

Illicit Financial Flows (IFFs)

Presentation for the G24, Lima, March 14-15, 2018

Why Are IFFs on the Development Agenda?

“The resource needs for social services, infrastructure and investment also underscore the importance of stemming IFFs.” Mbeki report

Development impact

...diverts potential **revenue** that could support education, health, infrastructure

...reduces **trust** in government and government institutions

...reduces **quality** of service delivery

...strengthens **informality**

...distorts **competition**

...impacts **security/safety**, affecting all economic activity

IFFs are defined as money and assets illegally earned and transferred/ controlled overseas. Both the outflows (diversion of resources) *and* the underlying activity (tax evasion, corruption, terrorism, organized crime) hamper development.

WBG's Approach to Fighting against IFF

WBG Approach

- Efforts to develop the tools necessary to assess IFF, diagnose underlying problems, and formulate solutions
- Country level IFF related activities (TA)
- Internal coordination (including between Bank units involved in anti-corruption, AML, anti-tax evasion, and wildlife crime)
- Shaping the Global agenda, leveraging the Bank's convening power

IFF-related Topics

Diagnostics and Research:

- National Risk Assessments on AML/CFT
- Development of Rapid Assessment Tool
- Tax crime: investigation tools

Designing frameworks, building institutions:

- Legislative assistance on AML/CFT and asset recovery

- Developing capacity to investigate and adjudicate financial crime and corruption
- Operating effective financial disclosure systems

Special focus areas:

- Extractives
- Wildlife
- Customs

Map of Selected Capacity Building

in Some Areas for Reducing IFFs

MIDDLE EAST AND NORTH AFRICA: Training workshops for the incoming prosecutors and judges of the new financial crimes unit

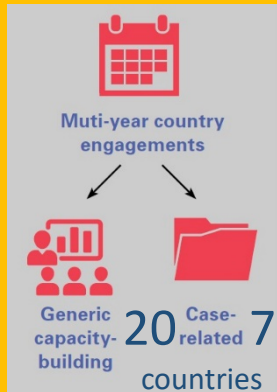
EUROPE AND CENTRAL ASIA: Case-related, legislative and institutional support for asset recovery

EAST ASIA & THE PACIFIC: developing a guideline on mutual legal assistance and training on financial investigations in New lending project to replace the customs system and risk management

SOUTH ASIA: Working on legal reform, capacity for financial investigations and facilitating international cooperation
Working on Customs risk management

AFRICA: Coordination for effective management and disposal of seized and confiscated assets

LATIN AMERICA AND THE CARIBBEAN: Increasing efficiency of Mutual Legal Assistance
Support for reform of financial disclosure and conflict of interest framework



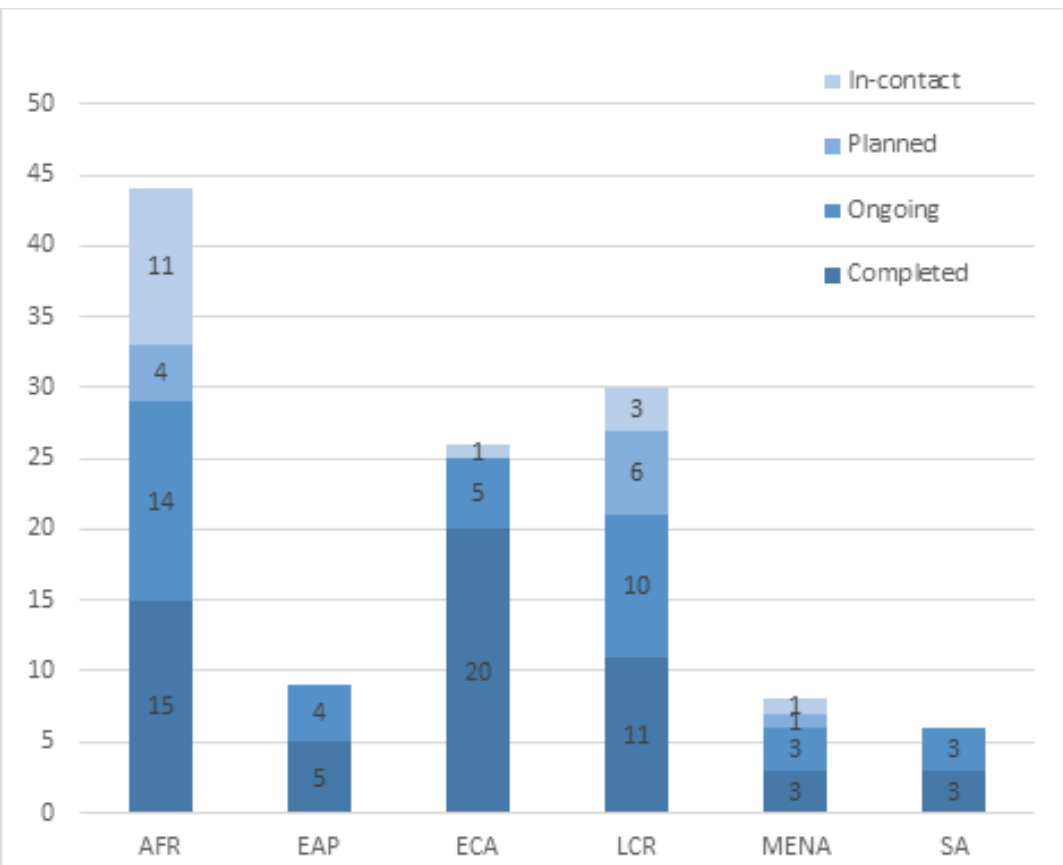
STAR METHODOLOGIES





WB engagement in National Risk Assessments for AML/CFT

NRAs assist countries in identifying the largest generators of illicit proceeds in their country (relative-not absolute) and in formulating the basics for a response



57 completed
 39 ongoing
 27 planned
 (20 FCV)

Common findings of NRAs:



Corruption and organised crime most often mentioned as proceeds generating crimes



No adequate data-collection on scale and source of criminal proceeds



Lack of information-sharing/domestic coordination



Focus on banking sector less on non-financial sector

Supporting Partnerships in IFF



In 2017
234 focal points
133 countries
40 bilateral meetings
72 cases discussions

StAR/INTERPOL Global Focal Points Network on Asset Recovery

Includes a virtual platform for sharing information

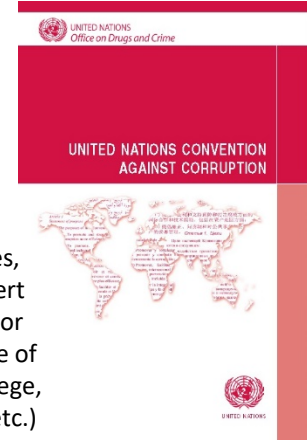
FATF & regional bodies, & EGMONT dealing with money laundering

- Joint study with EGMONT on cooperation between FIUs & law enforcement
- WB input to FATF focused on risk-based approach, financial inclusion, customer due diligence, transparency of beneficial ownership & FinTech



UN Convention against Corruption (UNCAC) & relevant bodies

StAR provides background studies, organizes special events and expert group meetings to develop tools or inform policy discussion on a range of issues (e.g. legal professional privilege, management of returned assets, etc.)



Coordination with regional asset recovery networks (CARIN, ARIN-AP, etc.)

Planning a joint open source database, developed a directory & contributed to technical workshops



G20 Anti-Corruption Working Group

- in 2017 included chapters for publication on implementing High Level Principles on Financial Disclosure
- In 2018 High Level Principles on Conflicts of Interest in the Public Sector and High Level Principles on Integrity in SOEs



Convening the first Global Forum on Asset Recovery (GFAR)

December 2017 @WB

Focus countries



Platform for return of \$321M of Abacha loot om Switzerland to Nigeria through a WB program



250 participants
26 jurisdictions represented
100+ bilateral meetings

Action for Combating IFFs



1. Improve measurement of IFFs

- Construction of a Rapid Assessment Tool (RAT) to assess country risk
- Literature review of methodologies for measuring IFFs
- Measurement methodologies for specific countries and regions (including Regional Assessment Tool)
- Anti-money laundering and combatting the financing of terrorism (AML/CFT) National Risk Assessments (NRAs) and Risk Based Approach for the supervision of Financial and Non Financial sectors



2. Integrate efforts at country level

- Establishing guidelines for treatment of IFFs in Systematic Country Diagnostics (SCDs)
- Working with country teams on developing IFF country strategy
- Increase awareness of WB staff on IFFs through seminars



3. Explore lessons from StAR

- Technical workshop on enhancing the effectiveness of recovery of assets related to tax evasions



4. Capacity building in critical areas

- Customs & Border Agency modernization reform activities
- Support reduction of tax evasion in extractives
- Support international tax transparency
- Develop and test tools to assist developing countries in addressing tax evasion threats and vulnerabilities
- Build capacity in implementing EITI standards.
- Stolen Asset Recovery support
- Building AML/CFT supervision and law enforcement capacity
- Capacity building in prosecuting or adjudicating cases
- Licensing toolkit (Publication License to Drill on due diligence in extractive industries)
- Assist countries in implementing financial disclosure systems



5. Strengthen global coalitions

- Convening of GFAR
- Support the creation of sharing information on administrative sanctions
- Engagement with and participation at FATF/style regional bodies, G20, Regional asset recovery networks, UNCAC bodies, FSB
- Generate more knowledge on de-risking
- Toolkit on indirect transfers
- Notes on Advanced Pricing Agreements
- Beneficial Ownership

Anti-money laundering (AML)/countering the financing of terrorism (CFT) and asset recovery

- Prevention
 - Beneficial ownership
 - Asset disclosure
 - Customer due diligence
- Detection
 - Financial intelligence
 - Asset tracing
- Investigation and prosecution
 - Follow the money
 - All forms of international cooperation (pre-MLA and MLA (Mutual Legal Agreement))
- Targeted financial sanctions
- Confiscation
 - Civil confiscation
 - Criminal confiscation

What are the key lessons learned in AML/CFT and asset recovery?

- AML/CFT
 - Think risks and effectiveness, and not formal compliance
 - Understand ML/TF risks
 - Develop a risk-based strategy
 - Focus on implementation and outcomes
 - Prevent unintended consequences (financial exclusion)
 - Ramp up domestic coordination across all stakeholders
 - Communicate on your action and results
- Asset recovery
 - Political will
 - Involving policy makers beyond the technical level
 - Empowering the technical level
 - Establish properly structured coordination mechanisms - with clear accountabilities
 - Well resourced - notably in terms of technical expertise (don't rotate experts too soon)
 - Clear leadership
 - Clear accountability
 - Reward domestic cooperation
 - Mutual legal assistance is challenging
 - Respect legal requirements for requesting MLA
 - Invest in pre-MLA cooperation - MLA should come as last step
 - Build strong request and don't go fishing