ILLICIT FINANCIAL FLOWS: THE "STOLEN" CAPITAL WEALTH

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Illicit financial flows (IFFs) are illegal or illicit transfer of financial capital from one country to another in violation of national or international laws. The Global Financial Integrity (GFI), a US-based think tank focused on issues of illicit financial flows, corruption, illicit trade and money laundering, defines IFF as funds that are illegally earned, transferred, and/or utilized across an international border. This definition suggests that flow of funds can be considered as illicit in three ways. Firstly, an IFF can occur due to the origin of the transferred funds. For example, when funds are generated through criminal activities such as bribery, money laundering, illegal arms dealings, wildlife or human trafficking, the funds obtained are obviously illegal. Secondly, an IFF can occur from legitimate commercial activities such as when it involves hiding of wealth, tax evasion, and trade mis-invoicing. Finally, a flow of funds can be illicit when it is used for illegal purposes such as terrorism financing.

If not prevented, IFFs can have adverse impact on the economic stability of a country and the broader global financial system. The International Monetary Fund highlighted that among others, IFFs can drain foreign exchange reserves, affect asset prices, lower tax receipts, distort competition and reduce government revenue. Thus, curbing IFFs is important. Moreover, failure to counter IFFs can affect the progress of a country in the pursuit to achieve Sustainable Development Goals, particularly SDG 16 in support of peace, justice and strong institutions. When IFFs occur, there is bound to be financial leakage from the economy. As such, IFFs leads to "stolen" capital resources that could otherwise be used on development programmes designed to benefit the economy and the society.

IFFs can occur as a result of a personal individual transaction. A private individual, for instance, may transfer funds into private accounts abroad with the purpose of evading taxes. In a more complex case, IFFs could involve criminal networks that set up multi-layered multi-jurisdictional structures to hide ownership. The transfer of these illegally obtained funds can be done with the objective of laundering "dirty" money. Money laundering is a term used to describe a crime, possibly an organised crime, to turn ill-gotten money or cash into "clean" money that circulates in the money system within an economy. According to Investopedia, there are three processes by which dirty money go through before it gets cleaned. Money laundering involves three basic steps to disguise the source of illegally earned money and make it usable. Firstly, the "placement", in which the money is introduced into the financial system, usually by breaking it into many different deposits and investments. Secondly, the "layering", a process in which the money is shuffled around to create distance between it and the perpetrators. Finally, the "integration", in which the money is then brought back to the perpetrators as legitimate income, or "clean" money. The recent rise of the internet and online banking facilities have been argued to play a role in facilitating money launderers to easily avoid detection.

The pressing need to address IFFs is evident. However, it is not an easy task. This is partly because IFFs are inherently difficult to measure. As stated by the IMF, measurement techniques of IFFs rely on indirect methods (including identifying mismatches in balance of payments and trade statistics) and therefore, available estimates are often approximations and sometimes incorrect.