



Transcript of podcast with Maya Forstater: “The Truth About Illicit Financial Flows”

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Hello, I’m Bruce Edwards, and welcome to this podcast produced by the International Monetary Fund. In this episode, the Center for Global Development’s Maya Forstater talks about how much, or how little we really know about illicit financial flows.

MS. FORSTATER [soundbite]: *The truth about illicit financial flows is always going to be that people try to hide them, and they’re not going to be found easily in macroeconomics statistics.*

MR. EDWARDS: Illicit financial flows have gotten a lot of attention of late. Both the Panama, and subsequent Paradise Papers, exposed huge amounts of money held in tax havens, some under questionable circumstances. And, the United Nations has included tackling illicit financial flows as a target within its Sustainable Development Goals. Maya Forstater has studied the impact of illicit financial flows on development, and was invited to present some of her research to IMF economists last month.

So, there seems to be a lot of confusion as to what consists of an illicit financial flow. How would you define illicit financial flows?

MS. FORSTATER: The core definition of illicit financial flows is money crossing borders that is illegal either in its source, or its transfer, or its use. So, that could be the proceeds of crime and corruption; it could be tax evasion—money being hidden in order to evade taxes; or it could be terrorist finance—money that’s not necessarily coming from a criminal source, but is going to a criminal use. So, already, it covers quite a wide variety of phenomena, but the thing that they have in common is that they are all in some way connected to illegal activity.

MR. EDWARDS: So, what do we really know about illicit financial flows? Because, if they are indeed illicit, people go to great lengths to keep them that way.

MS. FORSTATER: We know probably less than we think we do about the scale of illicit financial flows. Often, big numbers are used to illustrate the scale of illicit financial flows with the idea that if they can be stopped and returned to their country of origin, particularly low-income countries, there would be a big dividend in terms of development resources.

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I think there are lots of questions around whether those numbers are reliable, and if so, what do they mean?

But, I think what we do know, is that organized crime, corruption, and kleptocracy are real and damaging problems. They're profit motivated, and often the people undertaking those crimes want to find a safe place for their money, so, often, the money does cross borders. That means that the problem is not just a problem of law enforcement or tax revenue enforcement in the country of origin, but also for other countries that end up as conduits, or as havens for that money or those assets—they have a responsibility to assist in preventing those crimes, making them more difficult, making them less profitable, and preventing the harm that they do, even if the absolute amount of money turns out to be less than sometimes people imagine.

MR. EDWARDS: You mentioned tax havens. There has been recently, a lot of investigative work that has exposed trillions of dollars in these empty corporate shells in countries that aren't necessarily keeping track of these things. Should all this money be considered illicit, necessarily?

MS. FORSTATER: Clearly not. All of the money that is off shore is not illicit. Some of it is very boring. When the Panama Papers came out, there was the case of the Queen's investment in a mutual fund which was offshore, which was completely legal; quite boring. [Also,] David Cameron's dad's investment fund; investment funds by universities; and so on. So, there's plenty that goes on offshore that is ordinary international finance.

Clearly, whenever criminals want to hide their money, they want to hide it where the money is. So, there's always going to be a mix of dirty money and clean money. And, havens don't necessarily always mean small islands. There's lots of dirty money that ends up in London; in Delaware; in Miami; in property; and so on. So, in thinking about which countries are conduits, and ultimately places where criminals and kleptocrats want to keep their assets, it can be all sorts of jurisdictions.

MR. EDWARDS: Do you think with all these new technological innovations like digital transactions and cryptocurrencies, is this going to make it even more difficult to track these illegal flows?

MS. FORSTATER: Absolutely. I think they're going to create new risks. Criminals tend to be early adopters of any technology that can help them stay one step ahead of law enforcement, and cryptocurrency is going to be no different from that.

MR. EDWARDS: There seems to be an expectation that international financial institutions and governments have the ability to measure illicit financial flows. How much can we measure illicit financial flows, and what are the political implications of that assumption?

MS. FORSTATER: I think we can measure them a lot less than some of us think that we can. There are lots of big numbers that are circulated about illicit financial flows, such as the idea that developing countries lose around a trillion dollars a year to illicit financial outflows,

and, that this can be measured, and it can be measured at the level of individual countries and individual years so you can tell whether it's getting better or worse. But, when you look at what underlies those numbers, a lot of it is based on gaps and mismatches in trade statistics.

So, the idea that when an exporter in one country exports something to another country, the records on both sides should match, and if they don't match, there must have been an illicit financial flow. And, because there are lots of easily accessible data about those trade flows, you can easily compare those two sets of numbers and add up the mismatches. And, the mismatches tend to add up to quite big numbers. But, when you look at those transactions in detail, often there's a much simpler explanation for why there's a mismatch.

For example, where one country uses a different commodity code than another, or where a shipment goes through a third country. So, for example, cocoa beans from Cote d'Ivoire are exported to the Netherlands, but may end up at a chocolate factory in Germany, and Germany will report that as being an import from Cote d'Ivoire. So, the two sets of records don't match up. You can add up all of those sets of records that don't match up and come up with a very big number, but that big number doesn't really relate to a real illicit financial flow. It doesn't help us to understand the nature of those illicit financial flows, and it may distract from really understanding what are the sources and the channels of illicit money crossing borders.

MR. EDWARDS: With all these huge numbers being thrown around—and it seems that a lot of it is based on misunderstanding or misinterpretation of data, or the lack of information—are the international financial institutions and governments getting ahead of themselves when they talk about tackling this issue as a solution, especially for low-income countries that are looking for revenues?

MS. FORSTATER: I do think the international debate has got ahead of itself in the scale of expectations about illicit financial flows and the idea that if they are stopped and prevented, that that would solve development finance challenges. I don't think they're getting ahead of themselves in recognizing that this is a real issue.

In fact, they were probably behind the line in recognizing the role of international finance in enabling crime, corruption, tax evasion, and the need for mutual assistance and multilateral coordination. I think we need to get beyond the big numbers and the top-down approach to understanding the issues. What may be more helpful is bottom-up understanding and analysis of what are the crimes, what are the risks, and what are the vulnerabilities of countries to money leaving and being hidden elsewhere.

On the other side, what are the risks and vulnerabilities of countries in becoming conduits and stores of illicit money from elsewhere. Understanding those challenges, the channels and the phenomena in more detail at a country level is going to get us much farther, because the truth about illicit financial flows is always going to be that people try to hide them, and they're not going to be found easily in macroeconomic statistics.

MR. EDWARDS: Maya Forstater is a researcher, writer, and advisor on business and sustainable development, and is currently a Visiting Fellow at the Center for Global Development. She was invited to speak at the IMF as part of the [Developing Economies Seminar Series](#).

If you'd like to learn more about how criminals move money around the world, read "[The Terror Crime Nexus](#)" in the [September 2017](#) issue of *Finance and Development* magazine. You'll find the quarterly online at imf.org/fandd, or download the *Finance and Development* app to read the magazine on your mobile device. And, if you liked this podcast, subscribe on iTunes or on your favorite podcast app; just search for "IMF podcasts." You can now follow us on Twitter: @IMF_podcast.

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