating IFFs?</td>
</tr>
</tbody>
</table>

### Making use of evidence and effective implementation

<table>
<thead>
<tr>
<th>Do policy-makers receive and make use of:</th>
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<tbody>
<tr>
<td>✔ Data and statistics on the implementation and effect of measures to combat IFFs?</td>
</tr>
<tr>
<td>✔ Indicators of changes or trends in the sources, methods, and risks of IFFs?</td>
</tr>
<tr>
<td>✔ Feedback from operational agencies on the implementation of policies to counter IFFs?</td>
</tr>
<tr>
<td>✔ Feedback from non-government actors on the impact of preventive measures and controls?</td>
</tr>
<tr>
<td>✔ Are there periodic reporting or accountability mechanisms on the impact of measures to combat IFFs (e.g. annual reports to parliament)?</td>
</tr>
<tr>
<td>✔ Is there sufficient capacity to assess new evidence or developments and to amend or reform policies in response?</td>
</tr>
<tr>
<td>✔ Review the data collection, monitoring, and reporting arrangements.</td>
</tr>
<tr>
<td>✔ Identify accountability processes which can maintain responsive and up-to-date policies.</td>
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</tbody>
</table>

### Rooting the response to IFFs in the SDGs

<table>
<thead>
<tr>
<th>Is the government framing its approach to IFFs in the context of the SDGs, particularly target 16.4?</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔ Does the government take into account the interactions between different SDG goals and targets bearing on IFFs?</td>
</tr>
<tr>
<td>✔ Does the government’s (political) interests and priorities align with specific goals and/or targets, and is there coherence between them?</td>
</tr>
<tr>
<td>✔ Ensure high-level political support.</td>
</tr>
<tr>
<td>✔ Identify linkages which are not adequately understood or reflected in policies.</td>
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</table>

### Managing trade-offs and policy conflicts

<table>
<thead>
<tr>
<th>Policy inter-linkages</th>
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</thead>
<tbody>
<tr>
<td>✔ 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?</td>
</tr>
<tr>
<td>✔ How are counter-IFF obligations on the financial sector and other regulated businesses supervised?</td>
</tr>
<tr>
<td>✔ Which supervisors have responsibility for counter-IFF measures? Do they take a consistent approach?</td>
</tr>
<tr>
<td>✔ How is supervision of counter-IFF measures linked with other types of supervision? Are the approach taken and sanctions applied consistent?</td>
</tr>
<tr>
<td>✔ 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?</td>
</tr>
<tr>
<td>✔ Review the interaction of counter-IFFs policies with the most relevant other areas of policy.</td>
</tr>
<tr>
<td>✔ Identify any linkages which are not adequately understood or reflected in policies.</td>
</tr>
</tbody>
</table>
• 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?
  ✓ Can companies be prosecuted for criminal offences (including for foreign bribery offences)?

Trade-offs and conflicts
• 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?
  ✓ 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?
  ✓ 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?

• Monitor and manage the risks of specific policy conflicts arising.

1. Guidance

6. 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

7. 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.

8. 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.

9. 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 year\(^5\), 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.\(^7\)

10. 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

<table>
<thead>
<tr>
<th>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:</th>
<th>Establish the evidence-base for further analysis;</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ main domestic sources;</td>
<td>✓ Quantify the risk and impact of IFFs and their distribution;</td>
</tr>
<tr>
<td>✓ main foreign sources and destinations;</td>
<td>✓ Identify knowledge-gaps.</td>
</tr>
<tr>
<td>✓ channels used for inflows and outflows; and</td>
<td></td>
</tr>
<tr>
<td>✓ domestic sectors affected by IFFs (and impact on the economy as a whole).</td>
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</table>

| 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? | |
| --- | |

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

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

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12. 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 ownership of legal persons and arrangements.

g) Survey the composition of the national economy; and explore how this composition may encourage or discourage illicit flows.

13. The Annotations discuss these factors in more detail.

<table>
<thead>
<tr>
<th>Questions for self-screening: Enabling environment</th>
<th>Identify the most relevant enablers and disablers.</th>
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<tbody>
<tr>
<td>• What non-policy drivers contribute to making a friendly or a hostile environment for IFFs and how so?</td>
<td></td>
</tr>
<tr>
<td>✓ How much domestic proceeds-generating crime is there?</td>
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<tr>
<td>✓ Which government institutions are relevant for IFFs? Do they have an accountability framework and a culture of integrity?</td>
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<td>✓ What resources and capacity are available for preventive measures, supervision, risk mitigation and justice sector implementation? Is there a comprehensive body of legislation?</td>
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<tr>
<td>✓ How large and globalised is the financial sector? What connections with countries that have high levels of IFFs (including borders, trade, or cultural links)?</td>
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<tr>
<td>✓ Are there secrecy and transparency provisions that can help or hinder IFFs (including in banking and ownership of legal persons)?</td>
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</table>

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

14. 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).

15. 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).

16. 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

<table>
<thead>
<tr>
<th>Compliance with international norms</th>
<th>International co-operation</th>
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<tbody>
<tr>
<td>• Which of the international standards and bodies is the country a party to?</td>
<td>• Identify whether the basic building-blocks (laws, regulations, institutions) for countering IFFs are in place.</td>
</tr>
<tr>
<td>• What is the country’s assessed level of compliance? What is their assessed level of effectiveness?</td>
<td>• Identify priority reforms, and outside sources of advice and assistance.</td>
</tr>
<tr>
<td>• Are there action plans to improve the level of compliance and implementation?</td>
<td>• Review the main international factors affecting IFFs.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>International co-operation</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• What is the level of international co-operation (as set out in the UN conventions and other standards)?</td>
<td>• Does development co-operation help to counter IFFs?</td>
</tr>
<tr>
<td>✓ Can authorities co-operate effectively (in both directions) with the main foreign sources and destinations of IFFs?</td>
<td>• Do national supervisors have influence over financial institutions’ measures against IFFs? Or are the implementing group policies overseen by foreign supervisors?</td>
</tr>
<tr>
<td>✓ What resources are allocated to co-operation with key countries?</td>
<td></td>
</tr>
<tr>
<td>✓ Do the authorities take part in the exchange of tax information on request, or in automatic exchange of information (AEOI)?</td>
<td></td>
</tr>
<tr>
<td>✓ Is smuggling taken into account when considering prohibitions or duties?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Review the main international factors affecting IFFs.</td>
</tr>
<tr>
<td></td>
<td>• Identify potential for international action to reinforce domestic measures (and vice versa).</td>
</tr>
</tbody>
</table>
1.3.2 Ensure political commitment and leadership at the highest level to mobilise both state and non-state actors

17. 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.

<table>
<thead>
<tr>
<th>Questions for self-screening: Strategy</th>
<th>Level of commitment and priorities in combating IFFs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Is there a national strategy(ies) which includes measures to combat IFFs?</td>
<td>- Clear government objectives.</td>
</tr>
<tr>
<td>- Are resources made available through the budget (or off budget through donors and donor requests) commensurate to risk?</td>
<td>- Role of the centre of government in countering IFFs.</td>
</tr>
<tr>
<td>- Are IFFs considered as separate issues (e.g. as corruption, money laundering, tax evasion etc.) or in a comprehensive manner?</td>
<td></td>
</tr>
<tr>
<td>✓ If considered separately, how do the strategies for different types of IFFs take account of each other?</td>
<td></td>
</tr>
<tr>
<td>✓ If there is a single IFF strategy, how does it relate to wider contextual strategies (e.g. for taxation, law enforcement)?</td>
<td></td>
</tr>
<tr>
<td>✓ Are there plans for risk mitigation, crisis management and asset recovery?</td>
<td></td>
</tr>
</tbody>
</table>

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

18. 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 straightforward 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?**
19. 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.

20. 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

<table>
<thead>
<tr>
<th>What are the actors?</th>
<th>Identify the main actors within government and how responsibilities are assigned.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Who has overall responsibility for IFFs within government?</td>
<td>• Identify the main actors within government and how responsibilities are assigned.</td>
</tr>
<tr>
<td>✓ Is there a responsible minister at Cabinet level?</td>
<td></td>
</tr>
<tr>
<td>✓ How is the centre of government involved?</td>
<td></td>
</tr>
<tr>
<td>✓ Is there a clear accountability framework (e.g. to a committee of the legislature)?</td>
<td></td>
</tr>
<tr>
<td>✓ Is responsibility for IFFs divided between several different areas (e.g. tax, justice, corruption)?</td>
<td></td>
</tr>
<tr>
<td>• Which government actors (ministries, agencies or organisations) make policy or contribute to national strategy on IFFs?</td>
<td></td>
</tr>
</tbody>
</table>

| Which sectors and actors outside government are required to implement measures to combat IFFs? | Identify the main non-government stakeholders - including regulated sectors and others. |
| Which other actors are affected by IFFs and measures to combat them? | • Check if key stakeholders have a voice in the policy process. |
| Are there any consultative bodies where policymakers can discuss IFFs and policies to combat them with non-government actors? | |

### Questions for self-screening: Coordination and policy making

| Which government actors are involved in implementing measures to combat IFFs? | Identify whether there are co-ordination mechanisms, and whether they perform all the relevant functions. |
| ✓ 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: | |
| ✓ 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? | |
Questions for self-screening: Making use of evidence and effective implementation

- Do policy-makers receive and make use of:
  - 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?
- 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

<table>
<thead>
<tr>
<th>SDG</th>
<th>Summary of Target</th>
<th>Relevance to IFFs</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.5</td>
<td>Regulation of Financial markets</td>
<td>Some measures to counter IFFs rely on requiring preventive measures by financial institutions, supported by supervision.</td>
</tr>
<tr>
<td>16.3</td>
<td>Rule of Law</td>
<td>An essential precondition for anti-IFF measures</td>
</tr>
<tr>
<td>16.5</td>
<td>Reduce corruption</td>
<td>Corruption of key institutions can undermine anti-IFF measures</td>
</tr>
<tr>
<td>16.6</td>
<td>Sound institutions</td>
<td>An essential precondition for anti-IFF measures</td>
</tr>
<tr>
<td>16.9</td>
<td>Identity documentation</td>
<td>Required for many anti-IFF preventive measures</td>
</tr>
<tr>
<td>16.10</td>
<td>Public access to information</td>
<td>Transparency to relevant government authorities can discourage crime and enhance anti-IFF measures</td>
</tr>
<tr>
<td>16.a</td>
<td>Institutions to combat crime</td>
<td>An essential precondition for anti-IFF measures</td>
</tr>
</tbody>
</table>

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 |
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 Public access to information 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 | Reduce corruption | 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

- 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?

- 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**

22. 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**

<table>
<thead>
<tr>
<th>Trade-offs</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation</td>
<td>Balance economically efficient taxation with considerations about which taxes are more prone to entail IFFs. Balance revenue recovery and administrative resource constraints with the need to deter further tax evasions and maintain public support and compliance.</td>
</tr>
<tr>
<td>Business regulation</td>
<td>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.</td>
</tr>
<tr>
<td>Export promotion</td>
<td>Prohibit bribing of foreign officials while maintaining competitiveness with other companies abroad.</td>
</tr>
<tr>
<td>Financial markets and financial</td>
<td>IFFs can cause real estate bubbles, exchange rate volatility, and general financial...</td>
</tr>
<tr>
<td>Stability</td>
<td>Instability. They could also destabilise systemically relevant institutions.</td>
</tr>
<tr>
<td>---</td>
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</tr>
<tr>
<td>Financial inclusion</td>
<td>Balance the need for stringent reporting rules with concerns for access to financial services of poor people with insufficient identity documentation. Increase regulation and administrate oversight of financial institutions without shuttering down the informal financial sector.</td>
</tr>
<tr>
<td>Migrant remittances</td>
<td>Crack down on IFFs while not discouraging migrant remittances.</td>
</tr>
<tr>
<td>De-risking</td>
<td>De-risk without negatively affecting financial inclusion and remittance flows.</td>
</tr>
<tr>
<td>NGOs and CSOs</td>
<td>Maintain access to finance for civil society organisations while preventing the misuse of NGOs for IFFs.</td>
</tr>
<tr>
<td>Data protection</td>
<td>Balance the need for transparency and reporting with privacy and data protection rules.</td>
</tr>
<tr>
<td>Diplomatic relations</td>
<td>Balance the need to combat IFFs with diplomatic concerns about tensions between countries/governments about high-profile cases.</td>
</tr>
</tbody>
</table>

**Synergies**

| Government Administration and Public | 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**

**Policy inter-linkages**

- 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?
  - 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?
  - Can companies be prosecuted for criminal offences (including for foreign bribery offences)?

**Trade-offs and conflicts**

- 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?
  - 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 services?

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

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

23. In this module, illicit financial flows (IFFs) are defined broadly as all cross-border financial transfers, which contravene national or international laws. This is a wide category which encompasses several different types of financial transfers, made for different reasons. It can include:

- Funds with criminal origin, such as the proceeds of crime.
- 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 under UN Security Council Resolutions such as 1267 (1999) and its successor resolutions (e.g. Al Qaida and other terrorist organisations).
- Transfers that seek to evade anti-money laundering/counter-terrorist financing measures or other legal requirements (such as transparency or capital controls).

24. The term “Illicit financial flows” refers to cross-border activity. However, this module also considers funds with a criminal origin or destination, but which do not flow through an international transfer (e.g. the domestic proceeds of crime), since these are a closely related problem and represent the source of illicit financial flows. The analysis and policy measures in this module include elements which relate to IFFs in different ways: (i) the reasons why funds themselves are illicit (e.g. their association with corruption and other proceeds-generating crimes); (ii) the methods used to move or launder them, which can include techniques which are legal (e.g. the use of shell companies or companies in secrecy jurisdictions) or illegal (e.g. false invoices); and (iii) the laws, mechanisms and policies used by governments to combat them.

25. IFFs can be a fundamental determinant of growth, development, governance, security and rule of law outcomes and, as such, should be considered a significant disabler of sustainable development. They are strongly linked to other determinants of governments’ efforts to effectively use and mobilise their own revenues and resources for sustainable development:

- **Crime**—Proceeds-generating crime, and particularly organised crime, displaces productive economic activity, discourages investment, and draws people into a criminal lifestyle. Organised crime also goes hand-in-hand with corruption and wider governance failures such as a weak or ineffective law enforcement or justice sector, that undermine the rule of law.

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9 The term “crime” encompasses a wide range of criminal offences including proceeds-generating crimes such as drug smuggling and organised crime, and economic crimes such as money laundering, tax evasion and corruption. The latter are considered components of IFFs in their own right. The FATF Recommendations list 21 types of crime which should be predicate offences for money laundering.
Corruption – Corruption is a key source of illicit financial flows. It is a global problem – but particularly damaging in some developing countries, with pervasive effects. Corruption undermines the effectiveness and legitimacy of governments, compromising their ability to support sustainable development. It broadens income inequality, and reinforces countries vulnerability to crime and terrorism. Corruption also distorts competition and diverts resources away from productive investment - including by discouraging legitimate investment in corrupt countries.

Terrorism – terrorist groups destabilise countries, displace people, and destroy livelihoods. They depend on financing to recruit and support fighters, to purchase equipment, and to create safe havens where they can operate. Terrorist financing is a core component of IFFs.

Conflict - Illicit financial flows also support non-state armed groups in several parts of the world, undermining United Nations’ led peacekeeping missions.

Weak domestic resource mobilisation – Tax evasion is a key form of illicit financial flows, and weakens tax receipts in both developing countries and advanced economies. In some cases, tax evasion also drives authorities to rely principally on forms of taxation such as tariffs, which are harder to avoid but more distorting or damaging to economic development.

Poor governance and weak institutions – Illicit financial flows can be both a cause and a symptom of underlying governance problems. Crime (including terrorism, corruption, and tax evasion) can occur in all countries, but flourish under weak institutions, lack of transparency, and poor accountability.

Uncontrolled exploitation of natural resources – Illicit financial flows enable the exploitation of natural resources – e.g. through illegal and unsustainable mineral extraction, forestry, fishing, or trade in wildlife.

Inequality and exploitative elites - Illicit financial flows include mechanisms which allow wealthy individuals or exploitative elites to engage in tax evasion, use political power for personal gain, conceal their ownership of assets, and pass their wealth to new generations, and thereby frustrate efforts to redistribute wealth and reduce governments’ capacity to mobilise resources for inclusive growth. They therefore have a role in sustaining inequality and rent-seeking behaviour, which are key obstacles to achieving the sustainable development goals.

IFFs pose a severe threat to public finance on a global scale: total ODA provided by DAC members in 2013 was USD 134.4 billion. The estimates of IFFs cited here place global losses from corruption at USD 1 000 billion; and from money laundering (which includes some of the proceeds of corruption) at USD 1 600 billion. Losses from tax evasion in the United States alone are estimated at USD 100 billion annually, which would imply over USD 500 billion in criminal tax evasion each year globally (Figure 2).

For the purposes of this report, the term “corruption” is used in a wide sense, including domestic and foreign bribery, active and passive bribery, misfeasance in public office, and the proceeds of all these activities.

27. Crucially, IFFs are not only a problem for developing countries. All of the factors above also affect OECD member countries to some extent, with increasing focus recently on the role of tax evasion in undermining tax revenues. Countering IFFs is a particularly important tool in the fight against terrorism, and against serious transnational organised crimes such as human trafficking or drug trafficking.

28. National risk assessments of money laundering and terrorist financing are already required by the FATF standards, with countries required to identify, assess, and understand the ML/TF risks they face (FATF, 2013). Many countries also conduct risk assessments focused on domestic crime or on abuses of the fiscal system. Given the interactions between different types of illicit financing, these different risk assessments may be able to inform each other, and there may be value in combining their conclusions in order to give a comprehensive picture of IFFs. However, these may still leave significant gaps: for example if they are focused on domestic misconduct and not on IFFs from other countries. At present there is no accepted methodology for assessing the risks of IFFs as a whole – although there are approaches which assess specific components of IFFs.

A.1.2 Consider the contextual factors that allow IFFs to thrive

29. Many factors influence the risks that a country faces from illicit financial flows (IFFs). The threats and vulnerabilities existing in a particular country (whether of a domestic, regional or international origin) affect the scale and the type of IFFs it may see, and the capacity to effectively prevent and mitigate them in terms of policies and institutions. This section sets out the most significant general factors which determine risk and exposure to IFFs, and contribute to creating an enabling or disabling environment for them.

a) Crime

30. IFFs largely result from proceeds-generating criminal activity. Drug trafficking by organised criminal gangs is one of the most important sources of criminal proceeds globally, and a significant source of IFFs. Large-scale smuggling takes place in legal but highly-taxed goods such as tobacco, and in goods
such as gold or other mineral resources which are themselves legal but obtained illicitly. Proceeds-generating crimes also include crimes of corruption and tax evasion, which are important elements of IFFs in their own right. These activities are undertaken primarily for the purpose of financial gain.

31. Money laundering is an essential part of the ability to move and use criminal proceeds without detection. Hence, combating IFFs directly (e.g. through preventing money laundering and confiscating and recovering the proceeds of crime) can have a significant deterrent effect on the proceeds-generating criminal activity. Combating IFFs is therefore an effective and efficient way to prevent and detect crime, and can be more effective than combating the underlying crimes themselves. Thanks to the financial tools and investigative techniques available, as well as the enhancement of the normative framework provided by the United Nations Convention Against Transnational Organised Crime (UNTOC), preventing and mitigating the risk of IFFs has become particularly useful in combatting transnational organised crime.

32. This means that in terms of the outcomes of government actions, there is a very close relationship between measures to combat IFFs and measures to fight other proceeds-generating criminal activity. IFFs and proceeds-generating crimes could therefore be expected to rise and fall together, and reduction on one side will imply a reduction on the other – although the extent to which they are correlated is unknown.

33. The type and level of criminal activity will have a strong influence on the type and level of IFFs in a particular country – for example, flows generated through drug trafficking sometimes use different routes and methods to those related to tax evasion, for example, both use jurisdictions that offer shell companies and bank secrecy, but drug traffickers may also need to launder banknotes and to transfer funds into countries where drugs are grown. Countries with high levels of crime, corruption, or tax evasion will experience significant outflows (and potentially also inflows) of illicit finance. Countries with low levels of crime, corruption and tax evasion will not see the same level of illicit finance generated locally, but may nevertheless experience high flows of illicit finance from other countries.

b) Criminal justice

34. Many of the measures used to counter IFFs-generating or facilitating crime are within the criminal justice system. This includes establishing criminal offences of money laundering, tax evasion, bribery (including foreign bribery), and related activities; as well as legal provisions for corporate criminal liability, access to financial information, and for the freezing, confiscation, and, where relevant, repatriation of criminal proceeds. Implementing these laws also relies on core elements of the criminal justice system, including law enforcement and prosecution authorities; and the judiciary.

35. Offences relating to illicit financial flows are complex and time consuming to investigate and prosecute. The extent to which the judicial system can become a disabling factor of IFFs thus depends on the capacities of investigators, prosecutors, and judges, in terms of time, resources and technical qualifications.

c) Good governance, rule of law, and strong institutions

36. Strong, capable, and well-respected government institutions create a hostile environment for IFFs. Legitimate institutions foster a culture which discourages some illegal activities, preventing IFFs from arising: e.g. a transparent tax system and sound public expenditure management can discourage tax evasion, while a culture of integrity and accountability within government is essential to prevent and manage potential conflict-of-interest situations and can act as a strong deterrent to corruption. And when IFFs do occur, effective government institutions – particularly strong and independent law enforcement, judicial and tax authorities, and comprehensive and enforceable laws are more effective in combating IFFs – are critical to detecting and responding to them.
37. Good governance is not limited to government institutions: civil society and independent media are also key contributors, and essential to holding elected leaders and government institutions to account. They are essential to demanding greater transparency, and in many countries have built and sustained pressure to deal with IFFs and the related criminal activity.

d) Financial sector

38. The size and nature of a country’s financial sector can be a key factor affecting its exposure to IFFs. Countries with small and recently-established financial sectors, or which have only recently begun to apply preventive measures to counter IFFs, would tend to have less effective implementation of safeguards against IFFs. While larger and longer-established financial sectors can be assumed to be better able to apply preventive measures, and to develop a pool of expertise in combating IFFs, they also provide more potential (and expertise) for IFFs. Thus, both the implementation and effectiveness of the regulation of the financial sector (whether measures to combat IFFs are well-implemented and rigorously supervised) are crucial – as are the nature and “culture” of the financial sector itself – including the capacity, experience and trustworthiness of the private sector partners.

39. International and offshore financial centres face particular risks, since their size, reputation, and connectedness – the factors that make them attractive for legitimate business – also make them attractive destinations for IFFs. The large volume of transactions and non-face-to-face business done in financial centres makes them even more attractive to criminals, and they face risks of IFFs even if they are well-regulated and located in low-crime countries. The highly mobile nature of IFFs also means that conditions in some countries which provide important drivers of illicit finance – such as secrecy for banking or company ownership – will be exploited opportunistically by criminals (possibly to the exclusion of legitimate business).

40. Capital controls are sometimes used to support an exchange rate regime or prevent capital flight during a crisis. These controls typically limit the amount of money which citizens and companies can exchange or transfer abroad. In some cases, widespread efforts to evade capital controls have led to thriving black markets. They have also led to the development of underground financial channels which, in addition to enabling the circumventing of controls during the control period, were perpetuated to facilitate crime, tax evasion, and money laundering long after the foreign exchange crisis was over.

e) International environment

41. Risk for IFFs is also determined by geographical position and trade or cultural links. Countries may have porous borders with neighbours with high rates of proceeds-generating crime, corruption, or tax evasion, or they may be intermediate steps in routes for smuggling drugs or other illicit items. There are particular risks for countries whose neighbours are in conflict or contain lawless spaces used by terrorist groups or non-state armed groups, since they are likely to be used as convenient channels for funds, arms, and persons. Countries are also at risk of contributing to grand corruption when companies created or based there are operating in other countries, regions, or sectors that are particularly prone to corruption, even if these countries and regions are not their geographical neighbours.

f) Secrecy, opacity and transparency

42. Secrecy facilitates crime, corruption, tax evasion, and money laundering, while transparency is an essential tool in fighting them. The degree of transparency which a country requires for the ownership of bank accounts, and legal persons and arrangements (such as companies and trusts) is a key determinant of the extent to which a country is exposed to and can combat IFFs. Enhancing transparency is a central
element of global efforts to counter IFFs, and remains a focus for strengthening implementation. The most important aspects are:

- **Bank secrecy** – Bank secrecy provisions are contrary to several international standards, and its prevalence globally has declined recently in response. Nevertheless, it remains an impediment to the effective investigation and prosecution of economic crimes, and to international co-operation, in a number of jurisdictions.

- **Beneficial ownership of legal persons and arrangements** – The use of complex ownership structures of opaque legal persons or arrangements is now the most commonly used means of hiding ownership and control of assets. Transparency on the beneficial ownership and control of all legal persons and legal arrangements is required by the 2012 FATF Recommendations and in 2014, the Global Forum committed to adopt the FATF concept of beneficial ownership in its terms of reference for Exchange of Information on request. However, this remains an area where compliance is weak (OECD, 2014). Establishment of beneficial ownership is so fundamental to the prevention of IFFs that a few jurisdictions have announced plans to go further than the international standards in this area, e.g. by establishing public registries of companies’ beneficial ownership information.

- **Transparency regarding payments and contracts** is used to further discourage corruption, particularly in high-risk areas such as extractive industries and public procurement. The importance of transparency in payments and contracts is reflected in the emphasis it is given in the United Nations Convention Against Corruption (UNCAC). The Extractive Industries Transparency Initiative (EITI) is a successful example of how commitments to transparency can help improve governance in vulnerable countries.

- **Transparency of supply chains**, in addition to payments and contracts, is used to prevent natural resources (such as diamonds) being used to support armed groups in several parts of the world, or to encourage sustainable exploitation of such resources.

- **“Secrecy jurisdictions”** – Despite international efforts, there remain a few “secrecy jurisdictions” from which it is either legally or practically impossible to obtain certain information. Exerting pressure on those weak-link jurisdictions is an important focus for international groups noted above. The FATF regards this as so important that it has considered applying risk-based enhanced measures to positively verify the ownership of legal persons and arrangements registered in jurisdictions which do not apply adequate transparency measures, or by refusing to do business with them if this is not possible.

- **Defence and state security secrecy** – Many countries have laws to prevent the disclosure of state secrets and protect national security. In some cases these mean defence procurement is exempt from the scrutiny and controls applied to other forms of government spending. These measures are vulnerable to misuse as they prevent effective scrutiny of corrupt contracts and payments.

- **Information flows between authorities** – Many countries apply restrictions which prevent the use of tax information by law enforcement authorities or other agencies and vice versa, which can hinder investigations and require duplication of efforts. Similarly, some countries restrict tax authorities’ access to suspicious transaction reports filed to counter money laundering. Allowing for those restrictions to be lifted in specific, cases and subject to appropriate safeguards, may increase effectiveness of agencies engaged with tackling IFFs. Those advantages would need to be assessed with a view to the commensurate risks.
• **Data protection** – There are concerns that data protection measures may be misused as a means to revive bank secrecy, or that they may pose new barriers to the effective exchange of information between authorities and countries – for example, some data protection regulations permit data to be shared only with authorities which apply at least the same level of data protection. It is critical to ensure the protection of personal data, and authorities should ensure that those rules are not inappropriately applied to prevent the exchange of relevant information in appropriate cases.

g) Composition of the economy

43. The composition and structure of a country’s economy can significantly influence the risks of IFFs. There are several different factors which can be relevant:

- The sector composition of the economy is a major factor. Extractive industries can incentivise rent-seeking behaviour and are more prone to generate IFFs (Andersen *et al.*, 2014).

- State-owned enterprises can be vulnerable to pressure or exploitation by politicians and other public officials, generating IFFs through corruption or through illegal contracts (OECD, 2015a).

- Inequality or lack of opportunity can undermine the moral authority of national laws and government institutions, and can encourage people to turn to illicit activity to support themselves.

44. All these challenges require countries to place a greater emphasis on understanding the risks and taking a coherent approach to dealing with them. Fragile countries face a different set of IFF risks to stable and developed countries, and many of the measures required by the international normative framework are irrelevant or low priority (e.g. a country without a financial system does not need rules on correspondent banking). But these countries do not have the capacity or resources to implement the whole anti-IFF framework initially, and must make hard choices about which measures to prioritise, and how to sequence the measures they do take forward.

45. A failure to co-ordinate policies from the beginning of framework development or crisis management can be extremely costly, e.g. as urgent measures implemented in haste may undermine more important long-term steps. In some cases, this may mean most measures to combat IFFs are delayed, while more basic or urgent actions are taken.

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**Box 1. Policy coherence in low-income countries**

Policy co-ordination is particularly challenging in low income countries, post-conflict countries, or fragile states, which may have to deal with a number of additional obstacles:

- Lack of capacity and resources – The resource constraints which affect all countries are magnified in states with limited funds and limited capacity in central government. This makes planning and prioritisation more important, as countries cannot realistically implement all the measures they would ideally require.

- Co-ordination with international organisations and donors – There may be a number of international organisations and bilateral partners providing recommendations and assistance, as well as national authorities. National plans and priorities can be distorted by the objectives and conditions set by external partners, which can weaken national ownership and lead to incoherent policies.

- Missing institutions – The agencies and institutions which combat illicit financial flows may not exist at all; and existing agencies may be unable to take on IFF responsibilities in addition to their core business. Establishing agencies from scratch is far more demanding - of resources and the attention of Government - than expanding the responsibilities of an existing agency. This can raise difficult questions of prioritisation and timing.
Incomplete legal frameworks – Combating IFFs requires a large amount of detailed legislation on a range of topics. Model laws are available from the UN and several other organisations, but these nevertheless have to be adopted by national legislatures, and embedded in the existing framework of national laws and regulations. In many countries, the legal framework itself is confused, including laws from several sources and even different legal traditions; with duplicative and redundant laws; and potentially with provisions which could undermine measures to counter IFFs. In some cases legislative reform and consolidation is a precondition for an effective framework to combat IFFs.

Security and rule of law – Lack of security and limited ability to enforce laws can undermine most or all of the measures to combat illicit financial flows noted in this paper. But at the same time, security threats (such as insurgent movements) need finance – from IFFs – to support their activities. Countries facing significant security threats may be unable to implement comprehensive measures to combat IFFs, but could face a worsening security situation if they do not address the specific financial flows which support militant groups.

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

46. Measures to combat illicit financial flows (IFFs) can be complex and technical. They must also be responsive to an international and ever-changing threat. It is not effective or coherent for each country to pursue these measures in isolation. Countries are more effective when they share information about the changing risk environment; when they pool their resources to identify and disseminate best practices in the implementation of policy measures; and when they exert concerted pressure on jurisdictions which do not play by the rules. Active participation in the international groups and bodies concerned with IFFs can support effectiveness and coherence at home, and open up co-operative options for managing conflicts and spillovers internationally.

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

Overview of the international framework

47. IFFs are international – criminals exploit differences between national legal systems and weak international co-operation in order to hide funds from authorities. Therefore, a broad set of international conventions, standards, and bodies has been developed in order to combat IFFs. These include UN conventions which establish standards that all countries are expected to meet in order to avoid providing a safe haven for various kinds of IFFs. They also include treaties or organisations with narrower membership, but which set out more intensive or detailed measures to be applied by their member countries, and conduct peer reviews to ensure adequate compliance.

The international framework includes several different layers:

- **Universal legal obligations**, set through the UN Framework, including the Vienna Convention; the Palermo Convention; the Merida Convention; the Terrorist Financing Convention; and various UN Security Council Resolutions;

- **International standards**, developed in the OECD, including (on tax matters) - the OECD Model Tax Convention; the multilateral Convention on Mutual Administrative Assistance in Tax Matters; and the international standards on tax transparency, for exchange of information ‘on request’ (EORI), and automatic exchange of financial account information (AEOI). Other relevant standards include the OECD Anti-Bribery Convention, the Financial Action Task Force recommendations and the OECD Recommendation of the Council to Facilitate Co-operation Between Tax and Other Law Enforcement Authorities to Combat Serious Crimes.
• Voluntary and regional codes, standards, initiatives and bodies, which apply to IFFs.

At UN level, the key instruments which establish legal obligations are:

• **United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances 1988** (Vienna Convention). This includes provisions on money laundering and international co-operation.

• **United Nations Convention against Transnational Organized Crime 2000** (Palermo Convention). This requires countries to criminalise money laundering, and includes frameworks for extradition, mutual legal assistance and law enforcement co-operation.

• **International Convention for the Suppression of the Financing of Terrorism 1999** – requires states to criminalise the financing of terrorism, and adopt powers to freeze and seize funds intended to be used for terrorist activities.

• **United Nations Convention against Corruption 2003** (Merida Convention) – requires measures to prevent and criminalise corruption, provide international cooperation and asset recovery on corruption cases.

48. In addition, a number of UN Security Council Resolutions have introduced measures to counter illicit financial flows, in particular by establishing targeted financial sanctions regimes applied to Al Qaida and other terrorist groups.\(^{12}\)

The OECD sets (or hosts) the main international standards and standard-setting bodies which are responsible for setting international soft law:

• **OECD Model Tax Convention** - The OECD published its first draft *Double Taxation Convention on Income and Capital* in 1963, building on work which had begun in the League of Nations in the 1920s. Today more than 3,000 bilateral tax treaties are based on the OECD Model, which addresses key issues arising in the international tax system including to promote the elimination of double taxation and to prevent fiscal evasion.

• **Multilateral Convention on Mutual Administrative Assistance in Tax Matters** - The multilateral Convention was developed by the OECD and Council of Europe in 1988 as a legal instrument for countries to undertake cross-border cooperation to counter tax evasion and avoidance in areas including exchange of tax information (on request, automatic and spontaneous) as well as assistance in tax collection and simultaneous tax examinations. The multilateral Convention was updated in 2010 with an amending Protocol to reflect the latest standards, including in the area of tax information exchange, and to allow the Convention to be signed by all States (not only OECD or Council of Europe members). Today (March 2016) there are 94 jurisdictions participating in the Convention, there are more in the process of joining.

• **OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions** (the OECD Anti Bribery Convention / ABC) – Countries which join the OECD

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12 In particular UN Security Council Resolution 1267 (1999) and its successor resolutions.
ABC\textsuperscript{13} agree to establish a criminal offence of bribing a foreign public official in their national laws, and to implement effective policies to prevent, detect, investigate and sanction foreign bribery committed by individuals and/or companies.

- **Global Forum on Transparency and Exchange of Information for Tax Purposes** – The Global Forum is the multilateral framework through which the international standards on tax transparency and exchange of information (EOIR and AEOI) are monitored and reviewed.

- **The Financial Action Task Force** – The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass-destruction. The FATF Recommendations\textsuperscript{14} are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

49. **In addition to the standards and bodies above**, there are a range of initiatives and dialogues which aim to improve the capacity of governments and the functioning of the international systems for combating IFFs, many of them led by the OECD. These include:

- **Regional Anti-Corruption Initiatives**\textsuperscript{15} reaching out to non-OECD countries on bribery and corruption issues.

- **The Global Forum on Transparency and Exchange of Information for Tax Purposes** is the body through which the implementation by countries and jurisdictions of the international standards on tax transparency and exchange of information are peer-reviewed

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\textsuperscript{13} The Parties to the OECD ABC are currently: the 34 OECD member countries and seven non-member countries - Argentina, Brazil, Bulgaria, Colombia, Latvia, Russia, and South Africa. The Working Group on Bribery monitors the enforcement of the Convention and related instruments including:

the 2009 OECD Recommendation for Further Combating Bribery of Foreign Public Officials in International Business Transactions and other related instruments;

the 2009 Recommendation on Tax Measures for Further Combating Bribery of Foreign Public Officials in International Business Transactions;

the OECD Recommendation on Bribery and Officially Supported Export Credits;

the 1996 Recommendation on Anti-Corruption Proposals for Bilateral Aid Procurement; and

the OECD Guidelines for Multinational Enterprises

\textsuperscript{14} International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation; the FATF Recommendations, FATF 2012.

\textsuperscript{15} These include:

the Joint ADB/OECD Anti-Corruption Initiative for Asia and the Pacific,

the joint AfDB/OECD Initiative to Support Business Integrity and Anti-Bribery Efforts in Africa;

The Anti-Corruption Network for Eastern Europe and Central Asia (in partnership with the Basel Institute on Governance; the Asset Recovery Center, the UNODC and the GRECO); and

the Latin America Anti-Corruption Programme (jointly led with the Organisation of American States (OAS) and the Inter-American Development Bank.
- **CleanGovBiz** – This initiative supports governments, business and civil society to build integrity and fight corruption. It draws together existing anti-corruption tools in its CleanGovBiz Toolkit, reinforces their implementation, improves co-ordination among relevant players and monitors progress towards integrity.

- **The OECD Recommendation on Public Procurement** (and corresponding Toolkit) include guidelines for enhancing integrity and transparency in public procurement, which is vulnerable to corruption (including mis-invoicing) and/or bribery (whether from domestic or foreign sources).

- **The OECD Principles on Transparency and Integrity in Lobbying**, as well as the OECD Recommendations for Managing Conflict of Interest and Improving Ethical Conduct in the Public Service, all address the risk factors for potential policy capture and undue influence resulting from political contributions/donations, conflict-of-interest situations including those arising from previous employments ("revolving doors") which can hinder government’s ability to effectively combat IFFs.

- **The OECD Guidelines for Multinational Enterprises** encourage the positive contribution MNEs can make to economic and social progress, including chapters on human rights, combating bribery and taxation.

- **The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas** provide detailed recommendations to help companies respect human rights and avoid contributing to conflict through their mineral purchasing decisions and practices. The Due Diligence Guidance is for use by any company potentially sourcing minerals or metals from conflict-affected and high-risk areas.

- **The OECD-FAO Guidance for Responsible Agricultural Supply Chains** helps enterprises observe existing standards of responsible business conduct along agricultural supply chains, including those related to corruption, and undertake due diligence in order to mitigate their adverse impacts and contribute to sustainable development.

- **The OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector** provides enterprises with a practical framework for identifying and managing risks with regard to stakeholder engagement to ensure they avoid and address adverse impacts as defined in the OECD Guidelines for Multinational Enterprises.

- **Oslo Dialogue on Tax and Crime** - Promoting a whole of government approach to fighting tax crime and other financial crimes, this initiative was launched in 2011 and has included the establishment in 2014 of the OECD International Academy for Tax Crime Investigation near Rome, Italy. Its work is supported by the OECD's Task Force on Tax Crime and Other Crimes, which is mandated to improve co-operation between tax and law enforcement agencies including anti-corruption and anti-money laundering authorities to counter crime more effectively by surveying the arrangements for co-operation and identifying, developing and promoting standards, guidelines and good practices; monitoring and promoting the OECD recommendations on tax measures to further combat bribery, the recommendation to facilitate co-operation between tax and other law enforcement authorities (including Financial Intelligence Units) to combat serious crimes and any other recommendations related to tax and other crimes; developing, updating and promoting guidance materials such as the OECD Bribery and Money Laundering Awareness handbooks for tax examiners to improve the reporting of suspicions of crimes; and contributing to and co-operating with the FATF, the OECD Working Group on
Bribery and other relevant areas in OECD and outside of the Organisation to ensure a holistic approach to development, good governance, anti-corruption and other strategic priorities.

- **The Trust and Business (TNB) Project** is a multidisciplinary and multi-stakeholder initiative that aims to bridge the gap between business standards and their implementation, in order to promote business integrity.\(^{16}\)

- **Stolen Asset Recovery Initiative (StAR)** is a partnership between the World Bank Group and the United Nations Office on Drugs and Crime (UNODC) that works with developing countries and financial centres to prevent the laundering of the proceeds of corruption and to facilitate more systematic and timely return of stolen assets. The StAR Initiative has jointly published with the OECD Working Group on Bribery an analysis on the *Identification and Quantification of the Proceeds of Bribery*.\(^{17}\)

- **Task Force on Tax and Development** - The OECD’s Task Force on Tax and Development was created in 2010 and has an advisory role to the OECD’s Committee on Fiscal Affairs and the Development Assistance Committee. Participants are officials from OECD and developing countries, business, NGOs and other international organisations. Key elements of the Tax and Development Programme’s work agenda include: promoting the link between State building, taxation and aid; supporting developing countries build capacity on transfer pricing and other international tax issues as well as natural resource taxation; and supporting low-income countries improve transparency and governance of tax incentive regimes.

- **Extractive Industries Transparency Initiative (EITI)** – a global standard to promote openness and accountable management of natural resources, through full disclosure of taxes and other payments made by oil, gas, and mining companies.

- **Egmont Group of Financial Intelligence Units** – which promotes good practice among FIUs, and facilitates international exchange of information on IFFs.

- **International Corruption Hunters Alliance (ICHA)** – Hosted by the World Bank Group, ICHA brings together heads and senior officials of corruption investigating bodies and prosecuting authorities, anti-corruption experts, academics, and representatives of international organizations from over 130 countries.

- **G20** – which has taken a leadership role on several aspects of IFFs policy, including through the *G20 Principles on Beneficial Ownership*.

Some of the conventions and mechanisms above include assessment of compliance and effective implementation by countries. For some this is based on self-assessment by the countries themselves, supplemented by more detailed peer review processes in some cases. Other bodies have mandatory peer review processes for all members of the relevant body – particularly for the UNCAC, the OECD Anti-Bribery Convention, the Global Forum on Transparency and Exchange of Information for Tax Purposes, and the FATF.

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\(^{16}\) Information available here: [www.oecd.org/corruption/trust-business.htm](http://www.oecd.org/corruption/trust-business.htm)

\(^{17}\) Analysis available here: The OECD-StAR analysis on the *Identification and Quantification of the Proceeds of Bribery*
Box 2. Tax Inspectors without Borders initiative

The TIWB initiative was first floated in 2012, aiming to build capacity to tackle complex tax audits covering tax evasion, as well as tax avoidance cases in developing country tax administrations. TIWB facilitates the deployment of experienced tax auditors to work alongside local tax audit teams on a demand-led basis, to transfer tax audit knowledge and skills through a real-time, practical approach. This leads to improvements in the quality and consistency of audits and the transfer of knowledge to recipient administrations (tax administrations seeking assistance), as well as the potential for more revenues, greater certainty for taxpayers and encouraging a culture of compliance through more effective enforcement.

After a one-year feasibility study, and a series of successful pilot projects across Africa, Asia and Latin-America and the Caribbean, the OECD partnered with UNDP to ensure the widest possible impact for the initiative which was launched in Addis Ababa at the UN financing for development conference. Already, more than USD 185 million in additional tax revenues has been delivered through TIWB-pilot projects.

51. The OECD, the UN, the IFIs, and other bodies are also active in producing guidance and analysis to support implementation of the standards and of other measures to counter IFFs. This includes best practices and technical guidance in the implementation of specific requirements, guidance on tools or methods to improve effectiveness in certain policy areas, and studies analysing specific problems which arise in relation to the standards (some of which are noted below).

Is the international system to address IFFs coherent?

52. The international normative framework for combating IFFs is based on the independent conventions, standards, and initiatives listed above, but has developed organically. Each standard was developed to address a specific and distinct element of IFFs, and they were not planned as an integrated system. This means there may be some gaps and overlaps between the various elements.

53. On the specific requirements of the conventions, standards, and initiatives, there is a high degree of consistency. In general, the UN Conventions set out essential and universal requirements, while the other, later standards incorporate the requirements of the Conventions, but also include more detailed requirements for specific related areas. One example is international co-operation: most of the UN Conventions, and several standards, include requirements for mutual legal assistance between countries regarding their specific focus. The level and type of co-operation, as well as the specific measures required, has increased over time, as countries’ capacity and experience have grown, meaning that the more recent conventions and standards incorporate and extend the requirements of previous conventions.

54. Each of the conventions, standards, and initiatives has been developed with regard to the existing framework, with a view to avoiding conflicting requirements and priorities, unintended consequences, reducing the costs of duplicate requirements, and integrating the framework more effectively.

55. The coherence of the global framework is also helped by the increasing focus on three core bodies on IFFs: the OECD Working Group on Bribery; the Global Forum on Transparency and Exchange of Information; and the FATF. These bodies have come to take a leading role in preventing and mitigating the risk of IFFs. Their role is driven by the scope and content of their requirements (some of which incorporate requirements from the UN conventions), and by their in-depth peer-review processes, which exert pressure on countries to make serious efforts to implement their standards. Nevertheless, some coherence challenges remain on specific issues, as set out below.

56. The membership of the different global frameworks varies, as they have developed separately, over several decades. Each of the conventions, standards, and initiatives has different governance and
membership arrangements, with UN and OECD bodies, as well as stand-alone treaty-based organisations, task-forces, and initiatives. Many standards are open to all countries and have wide membership: over 180 countries are members of the FATF and its network of FATF-style regional bodies; the Global Forum now has 126 members on an equal footing; and the OECD Anti-Bribery convention has 41 state parties (and additional countries which participate through regional initiatives).

57. The differences in membership lead to some duplication of requirements between standards, since none of the standards can rely on all their members already being party to another standard (and so already implementing a given obligation). Nevertheless, the standard-setters do avoid duplication where possible, such as by recognising the conclusions of each other’s peer-review evaluations on issues which are common to two standards.

58. The separate governance arrangements for each body may present a challenge: there is no central co-ordination body or mechanism mandated to set a global strategy on IFFs. This is mitigated in part by informal groups: the G20 countries make up a common core membership of all the bodies noted above, and since the 2008 financial crisis, the G20 has taken on a more decisive role with respect to related policies. Recently it has taken on a greater leadership role with regard to IFFs, through action to improve transparency of beneficial ownership, and other specific measures to combat IFFs, giving a high-level political steer on the further development of the relevant standards.

59. Overall, there do not seem to be major points of conflict within the international standards, and there seems to be effective co-ordination between the different bodies involved on cross-cutting issues such as beneficial ownership. Seeking greater coherence between the international standards could be disruptive and difficult to achieve, because of the mandate and membership issues. It would also risk losing the focus and nuances which makes each of the standards effective.

Tensions between national and international systems

60. The scope and detail of the system of global standards relevant to IFFs place significant constraints on the leeway countries have to make independent policy decisions. Countries can in principle choose not to become party to the conventions, standards, and initiatives. However the costs of doing so could be high: non-participation could lead to a lack of reciprocal international co-operation (and potentially to black-listing); loss of access to international financial markets or IFI facilities; and even sanctions or countermeasures.18

61. Countries which do participate in the global framework to combat IFFs have significant constraints on their discretion: each standard or convention requires countries to implement a set of policies which constitute the minimum requirements of the standard. Some standard-setting bodies evaluate compliance, implementation and effectiveness, through peer review processes to check whether the standards are adequately applied.

62. A certain level of capacity is needed both to comply with standards and to evaluate implementation – this can be cumbersome and expensive, especially for low capacity countries.

63. The mandatory requirements set by international standards are demanding, as highlighted in the 2014 OECD study Illicit Financial Flows from Developing Countries: Measuring the OECD Response. This reviewed the results of peer reviews assessing OECD countries’ implementation of key standards and initiatives: the FATF 40 Recommendations; the Anti-Bribery Convention; the Global Forum on

18 E.g. through the FATF’s International Cooperation Review Group (ICRG) process.
Transparency and Exchange of Information for Tax Purposes; the UN Convention Against Corruption, and the Stolen Asset Recovery Initiative. The results presented a mixed picture of global compliance:

- **Combating money laundering**: The report highlighted significant variations in country performance, and significant gaps to be filled. The three areas where countries have faced the biggest difficulties in complying with the 2003 FATF standards were: (i) implementation of customer due diligence procedures; (ii) compliance with beneficial ownership requirements; and (iii) effective regulation, supervision, and sanctions.

- **Tax evasion**: The report noted that OECD countries are generally compliant on standards for the effective exchange of tax information, but that developing countries need to continue to expand their network of agreements, and strengthen their institutions. It noted that a whole-of-government approach to fighting tax crimes and illicit financial flows could strengthen their ability to detect and pursue such crimes.

- **International bribery**: Progress in implementing the OECD Anti-Bribery Convention has been mixed among OECD member countries. On the positive side, 221 individuals and 90 companies had been sanctioned in criminal proceedings by the end of 2012, and good practices had been identified in several OECD countries. On the other hand, more than half of OECD countries still had no prosecutions, and common concerns remain, such as loopholes in the legal framework, poor awareness, and lack of resources.

- **Freezing, recovering, and repatriating stolen assets**: Progress has been modest in this area. In 2006-09, USD 276 million in stolen assets were returned to developing countries, and USD 147 million between 2010 and June 2012. However, the overwhelming majority of these came from just four OECD countries. The report found that OECD countries could do more: to signal that asset recovery is a political priority; to dedicate more resources to it; and to adopt legal best practices.

64. The performance of OECD countries is a clear indication that implementing international standards against IFFs is demanding and significant further steps remains to be taken in most OECD countries. The international community has made progress over the last decade in improving the way in which it assesses implementation, by looking at this in terms of risk and effectiveness. Both of these approaches take a more meaningful view of implementation – placing more weight on how a country has practically addressed the IFF risks which it faces, and less emphasis on measures which may not be relevant, or on formal requirements which are not observed in practice. This has also built some much-needed flexibility into the assessments to account for different levels of resource and capacity. The risk-based approach adopted by the FATF, in which countries are required to assess their risks and to apply proportionate measures to mitigate them – including enhanced or simplified measures and exemptions from the requirements – is an example of this approach.

65. There is also a wide policy space between the mandatory, universal global standards and their implementation in the unique context of each country. No global standard can specify in detail how every country should implement each requirement, and individual countries must adapt the requirements into a form that is compatible with their legal and administrative systems and policy objectives. This means there is also a pressing need to consider policy coherence at national level – and also to consider coherence in the context of implementation as well as of policy.
International co-operation arrangements

66. In an international setting, differences between countries’ laws and procedures and in the rules governing international co-operation can give rise to safe havens for criminals or for illicit financial activity. Criminals may choose to launder their money in a country which has a weak criminal offence or light penalties for money laundering, or in a country which does not extradite its own citizens. Similarly, companies may use subsidiaries or intermediaries in countries where there is no foreign bribery offence or corporate criminal liability, or which does not respond effectively to foreign requests for ownership information.

67. Measures to combat IFFs internationally therefore depend on a framework of international co-operation measures, affecting all aspects of co-operation. These include:

- **Mutual Legal Assistance and extradition** (e.g. in the terms set by the multilateral conventions noted above, or under bilateral treaties).

- **Law enforcement co-operation** (e.g. through Interpol or Europol, or through bilateral arrangements).

- **Supervisory co-operation** (e.g. through the frameworks for cooperation set out by BCBS, IOSCO, or IAIS).

- **FIU co-operation** (e.g. through the Egmont group).

- **Co-operation on asset tracing and recovery** (e.g. through the StAR initiative or GAFILAT).

- **Tax information exchange**, under the international standards for the exchange of tax information on request (EOIR) and Common Reporting Standard (CRS) for automatic exchange of financial account information (AEOI).

68. Countries’ membership and participation in these mechanisms for co-operation and information exchange is critical to their ability to provide or receive international co-operation against IFFs, but is not enough on its own. Practical capacity to use these mechanisms is also essential. In particular, countries need:

- **Secure communication channels** through which sensitive information can be passed, and the ability to safeguard information after it is received.

- **Working relationships with authorities in other countries**: even within a multilateral co-operation framework, practical co-operation depends on having an adequate understanding of other countries’ arrangements; mutual trust; and an active and reciprocal relationship. Countries with regular contact or dedicated liaison officers in embassies are much better able to seek or provide co-operation than those seeking assistance irregularly or for the first time.

- **The ability to adequately and appropriately use information received**, which can be labour-intensive or technically demanding – particularly in the case of automatic exchange of tax information, which requires capacity to process large volumes of data.
Box 3. The imperative of policy coherence

Example A: Regulation and supervision of financial institutions and professions:

At a global level, coherence of financial sector standards is promoted through links between the standard-setters for illicit financial flows noted above, and the financial sector standard-setters, notably the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS); the (IOSCO); and the International Association of Insurance Supervisors (IAIS). However, there is considerable flexibility about how countries supervise the standards.

At the international level, problems arise for multinational financial institutions which are supervised in several countries: while international standards provide for a coordinated approach by a college of supervisors, and assign clear responsibilities within international financial groups, differences of supervisory philosophy and regulatory environment can mean a firm faces very different levels of regulatory risk in different countries. Many financial institutions seek to harmonise their internal procedures globally, and to make decisions about illicit financial flow risk management at a global level. This means that actions by regulators and supervisors in one country may have an effect globally – e.g. by adding to the procedures required, or affecting the institution’s perceptions of the regulatory risks. In some cases these spillovers are benevolent (i.e. banks will apply strict internal controls even in countries with weak regulations). In others they may be destructive (e.g. de-risking by banks in one country, in response to supervisory actions in another).

At a national level, coherence issues are relevant to how supervision is organised: some countries use a single financial sector supervisor responsible for all forms of supervision; some have separated prudential supervision from other forms of supervision, and others have a network of separate supervisors for each sector, including banking, insurance, securities sectors, and regulated businesses and professions. Financial institutions are also subject to supervision of their conduct of business, consumer protection, and data protection. All these different supervisory regimes have distinct purposes, different approaches to supervision, and in many cases different agencies are responsible for supervising compliance with regulations relevant to IFFs and for other forms of financial supervision. Differences of approach between supervisors and other oversight bodies can give rise to confusion and send conflicting messages to financial firms. In some cases a confused supervisory architecture can lead to multiple interventions or sanctions for the same activity.

A consistent approach to these various regulatory regimes and their supervision is desirable to enable a coherent compliance culture in financial institutions (for example with a consistent approach to risk, so that managers do not face a zero-failure regime on one issue, and a risk-based approach on another), and to avoid over-burdening the financial sector and their supervisors. It can also enable synergies between different forms of supervision, e.g. where there are red-flag indicators of IFF activity which are visible to a prudential supervisor, but not normally reviewed by AML/CFT or conduct or business supervisors.

Example B: Trafficking in illicit goods and smuggling

The conditions which make trafficking or smuggling of drugs and other illicit goods profitable are the result of policy choices which determine differences in the availability or price of goods on either side of a border: either where products are prohibited, or where products are legal but there are large differences in their price between countries (e.g. because of the level of tax or duty applied). As well as the physical movement of goods, smuggling can also give rise to flows of illicit funds; corruption of border officials; and the establishment of organised crime groups.

Spillovers can arise whenever policies on both sides of a border are not aligned: a country which significantly increases the tax or duty on a specific product will unwittingly economically incentivise the inbound smuggling of that product. The significance of these risks varies according to the type of goods and the ease of crossing borders: easily transported goods; small countries; good transport links; and light border controls mean greater risks. Bulky goods, and larger, more remote, or stricter countries will see less risk of smuggling. Countries should be aware of the risks of incentivising IFFs when considering changes to controlled substances or specific goods taxes or duties.
A.1.3.2 Ensure political commitment and leadership at the highest level to mobilise both state and non-state actors

69. Combating IFFs is a complex area, and involves a large number of different actors, many of which have similar or overlapping mandates and responsibilities. It also potentially presents many areas where compromises are needed between the goal of combating IFFs and other domestic or international policy objectives. Sustainable development and effective implementation of policies to counter IFFs both depend on a concrete understanding of the entire policy picture. This means there is a need for countries to take an integrated and high-level approach to ensure policy coherence, which is fully mainstreamed into national development planning. Operationally, countries will need to be able to resolve conflicts between agencies and disciplines, and promote co-operation and co-ordination in the implementation of policy.

70. Building and implementing coherent policies on a subject which involves so many different elements of government policy and so many different actors is challenging. Governments need to clearly articulate IFFs priorities in the context of planning for the whole-of-government. That is not an easy exercise but one which is increasingly called for by the international normative framework, for example by calling on countries to first understand their risk environment, and then plan appropriate measures to mitigate the risks they face. As all government agencies compete for policy space, a deliberate and considered articulation of measures to be taken in developing the framework for preventing IFFs is crucial.

71. It is a good practise to involve all competent authorities – including operational agencies – in the development of policy, to avoid requirements which are impractical or competing. Feedback to policy makers from implementing authorities and from other stakeholders inside and outside government is also essential, to identify and respond to unexpected or unintended consequences as they arise, and to enable improved or better-focused policies to develop over time.

72. The generic module of this Toolkit provides practical advice on implementing a whole-government approach and ensuring policy coherence. Additional useful documents include the 2010 Council Recommendation on Good Institutional Practises in Promoting Policy Coherence for Development, and the 1996 Public Management Occasional Paper, Building Policy Coherence: Tools and Tensions. The general lessons, mechanisms, and good practises which these papers suggest apply to policy making to reduce IFFs flows.

73. Wider OECD work is also highly relevant to promoting policy coherence, in particular on the role of the Centres of Government in meeting governance challenges and managing cross-cutting policy issues.19

A.1.3.3 Enhance national inter-agency coordination mechanisms to strengthen co-operation to combat IFFs

74. Combating IFFs is about effective implementation as well as sound and coherent policy-making. This is a complex area, in which specialised functions have been (or should be) created within existing government structures and agencies. This means there are many different departments, institutions, and other actors involved in making and implementing policy in this area, with different skills. The organisation and structure of this framework strongly depends on national contexts, legal traditions and administrative systems. Understanding (and connecting) the different actors involved in combating IFFs is a prerequisite for a coherent approach. This process involves five steps:

19 See http://www.oecd.org/gov/cog.htm
Step 1: Mapping the actors

75. To combat IFFs effectively, governments have to bring together different agencies, with different skills and expertise, different cultures, and different priorities. They also need the active engagement and participation of a wide range of entities outside government. This is illustrated in Figure 3.

Figure 3. Key actors involved in combating illicit financial flows

Why is coherence instrumental to combat IFFs?

1. The top level is the key policymaking departments in central government. IFFs do not sit within the normal remit of a single ministry, but cut across several departments.

2. The middle level includes the operational agencies which implement the laws, regulations, and policies to counter IFFs - both preventive and punitive. This includes parts of the criminal justice system; financial and professional supervisors; and a range of specialised agencies.

3. The lower level shows the sectors outside government which have a role in applying measures to prevent and detect illicit financial flows, of which there are many. For example "businesses and professions" in this case applies to accountants, auditors, lawyers, notaries, dealers in gemstones and antiquities, real estate agents, company formation agents, financial advisors, and several others.

The main government actors involved in combating IFFs are:

- **Central government policy-makers** – Policy on IFFs is generally set by one or more central government departments (typically the ministry of Finance, Interior, or Justice), which may also have a role in coordinating implementation by other agencies.

- **Tax authorities** are responsible for enforcing tax laws, and also often have the power to issue relevant tax regulations or guidance for taxpayers. In many cases the tax authority is also responsible for investigating and prosecuting tax evasion and other tax crimes, and in some cases, money laundering.

- **Financial Intelligence Units** are central bodies for receiving and analysing reports of suspicious activity from the financial sector and professions, and disseminating the results to the relevant agencies.

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20 Effective Inter-Agency Co-operation in Fighting Tax Crimes and Other Financial Crimes (OECD, 2013).
authorities. The FIU function may be established as an independent unit within a law
enforcement agency, central bank, or department of government, and many FIUs also have a
supervisory role – so this may overlap with other types of actors.

- **Law enforcement, customs, prosecutors, and the justice sector** – Criminal activity related to illicit
  finance is in most cases handled by existing law enforcement agencies that are responsible for
  investigating and prosecuting offences of money laundering, corruption, and tax evasion, along
  with all other criminal offences. This often involves multiple authorities with different
  geographic or thematic mandates.

- **Specialised investigation / Prosecution units** – Some functions, such as financial investigation,
  investigation of bribery or corruption, fraud, or financial crimes, asset tracing and confiscation, or
  prosecution for tax offences, are highly specialised, and many countries establish dedicated
  expert units to perform these tasks. These may be a specialised unit within another agency, or a
  stand-alone unit independent of existing institutions and agencies. Several countries have
  established dedicated anti-corruption units which fall within this category.

- **Supervisors** oversee compliance by the financial sector, firms, and relevant professions with
  preventive measures to combat IFFs, including the control of products or services which can
  enable IFFs. Supervisors form a diverse group, including both government agencies (often within
  the Central Bank), operationally independent authorities, and self-regulatory organisations. Some
  supervisors enforce rules made by a separate rule-making body, while others also have rule-
  making authority in their own right.

- **Development agencies** – Through programmes to ensure and monitor the integrity of aid
  spending, and through capacity building on combating IFFs and recovering assets. Development
  itself can be a long-term preventive measure by increasing overall capacity, growth and
  governance and decreasing vulnerabilities created by unemployment, poverty and lack of
  resources. The international community, in their elaboration of SDG 16 drew a hard link between
  development and the rule of law, and illicit financial flows.

- **Ministries of Finance** play several essential roles: as the institution responsible for setting
  budgets and monitoring expenditure, the finance ministry is crucial to the resourcing and
  prioritisation of measures to combat IFFs, and to prevent corruption. As the institution generally
  responsible for setting tax policy and fiscal forecasting, it is able to influence the degree and type
  of tax evasion, and to quantify the impact on revenue. And as the institution responsible for laws
  and regulations applying to the financial sector, it is able to decide the extent of preventive
  measures applied. In developing countries, the finance ministry may also be the main interlocutor
  with the international community, and would be involved in decisions about the prioritisation of
  measures against IFFs in national development plans or IFI programmes. In resource-poor
  countries this is an extremely important function and can determine the development of the
  preventive framework.

Many governments also include other bodies which can make a significant contribution to fighting IFFs,
such as:

- **Trade promotion and export credit agencies**, which can play an important role in preventing and
  detecting corruption and foreign bribery.

- **Internal and external audit bodies**, which monitor compliance with relevant laws and regulations;
  monitor effectiveness; and ensure sound financial management.
- **Centralised purchasing and procurement agencies**, which can harmonise good practices and reduce the scope for corruption; and

- **Bodies for promoting professional standards and integrity**, e.g. by managing potential conflict-of-interest situations arising from previous employment, avoiding decisions being compromised by a “revolving door” between public and private sectors.

76. **Measures to combat IFFs also involve a range of actors outside government.** Most countries require financial institutions and some professions to apply preventive measures to prevent IFFs (e.g. by reporting suspicious transactions to the FIU). The sectors required to apply such measures are also key actors in combating IFFs:

- **Financial sector** – As “gatekeepers” to the financial system, banks and other financial institutions are required to implement a wide range of preventive measures to combat IFFs, and are an essential source of information for the investigative agencies above. This includes not only formal financial institutions, but also “informal” providers of financial services such as money remitters or hawalas.

- **Regulated professions** – Lawyers, accountants, real estate agents, auditors, trust and company service providers, and some other businesses or professions are also required to apply preventive measures to prevent economic crimes, and thereby combat IFFs.

- **Companies** – Companies face growing incentives to put into place ethical and compliance programs, including internal controls, to prevent and detect corruption and foreign bribery.

- This is true of companies in countries party to the Anti-Bribery Convention or likely to fall under the jurisdiction of these countries, and particularly where such programmes may be a defence or a mitigating factor to the criminal liability of companies.

**Step 2: Building inter-agency coherence mechanisms**

77. Combating IFFs requires the active involvement of several central government ministries with different priorities (finance, foreign affairs, interior, justice, and possibly others), as well as the centre of government. It also needs effective participation and advice from a large number of regulatory and operational agencies. Preventive measures are also implemented by financial institutions and professionals. This can make policy decisions complicated. To handle these issues, and reflect the frequent need for co-ordination on IFFs, some countries have established standing arrangements at two levels:

- **At policy level** – Differences in priorities between ministers and departments arise routinely in the sphere of illicit finance, which means the ad-hoc processes, based on cabinet or its sub-committees may be inadequate or inefficient in the case of IFFs. Instead, it may be more coherent to have standing arrangements for the governance of IFFs that include multiple ministries. For example, some countries have a single government department and minister responsible for IFFs – but with a responsibility to consult the other departments involved on all decisions. Other

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countries have no single lead on the issue, but several different ministers are jointly responsible for IFFs (or specific types of IFFs). Regardless of the institutional model used to co-ordinate policy, the important elements seem to be: a policy framework built on informing, consulting, building a shared understanding of trade-offs, and gaining inputs from relevant ministries involved; mechanisms for information exchange and dialogue across sectors; gathering/centralising evidence from across ministries/institutions; mechanisms for anticipating/flagging conflicts or implementation challenges and a forum for discussing how to overcome these.

- **At the level of implementation** – There is a need for operational and expert agencies, including development agencies, to provide input to policy and priorities; to assist the government in evaluating whether operational co-ordination (discussed in step five below) is working effectively; and to provide assistance and co-operate on high-level activities such as risk assessment. Several countries have established standing inter-agency groups or committees for these purposes, which include the relevant ministries, operational agencies, and other government stakeholders as members, with a central secretariat to support co-ordination efforts. These types of efforts are particularly important in low-income countries which have a high risk.

- **Inter-regional co-ordination** can also be important. Some countries have highly decentralised systems, in which some or all of the agencies above are managed and responsible at regional level. Such systems can be very effective, but can face additional co-ordination challenges when seeking to respond to national or trans-regional activity.

- The OECD’s Oslo Dialogue on Tax and Crime has focused on facilitating more effective inter-agency co-operation on tax and crime issues, and has produced several pieces of guidance enabling co-operation. These include: *Improving Co-operation between Tax and Anti-Money Laundering Authorities* (OECD, 2015); *Effective inter-agency co-operation in fighting tax crimes and other financial crimes* (OECD, 2013a); and *International Co-operation against Tax Crimes and other Financial Crimes: A catalogue of the Main Instruments* (OECD, 2012).

**Step 3: Working across disciplines**

78. Dealing with IFFs requires bringing together experts and officials who not only have different expertise and objectives, but also different backgrounds and working cultures; different legal authorities and administrative procedures, and different professional languages. For example, law enforcement officers, financial supervisors, and tax inspectors have very different backgrounds and knowledge and likely work in different organisational cultures. A coherent and inter-agency approach to IFFs requires the people involved to communicate and co-operate effectively despite such differences of approach. Poor communication can undermine policy development and implementation, as can the inability of all of those involved to understand other disciplinary perspectives.

79. There are several ways of dealing with these challenges. Standing bodies like those described above can help, because they foster regular contact between the different agencies and officials involved. A central secretariat, where it exists, is well placed to act as a “translator” in cases where agencies are not used to working with each other directly. Countries can also foster better bilateral links between operational agencies by encouraging joint working on cases, or fostering exchanges of staff (e.g. through short-term secondments in both directions).

80. To help overcome the lack of inter-agency understanding in this area, the OECD's Oslo Dialogue on Tax and Crime has also produced guidance for tax authorities on other key agencies involved in combating IFFs; including the 2015 report on *Improving Co-operation between Tax and Anti-Money*...
Laundering Authorities (OECD, 2015b); and the Bribery and corruption awareness handbook for tax examiners and tax auditors (OECD, 2013b). The Oslo Dialogue has also led to the establishment in 2014 of the OECD International Academy on Tax Crime Investigation. This is a mechanism which helps train officials from various backgrounds (finance ministries, judiciary, tax authorities etc.) in financial investigation techniques, and provides a community to share expertise, as well as developing a longer-term network of officials from different countries to more effectively combat tax crimes and other financial crimes (e.g. corruption, money laundering, smuggling). Other organisations involved in development policy have mandates to work across disciplines. The United Nations, for example, is promoting ‘delivering as one’, and working across disciplines in country teams. Some low-income countries can request that policy recommendations come from multi-stakeholder groups or task forces.

**Step 4: Fostering dialogue beyond government**

81. Private sector entities are front-line partners of governments in combating IFFs. Many of the measures used against IFFs are implemented by financial institutions and other regulated sectors: they bear much of the cost of the counter-IFFs regime, and they are often the first to identify changing risks and trends. A strong and continuous dialogue with the affected sectors can make a very important contribution to the coherence and focus of the overall policy framework. At operational level, the private sector’s perspective can enrich and expand government’s understanding of the risks and of the international environment. And at a policy level, dialogue can make sure that governments consider the costs and impact of new measures, and are open to alternative ways to achieve the same objectives.

82. Many countries have standing mechanisms for outreach, consultation, and feedback with the private sector. These typically include practitioners or compliance heads from major financial institutions, as well as representative bodies for all regulated sectors, and act as a channel for regular communication about the implementation of preventive measures, and the evolution of risks.

**Step 5: Facilitating practical co-ordination**

83. Even when policies are coherent, the complex network of agencies and authorities can make it difficult to implement those policies in a co-ordinated and effective manner. Practical co-ordination is therefore an essential supplement to policy coherence.

84. All the measures to combat illicit finance involve more than one actor – often where different agencies have overlapping responsibilities, or where they are acting as separate links in a chain of measures – for example a case may begin with a financial institution submitting a suspicious transaction report, then include investigation by a variety of agencies, with each step taken by a different unit or several co-operating units. No actor or agency will be familiar with the breadth of policy governing IFFs – this can result in an ineffective approach or even gaps in the legislative, institutional or policy framework. Effective implementation depends on the agencies working together coherently.

85. In many countries there are multiple investigating and law enforcement authorities with different and sometimes overlapping mandates. In order to effectively combat IFFs, countries need to have clear rules or systems for ensuring that different authorities’ activities do not undermine or interfere with each other, and where possible to co-ordinate and co-operate in their activities.

86. In cases where different agencies have overlapping mandates (e.g. national and local law enforcement agencies), countries may need a “de-confliction” mechanism to ensure they do not accidentally interfere with or obstruct each other. In some jurisdictions this includes clear rules about which agency takes priority in cases of conflict, or a clearing-house database to track individual cases.
There are a range of mechanisms which can do this – including for example a hierarchy of precedence; information sharing through a database of investigations; or active co-ordination mechanisms.

87. Going beyond deconfliction, to build effective *operational co-operation* – e.g. through exchanges of relevant information, expertise, and capacity between agencies – can realise synergies and significantly improve the effectiveness of efforts to combat IFFs. This is most often achieved through bilateral links between the agencies concerned – although this depends on an appropriate legal framework, good communications and a collaborative culture.

88. The need for deconfliction, co-operation, and co-ordination applies to supervision as well as to enforcement. Some countries have multiple financial supervisors, with different geographic or sectoral responsibilities: a single universal financial institution which is active in multiple regions may be overseen by a large number of supervisors.

89. Many countries have a national co-ordination body for specific policy issues related to IFFs, such as money laundering, including all the relevant agencies, which can act to ensure operational co-ordination arrangements are functioning well, and act as a forum for policy co-ordination.

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

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

90. Reflecting their significance as a potential disabler of development efforts, the Sustainable Development Goals includes illicit financial flows (IFFs) as an element of Target 16.4: “by 2030 significantly reduce illicit financial and arms flows, strengthen recovery and return of stolen assets, and combat all forms of organised crime”. This section complements the Toolkit by highlighting three practical examples of possible interactions with target 16.4.

- **Synergies**: Providing legal identity and birth registration for all (16.9) would contribute to expanding access to banking, insurance and financial services for all (8.10)

- **Tradeoffs**: De-risking measures contribute to reducing IFFs (16.4), but could unintentionally limit remitters’ access to financial systems and increase transaction costs of migrant remittances (10.c).

- **Enablers**: Promoting the rule of law (16.3) and developing effective, accountable and transparent institutions at all levels (16.6) are necessary preconditions for reducing IFFs.
### Table 4. Examples of policy interactions across the Sustainable Development Goals and Targets

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

91. This section looks more specifically at the areas where policy tensions or synergies can arise as a result of policy interactions. These include direct conflicts between objectives relating to IFFs and other policy objectives, unforeseen conflicts which arise from the way policies are implemented, and the synergies arising from an integrated approach. It also sets out some of the trade-offs or choices which countries can face when seeking to integrate the fight against IFFs into these areas and a balanced and coherent set of national policies, and highlights the considerations on both sides of them.

92. The overarching trade-off regarding illicit financial flows concerns risk, cost, and proportionality: Are anti-IFFs policies, given the costs they involve, a proportionate and justified response to the risks posed by IFFs? Policy making involves considering options on the basis of risks, costs and benefits. Under the international normative framework of rules and standards, countries have a great deal of flexibility about how intensively they apply measures to combat illicit financing – including the strength of preventive measures in the financial sector, and the staffing, powers, and resources of the agencies responsible for preventing, detecting and punishing financial crimes. Decisions on the priority given to fighting IFFs, or on whether to apply additional measures, should be based on an understanding of the risks – which vary considerably from country to country. This fundamental element of policy making and implementation has been recognised for many years and in 2012 this concept was included as the first recommendation of the new FATF standard.

93. IFFs can be a cause for concern even in jurisdictions which have low domestic levels of proceeds-generating crimes, corruption, and tax evasion – and therefore face low domestic risks of IFFs.
International risks – e.g. inflows of the proceeds of foreign crimes, or foreign bribery by companies located in the country, are also relevant when deciding how strongly to prioritise actions against illicit finance. A country which relaxed its controls on the basis that its domestic risks are low could potentially become a haven for illicit finance originating in other countries – even if its assessment of domestic risks is correct.

94. The rest of this section looks at the most significant policy interactions, in twelve general areas.

1. Taxation

95. Tax evasion is defined by each country’s tax law. Therefore, while in most countries tax evasion is a crime, the behaviours which fall within the definition of “tax evasion” can differ. An absence of measures to support tax transparency can create opportunities for tax evasion and tax fraud. Tax policy and illicit financial flows present multiple trade-offs at national level:

- Some types of tax are harder to evade than others, e.g. physical assets such as land or imports of goods are harder to conceal or relocate in another jurisdiction than intangible or financial assets such as shares or bank deposits. Countries facing high risks of evasion may come to rely more on harder-to-evade forms of taxation, although this can also push the illegal activity into a different form, e.g. trade mis-invoicing. However, hard-to-avoid taxes are not always the most economically efficient, and over-reliance on such forms of taxation can potentially weaken economic activity and growth through distortions. The use of import and export duties as the principal source of tax revenue can mean the tax burden falls disproportionately on trade, with negative consequences for inward investment and for growth.

- When tax evasion is detected, countries can face a choice between maximising the revenues recovered, or punishing the criminal offence. Serious tax evasion is a criminal offence and a predicate offence for money laundering. In many countries tax evasion is investigated and prosecuted by the tax authority rather than by law enforcement, and tax authorities may take a different approach to law enforcement when determining whether to proceed with a prosecution. In many cases, their policy may be to prioritise recovery of revenues through an agreement with the offender rather than proceed with a prosecution – particularly in complex cases where the likelihood of successful prosecution may be low. This is a difficult trade-off: policymakers must balance the efficient use of prosecutorial resources and the need to maximise revenues, against the deterrent effect of prosecutions and the risk that the public may perceive the treatment of offenders as inconsistent or unfair.

- Voluntary taxpayer compliance (VTC) initiatives enable taxpayers to normalise their situation, regarding income and assets which were previously unreported for tax purposes (e.g. funds transferred or held overseas for tax evasion purposes). These programmes take a variety of forms, but typically involve reduced penalties for tax evasion on the condition that funds are returned to the country and the tax paid and more recently have been used to allow taxpayers to regularise their affairs now that bank secrecy vis-a-vis tax authorities is coming to an end. VTC

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programmes offer the opportunity to maximise the benefits of improvements in transparency and exchange of information for tax purposes, to increase short-term tax revenues and improve medium-term tax compliance. To succeed, they need to tread a fine line between encouraging non-compliant taxpayers to improve their compliance (a balancing act in itself) and retaining the support and compliance of the vast majority of taxpayers who are already compliant. To do this, these programmes need to form part of wider voluntary compliance and enforcement strategies. They also need to be consistent with relevant rules in the non-tax area such as anti-money laundering rules, to ensure they are not misused. The FATF has set out principles (which could guide the improvement of policy coherence) governing how VTC programmes should manage this risk.

2. Government and public administration

96. Measures to improve public administration, combat corruption, and counter illicit finance are interdependent and mutually supporting. Combating IFFs supports good governance by reducing the opportunities for corrupt officials or contractors to safely misappropriate public funds. Reducing corruption in the public administration increases the authorities’ capacity to effectively combat illicit finance, by preventing circumvention of justice and making more resources available for prevention.

97. There is also negative feedback, corresponding to the positive picture above: large-scale illicit financial flows have a corrosive effect on the integrity of public officials, and can undermine good governance and sound administration. In turn, corrupt and ineffective governments are a key enabler of IFFs.

98. Direct measures to prevent corruption and policy capture, to combat foreign bribery, and to promote sound and transparent public procurement and financial management practices, can have a significant effect by removing opportunities for corruption and increasing the risk of getting caught. These include measures to:

- Ensure law and policy making is up-to-date and responds to the public’s best interests (not purely corporate ones) and are not unduly influenced by lobbying efforts. See OECD principles on lobbying and OECD regulatory governance recommendation.
- Promote integrity in the public sector, including the prevention and management of potential conflict-of-interest situations such as revolving doors. See OECD Recommendation on Managing Conflict of Interest in the Public Service and corresponding toolkit.
- Implement fair and competitive public procurement practices. See new OECD Public Procurement Recommendation.
- Increase the transparency of government information (including on such key issues as political contributions, public procurement contracts, public finances, etc.). See OECD Budgetary Governance Recommendation, Best Practices in Budget Transparency as well as previous instruments mentioned (on lobbying, CoI, public procurement, regulatory governance) which also include transparency components.


24 http://www.fatf-gafi.org/media/fatf/documents/reports/BPP VTC.pdf
25 See OECD principles on lobbying and OECD regulatory governance recommendation.
26 See OECD Recommendation on Managing Conflict of Interest in the Public Service and corresponding toolkit.
27 See new OECD Public Procurement Recommendation.
28 See OECD Budgetary Governance Recommendation, Best Practices in Budget Transparency as well as previous instruments mentioned (on lobbying, CoI, public procurement, regulatory governance) which also include transparency components.
• Repeal unnecessary or out-of-date laws and regulations.  
• Hold elected leaders and government to account by monitoring compliance with ethics and integrity measures through strong internal controls and external audit.

3. Business regulation, including company and trust law

99. The misuse of legal persons and arrangements such as companies and trusts is an important tool used by criminals to launder money, conceal their identities, and disguise the true ownership of assets. Rules governing the establishment of companies or corporate governance can have a significant effect on illicit finance. Ensuring transparency about beneficial ownership (the ultimate ownership and control of companies), e.g. through the obligation to maintain up to date information on the verified beneficial ownership of all legal persons and arrangements, could make a major contribution to combatting illicit financial flows. Measures to ensure changes of ownership and control are recorded could also make a significant contribution.

100. However, there are trade-offs: the ease with which a company can be formed can be an important determinant of growth in the private sector, and is an important indicator of the ease of doing business in a country. Each of the transparency measures above imposes some additional cost and delay when establishing or administering a company, and therefore worsens the perceived ease of doing business. Countries face a trade-off between being (and seen to be) business-friendly, and preventing the exploitation of legal persons and arrangements established by or operating in their jurisdiction for purposes relating to IFFs.

101. Corporate criminal liability can have a significant impact on the behaviour of companies regarding IFFs. This was demonstrated in the response to the Anti-Bribery Convention (ABC). In the 41 countries which are Parties to the OECD ABC, companies as well as individuals face liability for the payment of bribes to foreign public officials: bribery is no longer only an offence for the official who receives a bribe but also for the person or company who promises or gives the bribe. Since the entry into force of the OECD ABC, governments and business representatives have worked closely with companies to put into place internal controls, ethical and compliance programs and measures to prevent and detect the perpetration of bribery offences. Strong, and consistently-applied sanctions, including imprisonment of individuals, are a strong deterrent. Consistency should also be applied in the information available to the public and the financial sector or professions, which in some countries are encouraged to self-disclose such offences to limit their liability.

102. Corporate governance is another policy area that could foster the exploitation of synergies to combat corruption. It is to a large extent the duty of business itself - and in their interest - to ensure that the right actions are taken to prevent IFFs at the corporate level. This can be done using incentives and monitoring to build a culture of doing business with integrity. The main building blocks of such a framework are laid down in the recently updated G20/OECD Principles of Corporate Governance. For business leaders who are entrusted with the future of their firms and the welfare of their stakeholders, these issues are increasingly becoming a priority.  

29  http://www.oecd.org/governance/regulatory-policy/2012-recommendation.htm
4. Export promotion

103. Some companies may consider that they are placed at a competitive disadvantage by anti-foreign bribery measures – for example when competing for contracts in a corrupt country and/or sector, against foreign competitors which are not subject to the same anti-bribery requirements.

104. A clear way to manage this trade-off is to further level the playing field through ensuring peer pressure for a steadier enforcement of the Anti-Bribery Convention (ABC) by all Parties to the Convention and through continuing to expand the membership of the Convention. Increased peer pressure and broadened accession to the Convention have already had a strong impact. Recent studies have shown that after the onset of Phase 3 in 2010, when the risk of punishment under the OECD ABC increased firms from signatory countries reduced their actual bribery relative to their non-signatory competitors (Jensen M. et al., 2013). Investors from countries that implemented the OECD Anti-Bribery Convention also reduced their investments in corrupt countries (Cuervo-Cazurra, A. 2008).

5. Financial markets and financial stability

105. In some cases, the volume of IFFs into or out of a country can be very large, and can have a noticeable impact on the legitimate economy, including specific sectors, or the economy as a whole. Some examples include:

- **Demand-driven price inflation**: In some countries, residential property has come to be seen as a safe place to store illicit assets from other countries. The volume of illicit finance can be sufficient to significantly affect prices. One recent example is from Kenya, where property prices in Nairobi increased significantly between 2000 and 2010, out of line with Kenya’s wider economy. Much of this increase was ascribed to purchases by Somali pirates.

- **Loss of trade-related revenue**: Trade mispricing is a common money laundering technique: in order to move value without the need for financial transfers, imports are deliberately under-priced (or smuggled as contraband), and sold at a large profit in the destination country. In Colombia, where this technique is used to launder the proceeds of drug trafficking, it happens on a large enough scale that heavily discounted contraband goods have depressed prices and driven-out legitimate, full-priced imports.

- **Exchange rate volatility**: IFFs from some developing countries can be large enough to place long-term downward pressure on exchange rates, affecting the economy as a whole. Illicit financial flows are also highly volatile in response to a range of “push” and “pull” factors, with potentially destabilising exchange rate effects on both origin and destination countries.

- **Destabilising systemically important financial institutions**: IFFs can be used to perpetuate large-scale fraudulent schemes, potentially tainting a significant portion of deposits or capital. In low income countries, with low levels of formal sector intermediation, the discovery of IFFs activity, or its interruption, could significantly affect the position of individual financial institution, undermine the confidence of counterparties, or even threaten trust in the banking system and its regulation.

- **Volatility and unpredictability**: IFFs are “hot money” – prone to shift suddenly from one jurisdiction to another in response to changes in the risk of detection or confiscation. Such changes can be large enough to affect the wider economy. Furthermore, even when illicit financial flows are stable, they form an un-measured and un-modelled part of the economy,
which can render economic forecasts less reliable, and reduce the effectiveness of economic policies.

106. The trade-offs and linkages in this area are complex: in some cases, the application of more effective financial controls may displace illicit activity into a different sector. In other cases there may be hidden costs (in terms of macro-economically destabilising flows) resulting from openness to illicit finance inflows. Countries should be alert for these effects, particularly following major changes to their regimes for countering IFFs.

6. Financial inclusion

107. Financial inclusion is a significant enabler for development, and some have pressed for it to be considered as a human right and adopted as a high-level goal in the SDG framework. Given the importance of financial inclusion to development, policy to prevent IFFs must be coherent with policies to improve financial inclusion. The tensions are well known and quite complex, for example, preventive measures to counter money laundering require financial institutions to verify the identity of their customers. But many people in developing countries lack identity documentation, and risk being excluded from access to financial services by customer identification rules. Countries have different policies and initiatives designed to increase people’s access to identification documentation. India’s Aadhaar number, for example, is a 12-digit unique identity for every Indian, including children and infants. It is a voluntary service provided by the Government of India, which every resident can avail irrespective of present documentation. In the Philippines, a Barangay Certification is a certificate issued by the village master that is accepted as proof of identification and residence. Similarly, in Fiji “suitable referees” (e.g. village headmen, religious leaders, or employers) is trusted by financial institutions to confirm the identity of a customer. Also, financial inclusion must take advantage of technologies which are difficult to regulate from an IFFs policy perspective. This is not only an issue for developing countries: financial inclusion is also a challenge in OECD member countries, several of which have initiatives to ensure basic financial services are available to all citizens.

108. In order to manage the tensions between financial inclusion and anti-IFFs measures, the FATF has developed guidance on financial inclusion31, which sets out how countries can pursue the objective of financial inclusion without compromising measures to combat crime – for example by relaxing identification requirements or using alternative means of identification in low-risk situations, or by using thresholds and ongoing monitoring to mitigate the risks of reduced customer due diligence. This guidance should be mainstreamed into development planning in low-income countries to improve policy coherence at the national level.

109. For a large portion of the world’s population, the informal financial sector is the only form of financial intermediation available. Informal operators typically provide money remittances, but may offer a wider range of services, particularly in countries such as Afghanistan, where the formal financial sector accounts for only a small fraction of financial intermediation. Left unregulated, the informal sector can be exploited as a channel for illicit financial flows, or can exploit its customers, who are not protected by authorities. Some countries have responded by prohibiting informal providers altogether, sometimes with the unintended consequence of denying people access to even basic financial services, or of driving activity even further underground. Other countries have sought to license, regulate and supervise these organisations, so as to reduce their vulnerability, but recognising their importance to their customers.

31 Available from: www.fatf-gafi.org/topics/financialinclusion
Regulating informal providers of financial services is a difficult task. In policy terms, governments must recognise that applying the same rules to informal providers as to mainstream financial institutions would effectively shut them down altogether. However, applying less burdensome rules can raise concerns about fairness and equal treatment of formal and informal sectors. At a practical level, regulating informal providers requires capacity, resources and geographical reach. It also requires a tremendous amount of cross border cooperation, which does not really exist. This is a very important issue for many countries and likely contains many trade-offs and conflicts which are not yet known.

7. NGOs and CSOs

Non-Government and Civil Society Organisations are subject to some preventive measures, because of their vulnerability to misuse for IFFs. The security community is especially concerned with the misuse of NGOs to front the financing of terrorism. However, there are concerns that these measures can be applied excessively by governments seeking to suppress the Non-Profit Organisation (NPO) sector and the civil society voice it provides. The challenge for countries is to take proportionate measures to ensure NPOs are not misused to finance terrorism, without limiting NPOs access to the financial system or their ability to operate effectively, including their work in fragile or high-risk states. NPOs are also particularly affected by de-risking by financial institutions, as set out above, based on their perceived vulnerability to misuse.

8. Migrant remittances

Remittances from migrants are a key source of finance for many developing countries, and are particularly related to the need for financial inclusion and the impact of de-risking, both of which can necessitate policy trade-offs. Lack of financial inclusion and de-risking both limit the ability of migrants to send money home, either individually, or by restricting the available channels, with potentially serious consequences for persons, communities, and countries which are reliant on remittances.

Many countries have taken steps to ensure remittance flows can continue uninterrupted. Several countries, including India, have programmes to provide identity documentation to all persons. Others have implemented financial inclusion measures such as the use of non-standard forms of identification (e.g. confirmation by village elders) for customers without documents. And many countries are using non-traditional ways to access financial services, such as through mobile phones, to reach customers in remote areas. There is also a role for governments in countries hosting migrant workers, particularly development ministries, in ensuring sound regulation of money transmitters, promoting fair fees, and using their influence with banks to ensure the continued availability of remittance channels.

9. Financial sector issues

De-risking is a relatively recent phenomenon of financial institutions ceasing to do business with certain high-risk categories of customers – particularly operators of money and value transfer services (MVTS) and non-profit organisations (NPOs). It is intimately linked to the issues noted above. This affects both new customers, who are unable to open accounts, and existing customers whose accounts have been closed. Financial institutions’ explanation for this approach is that these customers present an unacceptably high level of risk, which would require additional (and costly) measures to manage, and therefore that retaining them as customers is not commercially viable.

In policy terms, the effects of this behaviour by banks are felt most severely by MVTS providers and NPOs. MVTS are critical channels for remittance flows sent by migrants to their home countries – which are a major source of finance for many developing countries. Ensuring reliable and inexpensive channels for remittances is an important element of the SDGs (target 10.c). MVTS providers rely on access to the formal financial system for settlement purposes, and are generally unable to operate without it. Preventing new MVTS operators from accessing the financial system creates barriers to market entry and
competition, and threatens to raise remittance costs. Denying access to existing providers effectively closes remittance channels, with severe effects on the cost and availability of remittance services. De-risking may also increase the overall risks of illicit financing, by encouraging the use of informal and unregulated channels once formal channels are closed. It is therefore a significant concern for governments. In addition, the use of Bitcoin should also be noted as most Bitcoin transactions concern illegal, not only illicit, transactions. It is, for example, often the primary means of payment on “darknet” sites.

116. A “fragmentation” of global banking is also occurring. Know-your customer rules and other regulations like ring-fencing and other structural bank reforms have given rise to a retreat by internationally active and exposed banks from small, mainly emerging, markets (e.g. the recent retreat by Barclays from African markets) where profitability does not match increased compliance costs. This deprives these markets of financial activities by larger institutions that tend to be better supervised, have better compliance, and more expertise to address IFFs issues. 32

117. Debate is still ongoing about the nature of de-risking, the responsibility for it, and the best response. Much discussion has focused on the business climate following the 2008 financial crisis (in which banks are under pressure to reduce their costs and to drop their less profitable customers), and on pressure from regulators. De-risking is not only a response to the risks of criminal misuse of the financial system, but also to the risks of regulatory action, e.g. guarding against the reputational risks of the resulting fines and publicity. The sectors concerned are seen as exposing banks to unacceptably high risks of regulatory action, which cannot be managed in a cost-effective way. This means there are several ways countries can influence policy coherence for de-risking behaviour by banks:

- Dialogue between regulators, supervisors, and the financial sector can clarify the expectations of supervisors regarding risk management of MVTS and other supposedly higher-risk types of customer, and provide reassurance about the regulatory risk financial institutions will be undertaking.

- Reinforced supervision of the sectors concerned can also provide reassurances. De-risking is in part a reflection of the banking sector’s lack of confidence in the separate regulatory and supervisory regimes applied to MVTS and NPOs, which are not seen as adequate to mitigate the risks in those sectors. Stronger and more visible supervision of the NPO and MVTS sectors can help restore confidence in the systems and controls they apply, and hence reduce banks fears about their risk exposure.

118. De-risking involves transnational risks, and could benefit from a policy coherence approach. Further action will be needed to address this issue at global level.

119. In addition, preventive measures by financial institutions and other regulated entities to combat IFFs can be costly and time consuming. They impose a significant burden on the sectors concerned: in some banks up to 10% of staff work on compliance issues. They also impose costs in terms of the systems and processes needed, and the time taken. Dialogue between government and the private sector is important, to ensure that government decisions on preventive measures are based on a full understanding of their costs and impact on the conduct of business.

10. Data Protection

120. Conflicts can arise with data protection requirements, for example FATF Recommendations require financial institutions to retain customer and account information for a minimum of five years (to

32 See also “OECD-IMF Roundtable on Bank Business Models, 7 July 2014 - Summary of Discussion”, noting “There are likely to be impacts from reform on smaller jurisdictions”.

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ensure an adequate trail for investigators), while data protection rules set a maximum data retention period of five years (to prevent the misuse of old information). Firms subject to both requirements can find themselves facing a choice of which legal requirement to implement. Conflicts can also arise between requirements to circulate some customer information within an international financial group, and prohibitions on sending customer information to a country without adequate data protection. Policy coherence work is ongoing in this area. This has been based on a recognition that data protection and measures to counter illicit finance have a shared objective to protect people from crime, which is not advanced by incoherent policies.

121. In some countries there is effective coordination between the regulatory authorities responsible for data protection and for illicit financial flows, and clear direction has been given to the private sector entities which are affected by both requirements.

11. Diplomatic relations

122. Requests for mutual legal assistance are often issued through ministries of foreign affairs, and diplomatic relations are always part of facilitating international normative agreements. Measures to counter illicit finance can also have diplomatic costs – particularly where the policies of other countries or the personal interests of their leaders and officials are affected, as is often the case for investigations of bribery and corruption. Diplomatic pressure may be exerted to have investigations discontinued, accompanied by threats to ongoing or future contracts, joint projects, and possibly military or intelligence co-operation if investigations are allowed to proceed. The OECD ABC explicitly prohibits countries from taking such considerations into account in the decision to investigate and prosecute foreign bribery (e.g. Article V of the Anti-Bribery Convention).

123. Constitutional or operational independence of investigators and prosecutors from the Executive is a key element to prevent this type of influence, since the politicians and officials who are exposed to this pressure do not have the power to end or prevent the opening of investigations.

12. Development assistance

124. Development assistance programmes can make an important contribution to combating illicit financial flows. In general terms, improved governance and capacity in developing countries can strengthen the effectiveness of the regime to combat IFFs. Measures to combat tax evasion or corruption strengthen the capacity to mobilise and use domestic resources. Such assistance need not be limited to activity in developing countries themselves: measures to support developing countries’ capacity to engage in international cooperation such as the StAR initiative can also be effective, as can the establishment of dedicated law enforcement capacity to pursue stolen assets on behalf of developing countries. Recently, the countries subscribing to the Addis Tax Initiative, for example, have declared their commitment to implement the Addis Ababa Accord in the leading action of raising domestic public revenue, to improve fairness, transparency, efficiency and effectiveness of their tax systems by stepping up technical cooperation.

### Box 4. Global Forum on Transparency - Africa Initiative

The Global Forum on Transparency and Exchange of Information for Tax Purposes, in conjunction with CREDAF, ATAF and the World Bank Group launched the Africa Initiative at its plenary meeting in October 2014. This initiative is supported by development partners. It is designed to unlock the potential for tax transparency and exchange of information in Africa and ensure that the continent can seize the opportunities presented by exchange of information. Over the course of 2015-17, the Africa Initiative will engage with current African members of the Global Forum to provide support and guidance to ensure effective exchange of information can happen. There will also be a programme of high-level events to ensure that the benefits of exchange of information are being communicated. The Africa Initiative is steered by a Taskforce made up of a small group of “first mover” countries from Africa and participating international organisations.
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