

Combating Illicit Financial Flows

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Definition

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Measuring IFFs

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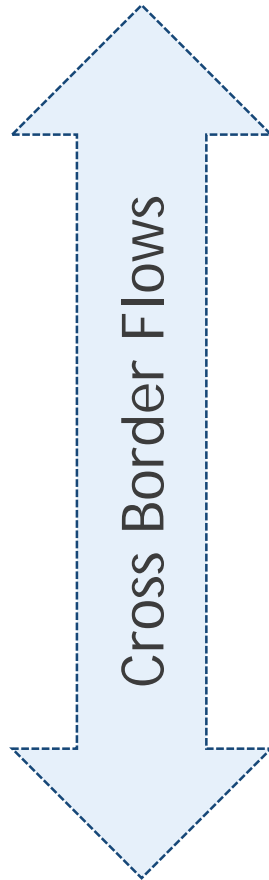
Impact of IFFs

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Key Policy Measures

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Related Issues: Correspondent Banking Relationships



Funds derived from illegal acts

- E.g. Corruption, Drug Trafficking, Smuggling

Funds transferred using illegal means

- E.g. Tax evasion

Funds used for illegal purposes

- E.g. Terrorism Financing

Funds transferred using other illicit means ?

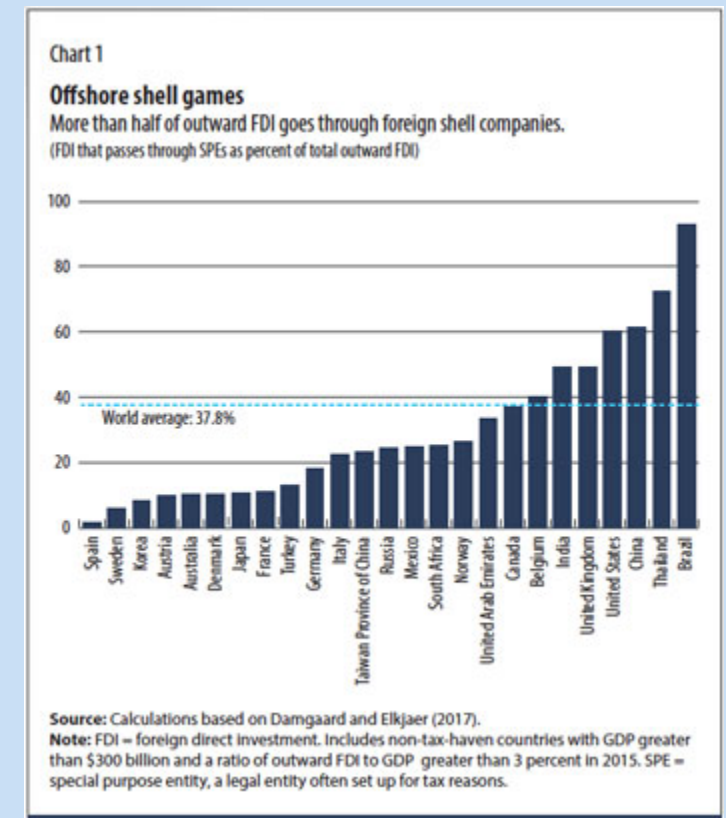
- E.g. Tax Avoidance

- Difficult to quantify due to illegality of flows and underlying activities
- Disagreements over methodology used & accuracy of existing estimates
- Should this include tax avoidance?
- Related estimates & research



IMF Finance & Development, June 2018, Vol. 55. No. 2
“Piercing the Veil”

\$12 trillion ~ 40% of global foreign direct investment is financial investment with no real activity



- Impact on:
 - Financial & Economic Stability
 - Pressure on Correspondent Banking Relationships (CBRs)
 - Development & Financial Inclusion goals
 - Political Stability
 - Effective operation of International Monetary System

Target for Sustainable Development Goal 16

By 2030 significantly reduce illicit financial and arms flows, strengthen recovery and return of stolen assets, and combat all forms of organized crime

Key Policy Measures: Overview

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Strengthen
AML/CFT
Framework

Enhance Entity
Transparency

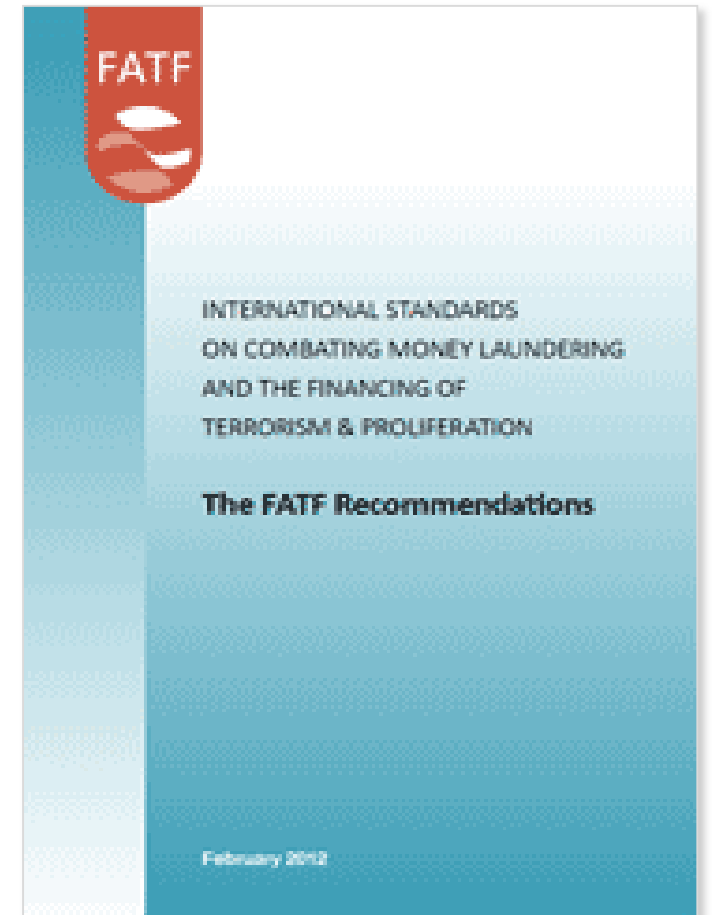
Address
Governance &
Corruption
issues

Strengthen Tax
Compliance &
Enforcement

Monitor IFFs

Strengthen AML/CFT Framework

- FATF 2012 Recommendations & Methodology
- Preventive & Repressive measures to combat ML/TF
- Tailored to Country Context
- Applying a Risk-Based Approach
- Focus on Effectiveness



Strengthen
AML/CFT
Framework

- Fund's AML/CFT workstreams
 - 1) Surveillance
 - 2) Financial Sector Assessments
 - 3) Lending
 - 4) AML/CFT Assessments
 - 5) Technical Assistance & Training
 - 6) Policy & Facilitation Work
- Review of the Fund's AML/CFT Strategy (2014 - 2018)

Work of the IMF: Some Facts & Figures

Since 2014

40% of AIV consultations include AML/CFT issues

36 IMF programs with financial integrity conditionalities or policy commitments

46 Financial Stability Assessment Reports

Since 2002 ...

TA to 118 countries through 385 projects

Enhance Entity Transparency

- Misuse of Legal entities
 - Complex Ownership & Control Structures
 - Multi Jurisdictional Structures
 - Anonymity and Lack of Beneficial Ownership
- Beneficial Ownership standards
 - Part of AML/CFT framework [FATF standard]
 - Also applied by Global Forum on Tax Exchange
- Fund's Work
 - Discuss in surveillance, lending where relevant e.g.
 - UK 2016 FSAP, Seychelles 2017 Program
 - Research on best practices for entity transparency
 - Upcoming publication & TA modules

Address
Governance
&
Corruption
Issues

- Fund's Enhanced Framework on Governance and Corruption (2018):
 - 1) Assess governance & corruption related vulnerabilities and potential economic impact in countries
 - 2) Voluntary assessment of "supply side" & "facilitation" issues related to corruption



Strengthen
Tax
Compliance
&
Enforcement

- Fund TA to strengthen tax policies & administration
 - 1) Revenue Mobilization Thematic Fund- focus on domestic revenue mobilization
 - 2) Managing Natural Resource Wealth Thematic Fund - help build capacity to manage natural resources wealth
- Collaborate on tax avoidance related issues
 - 1) Help support member countries to guard against Base Erosion and Profit Shifting
 - 2) IMF, OECD, World Bank, UN- Platform for Collaboration on Tax



Monitor IFFs

- Ongoing work to better understand the size of flows & address data gaps e.g.
 - Issued guidance on how to record in fiscal statistics the recovery of looted assets and unaccounted wealth
 - Coordinate with the UNODC-UNCTAD Expert Group's work on addressing data gaps on IFFs

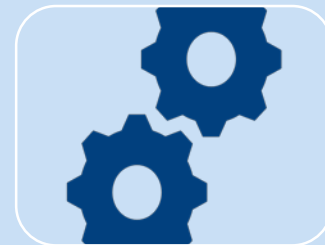
- Pressures on Correspondent Banking Relationships (CBRs) across several jurisdictions, regions
- Key drivers:
 - Concerns with banks' ability to manage risk related to IFFs
 - AML/CFT related compliance costs
- Possible Solutions



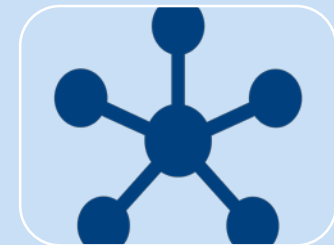
Address Compliance Costs & Profitability



Address Bank's ability to manage risk

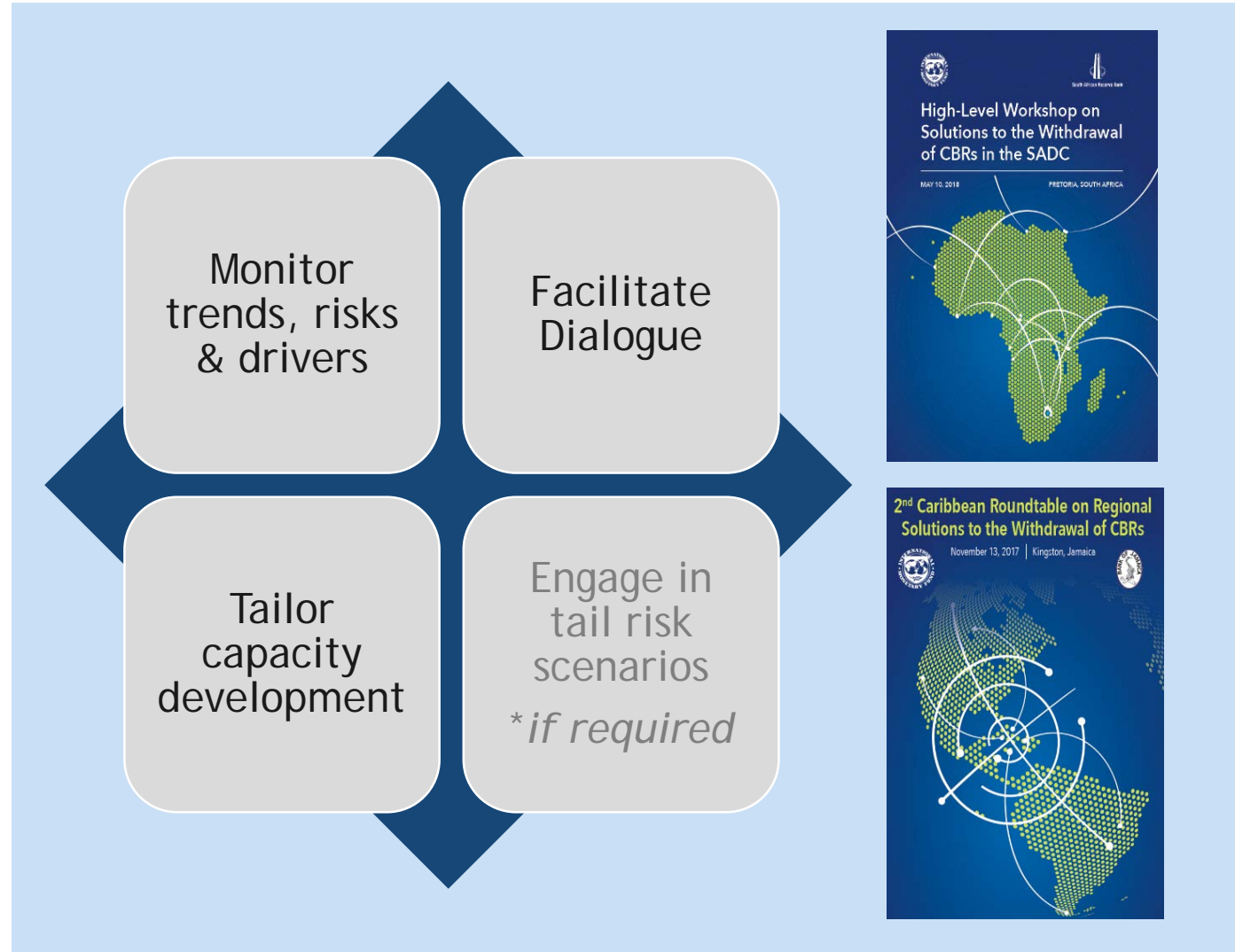


Put in Place Alternative Arrangements



Consider Regional Solutions

- Fund's multi-pronged approach to address CBR issues
- Regional CBR initiatives:
 - Caribbean, Africa, Pacific, Caucasus & central Asia



Thank You!
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"The IMF and the Fight Against Illicit Financial Flows" Factsheet:
<https://www.imf.org/en/About/Factsheets/Sheets/2018/10/07/imf-and-the-fight-against-illicit-financial-flows>