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BACKGROUND PAPER

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AGAINST TRANSNATIONAL ORGANIZED CRIME

MEASURING THE SCOPE AND SCALE OF ECONOMIC CRIMES AND ILLICIT FINANCIAL FLOWS

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ABOUT THE SERIES

With the launch of the second iteration of the Global Organized Crime Index in September 2023, we are publishing a series of 13 discussion papers. These cover each illicit market considered during the development of the Index. The papers, written by international experts, have been commissioned to help move forward the debate around definitions and measurements used in analyzing transnational organized crime markets, and thus support responses to organized crime.

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INTRODUCTION

Globally, economic and financial crimes are widely reported to be on the rise, not least because of digitalization and in the aftermath of the COVID-19 pandemic, with ample opportunities for such crimes. Despite the overall agreement that these crimes are increasing, exact definitions of what is included in economic, or financial, crime remain disputed. In fact, the concepts often appear to be used interchangeably or clustered together as a single idea. Distinctions between the two are usually based on semantics, if at all. The issue is even further confused when the concept of illicit financial flows (IFFs) is added to the discussion, which is commonly used as an umbrella term for a wide range of threats that describe activities within a spectrum of illicit international trade and finance.

For the purposes of this paper, economic crime is understood to be equivalent to financial crimes and the terms are used interchangeably with each other, although the term 'economic crime' is largely preferred. Furthermore, economic crime is considered to be distinct from IFFs.

This paper critically assesses existing definitions of economic crimes and IFFs as well as available methods to measure the scope and scale of the phenomena. It is informed by two baseline papers (one on IFFs and one on economic crimes) that were commissioned separately in the development of the organized crime index.[1] Additional historical and contemporary literature was reviewed, with further input from an expert group meeting in April 2023 also incorporated.

The discussion in this paper shows that a lack of clear definitions has resulted in contrasting and incomparable methods to estimate the scale and impact of economic crimes and IFFs, leading to significant gaps around the understanding and awareness of the harms of these crimes. Moving forward, and in order to counter the threats and formulate effective policy responses, better understanding and use of the terms are required, as well as data on how the different concepts interrelate and reinforce each other.

DEFINING ECONOMIC CRIMES AND ILLICIT FINANCIAL FLOWS

Economic crimes

Economic crimes, or financial crimes, are usually understood as illegal acts committed by an individual or group to obtain a financial advantage. [2] They are low-risk, high-reward and high-volume crimes of which the principal motive is economic gain – to obtain or avoid losing money, property or services, or to secure a personal or business advantage.[3] Definitions of economic crimes often refer to the role of deceit, concealment or violation of trust and have historically been understood as not involving the application or threat of physical force or violence.[4] In addition, most economic crimes include some element of transborder movement.

The concept of economic crime is reported to have originated with the term 'white-collar crime', which, in turn, was first defined by criminologist Edwin H. Sutherland as a 'suite crime' (i.e. committed by corporate personnel) or the 'street crime' of the business and professional communities. He defined white-collar crime as 'crime committed by a person of respectability and high social status in the course of his occupation' and called for white-collar crimes to require the invoking of penal rather than civil sanctions.[5]

While economic crime originates from white-collar crime – and is still often referred to as such – the rapid changes of technology and globalization have significantly influenced the concept. Today, economic crime is not limited to the office environment anymore, but can take place everywhere and is often used synonymously with fraud-related crimes. It is broader than terms such as financial crimes or white-collar crimes: in fact, economic crime includes white-collar crime and suite crimes, which are mainly committed by perpetrators working in professional and semi-professional occupations (e.g. fraud by abuse of position or embezzlement), but it also includes financial crimes, committed by perpetrators who are not in those professional and semi-professional occupations (e.g. phone scams, online banking fraud or credit card scams) and organized criminal groups.

The list of offences included under economic crimes is long and has been referred to by some scholars as ‘fraud in its various manifestations’, including money laundering, bribery and corruption.[6] Definitions also often point to benefit fraud, online fraud, identity fraud, banking fraud, investment fraud, corruption, fraud by abuse of position, misleading consumers, fraudulent bankruptcy, credit and insurance fraud, procurement rigging, embezzlement, illicit capital havens, terrorist financing, sanctions contravention and tax evasion.[7] In addition, certain traditional types of property crime (theft or burglary) also fall within this scope, although they are not always explicitly mentioned in discussions of economic crime.

Figure 1 provides a brief overview of selected definitions of key terms related to economic crime and highlights the complexity and interconnectedness of the concepts referred to in definitional discussions.

CRIME	SOURCE	DEFINITION
WHITE-COLLAR CRIME	Federal Bureau of Investigation (FBI)[8]	Used synonymously with the full range of fraud committed by business and government professionals. It is regarded to be non-violent and includes public corruption, healthcare fraud, mortgage fraud, securities fraud, money laundering, etc.
	Georgetown Law[9]	Offenses that are designed to produce financial gain using some form of deception. They are usually committed by people in the business world, who, through their position, can gain access to large amounts of other people’s money. Examples include tax evasion, insider trading, insurance fraud, bribery, embezzlement and money laundering.
	Association of Certified Anti-Money Laundering Specialists (ACAMS)[10]	Examples include fraud, corruption, bribery, organized crime, cybercrime, identity theft, money laundering and drug trafficking.
	National White Collar Crime Centre[11]	An illegal or unethical act that violates fiduciary responsibility of public trust, committed by an individual or organization, usually in the course of legitimate occupational activity, by persons of high or respectable social status for personal or organizational gain.

continued

CRIME	SOURCE	DEFINITION
FRAUD	Cambridge dictionary[12]	The crime of getting money by deceiving people.
	Cornell University[13]	Both a civil tort and a criminal wrong. In civil litigation, allegations of fraud might be based on a misrepresentation of facts, whether intentional or negligent. In criminal law, fraud usually takes very specific forms, such as bankruptcy fraud, credit card fraud or healthcare fraud.
	Commonwealth Fraud Prevention Centre[14]	Defined as 'dishonestly obtaining a benefit, or causing a loss, by deception or other means'. This may include (but is not limited to): • Theft and accounting fraud • misuse of credit cards, unlawful use or obtaining of, property, equipment, material or services • causing a loss, or avoiding or creating a liability • providing false or misleading information, or failing to provide information when there is an obligation to do so • misuse of assets, equipment or facilities • cartel conduct • making or using false, forged or falsified documents • wrongfully using information or intellectual property. • Fraud further requires intent. Benefit is not restricted to material benefit, and may be tangible or intangible, including information. A benefit may also be obtained by a third party. Fraud further requires intent. Benefit is not restricted to material benefit, and may be tangible or intangible, including information. A benefit may also be obtained by a third party.
TAX EVASION	Cornell University[15]	Using illegal means to avoid paying taxes, usually involving an individual or corporation misrepresenting their income to the revenue service. Misrepresentation can include underreporting income, inflating deductions or hiding money and its interest altogether in offshore accounts.
	Transparency International[16]	Illegal non-payment or under-payment of taxes, usually by deliberately making false or no declaration to tax authorities, such as by declaring less income, profits or gains than the amounts actually earned, or by overstating deductions. Tax avoidance is the legal practice of seeking to minimize a tax bill by taking advantage of a loophole or exception to the rules, or adopting an unintended interpretation of the tax code. It usually refers to the practice of seeking to avoid paying tax by adhering to the letter of the law but opposed to the spirit of the law. Proving intention is difficult; therefore, the dividing line between avoidance and evasion is often unclear.
	European Commission[17]	Illegal arrangements where tax liability is hidden or ignored; i.e. less tax is paid than required under the law by hiding income or information from tax authorities.

continued

CRIME	SOURCE	DEFINITION
MONEY LAUNDERING	Financial Crimes Enforcement Network[18]	Disguising financial assets so that they can be used without detection of the illegal activity that produced them. Monetary proceeds derived from criminal activity are transformed into funds with an apparently legal source.
	UN Office on Drug Crimes (UNODC)/UN Vienna 1988 Convention, Article 3.1[19]	'The conversion or transfer of property, knowing that such property is derived from any offense(s), for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in such offense(s) to evade the legal consequences of his actions.' The process typically follows three stages to release the money into the legal financial system: • placement – moving the funds from direct association with the crime • Layering – disguising the trail to foil pursuit • Integration – making the money available to the criminal from what seem to be legitimate sources.
	Interpol[20]	Concealing or disguising the origins of illegally obtained proceeds so that they appear to have originated from legitimate sources. It is frequently a component of other serious crimes such as drug trafficking, robbery or extortion.

FIGURE 1 Selected definitions of key terms related to economic crime.

The wide range and large number of possible offences that can be included under the definition of economic crime, as well as many appearing to be interconnected or reinforcing each other, makes conceptualizing the extent of economic crimes complicated. This is further compounded by low reporting rates, also owing to stigma associated with being a victim or where victims themselves may have been involved in illicit activity. In addition, the quick expansion of economic crimes, also due to technological advancements and the COVID-19 pandemic, complicated attempts to understand the ways in which such crimes are committed and to analyse the extent of the criminal market under the 'economic crimes' category. This includes widespread discussions on the harms of economic crime, the use of violence and increased understanding that these crimes are not victimless.[21] Indeed, experts confirm that economic crimes have become violent and that their effects are significant, long-term and often diffused across victims globally.[22]

A further complication relates to economic crime overlapping with other crime categories that are often analysed separately. For example, it is worth noting the particular way in which economic crime functions as economic crime. Although organized crime includes a wide range of criminal activities,[23] the motive behind such crimes is inevitably economic. Indeed, the UNTOC convention also lists 'obtain[ing], directly or indirectly, a financial or other material benefit' as one of the four key defining criteria of an organized criminal group.[24] A key distinction between economic crimes and other types of organized crime is that in the former case, the crime is the misappropriation of money itself, as opposed to the proceeds of another or predicate crime.[25]

Economic crime is also tightly interlinked with cyber-dependent and cyber-enabled crimes.

Illicit financial flows

Similar to the case for economic crimes, the term 'illicit financial flows' has evolved significantly over the past years but remains broad, vague and disputed. The term is generally used to look at criminal activity through the lens of movements of the value of underlying (or predicate) crimes.[26] A selection of historical definitions of IFFs are given in Figure 2.

SOURCE	DEFINITION
UN Conceptual Framework, 2020[27]	Financial flows that are illicit in origin, transfer or use. Funds represent an exchange of value (not just money), cover a flow of value over time and cross an international border.
United Nations Inter-Agency Task Force on Financing for Development, 2019[28]	Money that is illegally earned, transferred or used and that crosses borders.
Global Financial Integrity (GFI), 2017[29]	Defined as 'illegal movements of money or capital from one country to another'. This movement is classified as an illicit flow when funds are illegally earned, transferred or used across an international border.
UNODC, 2017[30]	Although no formal definition is given, it considers the term to refer to funds generated by crime-related proceeds (including money illegally earned, transferred or used) crossing borders.
Organisation for Economic Co-operation and Development (OECD), 2014[31]	No specific definition is given, but IFFs are generally considered to be 'generated by methods, practices and crimes aiming to transfer financial capital out of a country in contravention of national or international laws'.

FIGURE 2 Selected historical definitions of IFFs.

The idea of the concept of IFFs is to 'follow the money' in order to assess and help curb the criminal enterprises that profit from illegal trade, trafficking and exploitation. The challenge in defining IFFs is compounded by the multiplicity of sources that generate illicit funds, the variety of ways to shift funds to hide their origin and the range of actors involved.[32]

When broken down, three major definitional issues arise:

- How to define 'illicit'?
- How to define 'financial'?
- What are flows?

How these individual components are defined has important implications for understanding and measuring IFFs.

What does ‘illicit’ mean?

Core to the discussion on IFFs is the recognition that the terms ‘illicit’ and ‘illegal’ are not interchangeable. Indeed, a recent review of available literature on IFFs concluded that ‘the majority of IFFs are in fact not illegal but instead benefit from policies designed to create loopholes for a cadre of wealthy, politically connected elites to preserve and grow their wealth and move their assets, free of taxation, free of oversight and almost entirely beyond the sight and reach of regulatory bodies and law enforcement.’[33] As a result, in contexts where policies and laws protect and enable those in power, financial flows may not be illegal yet remain illicit – wrong by the norms of democratic governance.[34] Definitions that focus only on illegality therefore miss funds that have been acquired through corruption and immorality, distortion of state resources for political leverage in authoritarian regimes, or been enabled by policies and legislative loopholes that allow for continued unregulated flow of funds, without facing enforcement measures.

The importance of informality, and its continued growth, as a component and facilitator of IFFs around the world further challenges the term ‘illegal’. Indeed, a narrow definition of the term would exclude flows in states or regions with an expansive informal economy, where significant economic activity takes place in an unregulated environment and where the applicable legal framework is not enforced or one does not exist.[35]

Over the past years there has been significant development around the understanding and use of the spirit of the concept of ‘illicit’, strengthening the view that discussions of IFFs need to go beyond an assessment of their legality. Not only is it important with regard to conceptualization but it also determines to a large extent what is measured under the term IFFs and the methods available. In practice, however, it can be very difficult to determine both the legality and legitimacy of a flow of funds.[36]

What does ‘financial’ mean?

It is commonly asserted that the ‘financial’ component of IFFs equates to money, or any other appropriate vehicle that can be used as a medium of exchange, a store of value and unit of account that is widely accepted, portable, divisible, durable, homogenous and recognizable, and which can be transferred.[37] It usually includes notes and coins, money vested in bank accounts and time deposits and assets such as land.[38] If IFFs are understood to include only practices such as money laundering through formal economic mechanisms, the term is fit for the purpose.

However, in assessing the scale and impact of illicit flows, the term ‘financial’ is too limited. Criminal activity takes on many forms, with the movement of goods, profits and other forms of value not fitting neatly into formal financial frameworks. As such, illicit flows do not always comprise money or easily liquidated capital. For example, when natural resources, flora and fauna are smuggled across borders, source and transit countries are disadvantaged economically.[39] In a strict interpretation of the term the movement of these goods would then not qualify as ‘financial’ (as they are not generally accepted mediums of exchange); however, as they represent an exchange of value they should be included in definitions and measures of IFFs. Some exceptions exist, like the case of gold, where the natural resource itself is a commonly accepted medium of exchange. Similar challenges are faced when seeking to value the crimes of migrant smuggling and human trafficking.

In addition, money laundering is sometimes used as a proxy for IFFs, therefore conceptually restricting the definition to the flow of money.[40] However, previous research showed that the physical flows of (illicit) trade, trade-based money laundering and informality are significant sources of financial value transfer and measures of money laundering alone are unlikely to accurately reflect illicit flows.[41]

What defines flow?

A common component of definitions of IFFs is that they must be cross-border transactions. For example, discussions at the UN were careful to distinguish between in- and outflows of IFFs to an economy.[42] Even though such flows may balance each other, this does not reduce the extent of IFFs; rather, both in- and outflows should be recognized and recorded separately.[43] The lack of focus on inflows has also allowed countries that facilitate or benefit from IFFs to stay below the radar and avoid scrutiny for their role in global IFFs and may be a reason why certain countries are not highlighted as problematic in current anti-IFF measures.

In addition, limiting definitions of flows to cross-border transactions neglects to account for flows generated and spent domestically. This applies specifically to countries where important informal economies exist and where value accrued is largely unaccounted for. In addition to depriving the developing state of tax revenue, there is little room to monitor whether this value accrues illicitly or whether it is later used for illicit purposes. This applies especially to countries where this sector is large and formal oversight is challenging, but also when proceeds of corruption or organized crime are generated and spent locally, without international borders being crossed.

The relationship between illicit financial flows and economic crime

While settling on a definition of IFFs and economic crimes remains a major challenge, it is important to understand the relationship between the concepts and how they are linked in the world of illicit finance.

As has been described, the term IFFs is used as a conceptual umbrella covering a wide range of threats and activities within a spectrum of illicit trade and finance. The value of the term stems from it capturing value that is generated, moved, held or used in an illicit way.[44] As such, IFFs incorporate economic crime and flows of value resulting from predicate offences, such as fraud, bribery or tax evasion.

However, the concept of IFFs also goes beyond flows earned by a predicate crime, as not all IFFs are illicit from the outset: some funds may derive from licit activity that is transacted in an illicit way or used for an illicit purpose, for example, when they are used for purposes of corruption, or when they are finally laundered or diverted overseas.[45]

Previous research has identified three core systems or channels by which IFFs move value across borders, namely: the financial system; trade; and informality.[46] Economic crime is captured in this definition, for example, where the financial system is used to transfer illegal funds from fraud. However, while economic crime has two distinct purposes – namely the generation and laundering of illicit funds – IFFs can be regarded as a system of illicit value extraction and movement, exacerbating the conditions in which organized crime and corruption grows and thrives more broadly. As such, the concept of IFFs is useful to discuss the spirit of illicit finance and the harms of illicit activity on societies and economies around the world.[47]

Proposed definitions

The proposed definition of economic crimes is as follows: Organized crimes that result in financial gain in and on their own, for one or more parties at the expense of others, in an unlawful fashion, usually through theft or deception of some kind. The crime is ultimately the theft of money or otherwise an unlawful gain made through a financial vehicle; it does not require illegal trade in a commodity or service (e.g. drug or wildlife trafficking) or extortion. Economic crimes are unique in that money is stolen directly by the perpetrators as opposed to being derived from a predicate offence (e.g. drug trafficking, illegal wildlife trade, etc.). Taking a broad definition is helpful as it does not restrict economic crime to a specific list of criminal activities, but rather captures the spirit of the concept. This represents a shift from the definition used in the Global Organized Crime Index 2023, as the proposed definition considers money laundering and bribery as economic crime since it refers to the disguise or misappropriation of funds.[48]

Turning to IFFs, we propose that the definition put forward in the 2020 UN Conceptual Framework should broadly be followed. It states that 'IFFs are illicit in origin, transfer or use, represent an exchange of value, cover a flow of value over time and cross an international border'.[49] Transfer of value can take place through the direct movement of money, or through the trade of goods and movement of funds through unconventional transfer systems, like shadow banking. However, focusing on flows across borders often neglects to account for flows generated and spent domestically. This is especially the case in the informal economy, in countries where this sector is large and formal oversight is challenging. Thus, both domestic and cross-border flows should be included in a definition of IFFs.

MEASURING ECONOMIC CRIMES AND ILLICIT FINANCIAL FLOWS

Given the significant definitional challenges, it is no surprise that, no comprehensive method to measure economic crimes and IFFs yet exists. Different legal frameworks, the long list of possible offenses and the continually evolving and clandestine nature of economic crimes and IFFs make data scarce and hard to compare. However, some quantitative data exists on some forms of economic crimes and IFFs. Examples are statistics on fraud or money laundering, which are included in the United Nations Surveys on Crime Trends and Operations of Criminal Justice Systems (UN-CTS) database,[50] and international trade data, accessible via UN Comtrade data,[51] which can be used for a (IFF) trade-gap analysis. In addition, in June 2023, the UN Conference on Trade and Development (UNCTAD) and UNODC jointly published the first national estimates of IFFs in Afghanistan, Bangladesh, Colombia, Ecuador, Maldives, Mexico, Myanmar, Nepal and Peru related to drug trafficking, trafficking in persons and smuggling of migrants.[52] Nevertheless, significant gaps remain. Given that statistics are based on national legal frameworks, cross-country comparisons remain difficult even in the best possible circumstances, and as such usually require additional expert interpretation and context setting.

Economic crimes

Given that there is no common agreement on which offences constitute economic crimes, studies tend to look at one or a small number of crimes separately. The section below discusses existing methods to measure fraud and money laundering.

Fraud

Surveys are commonly used to measure the scope of fraud. Crime surveys measure particular types of fraud at a specific time, and usually only include successful fraudulent actions, unless the methodology specifically allow for attempts to be included as well.[53] Anonymous surveys can be a useful tool to complement data that was collected through reporting (individual offences reported to judicial authorities) and to close the knowledge gap between the actual crime level and the number of incidents reported.

Victimization surveys are sample surveys of a relevant population that seek to measure frequency, characteristics and consequences of criminal victimization.[54] They focus on individuals and their experiences and whether the crime was reported to the police (or the reasons why not). As such, they can be independent from national laws and institutions and provide a certain comparability at international level if a common methodology is applied.[55]

Common limitations of surveys include cost and time needed to run them, as well as lack of understanding of certain crimes, including fraud.[56]

One known example of an economic crime survey is PwC's economic crime and fraud survey. In 2022, it enquired about organizations' attitudes towards fraud and financial and economic crime and drew on 1 296 responses from 53 countries and regions.[57] Although the survey does not provide exact data on the scale per country, it provides unique insights into trends as it has been run twice a year for almost two decades and is able to survey companies around the world.

Similarly, in 2018, Refinitiv, one of the world's largest providers of financial market data and infrastructure, also published an online survey on financial crime based on more than 2 300 responses from managers at large global organizations across 19 countries.[58] However, given the different underlying definitions of financial and economic crime, surveys like these are often not directly comparable.

In addition, there are various other qualitative and quantitative measures for estimating specific types of fraud. For example, tax fraud can be measured by comparing expected actual tax collection according to declared production or estimates of total production. The missing amount is deemed to be illicit. One way this occurs is where sellers of a commodity collect value-added tax (VAT) from a purchaser but does not pass it on to government.[59]

Similar to the ways surveys are used, qualitative investigations were used in South Africa to complement reporting on the size and scale of VAT offences related to gold. Specifically, investigations into business premises, audits of raw materials purchased and manufacturing capacity were used to estimate undeclared gold production and connected VAT fraud where traders would use front companies to collect tax rebates from government. Gold for export does not carry VAT, so fraudulent VAT payments were declared for locally bought gold before it was exported, upon which traders claimed rebates fraudulently.[60]

In another study, the collection of quantitative data on VAT fraud from undeclared cigarette production was trialled by Sabir *et al.*[61] in Pakistan through a three-step methodology. Firstly, sources for data were identified, which included quarterly or annual financial reports, aggregate production of a good and aggregate pricing of a good. Secondly, the estimation of production function was measured, which included production inputs and technology that relates 'the physical output of a production process to the inputs, or factors, of production'. Finally, annual actual output was estimated using the findings from the first two steps and comparing the result with declared output. The difference, where actual output is higher than declared output, is deemed illicit and evading tax.[62]

Fraud is reported to be the second most common type of crime in England and Wales, which reportedly have the best data on the phenomenon globally. It was previously estimated that one in 15 people fall victim to fraud every year, and economic crimes overall affect more people, more often, than any other national security threat.[63] Nevertheless, major limitations to measuring fraud in England and Wales remain, including the range of fraud crimes against individuals and businesses examined in individual and business crime surveys.[64] What qualifies as fraud surveys and other estimates, as well as how the impact and harms of fraud can be analyzed, will require continued adaptation, review and improvement, not least given the aftermath of the COVID-19 pandemic and the sharp increase in digital fraud crimes.[65]

Money laundering

No reliable measurements of money laundering exist yet. Globally, it is estimated that 2–5% of global GDP is laundered each year,[66] the equivalent of US$800 billion to US$2 trillion. However, these figures, originally published by the International Monetary Fund, represents a consensus range rather than a precise estimate.

The Walker gravity model

Gravity models are widely used to estimate the flows of goods, services or people between two locations. In 1994, John Walker developed a two-stage gravity model specifically to generate a global estimate of money laundering by measuring illicit flows of money in and out of 220 countries.[67] The model first estimates the total amount of proceeds of crime by calculating the total amount of money available for laundering by using official estimates of volume of illicit goods, multiplied by the market price of such goods. As not all proceeds of crime are laundered, an estimate of the percentage of proceeds of crime likely be laundered is then made.[68]

In the second stage, the principles of gravity are applied to determine the likelihood (and magnitude) of flows between countries. The distance between two countries, whether countries share a border, and the attractiveness of a country to dirty money are considered.[69] The results of the two stages are combined to calculate the total amount of IFFs into a country.

A strength of the Walker model is that it considers distance, which is a proxy for transport and transaction costs. However, the model suffers from a reliance on 'expert knowledge' and a lack of high-quality data.

- Because the model depends on several assumptions, it requires experts to judge whether results are reasonable, hence, their reliability is debatable.[70]
- The model also faces the issue of the accuracy of statistics. It is unsure how accurately seizure statistics reflect the overall scale of illicit flows, as these are generally a better reflection of the capacity of law enforcement than the scale of the criminal activity.

Dynamic multiple indicators–multiple causes model

The Dynamic multiple indicators–multiple causes model (DYMIMIC model) uses two sets of observable variables (causes and indicators) and links them as a proxy to an unobservable variable, for example the extent of money laundering. The first set of variables measures causes for the shadow economy, such as regulations, taxation and prosecutions. The other set, the indicators, measures the effects of the shadow economy on money laundering.[71] To estimate the scale of money laundering, the DYMIMIC model uses various causes for money laundering (i.e. various criminal activities) and indicators (confiscated money, prosecuted persons, etc.) to derive an estimation of the latent variable (the volume of money laundering).[72] In 2006, Schneider used this approach to estimate the shadow economy for 145 countries and in 2007 adapted it in an attempt to quantify money laundering.[73]

The DYMIMIC model uses factor analysis to determine how well the different cause variables explain the unobservable variable and those that can be grouped together. The same is then done for the indicator variables. This means statistics decide which indicators form the relevant bundle of causes of the shadow economy (or money laundering) and which are relevant for the parallel indicators of a shadow economy (or money laundering). Indicators are classified into subgroups that are supposed to represent parts of the unobservable variable.[74]

The advantage of this model is that it can be applied to all countries and jurisdictions in the world. Also, it accounts for legitimacy. For example, when considering the causes of the shadow economy, tax 'morality' is considered. Tax 'morality' (citizens' attitudes toward the state) describes the readiness of individuals (at least partly) to leave their official occupations and enter the shadow economy: it is assumed that a declining tax morality tends to increase the size of the shadow economy.[75]

Like other models, the DYMIMIC suffers from a lack of adequate data. Furthermore, estimates on the scale and value of criminal activity are often made for specific areas (e.g. drug profits) or are based on figures that are wrongly quoted, misinterpreted or 'guessed' without a scientific base. Hence, estimations are couched in wide margins of error (±20.0%) and can only be seen as preliminary scientific estimates or in some cases even 'guesses'. This is readily acknowledged by Schneider, who states that 'the data is quite erroneous, rather incomplete and the estimation is not robust'.[76]

Another major drawback is that it does not measure illicit flows that stem directly from crime. The broad definition of the shadow economy used in the model means unreported income from the production of legal goods and services – either from monetary or barter transactions – is included and so all economic activities that would generally be taxable.

Other weaknesses are that one cannot test the extent to which the model specifications are correct and have anything to do with money laundering. Statistics decide which indicators are used to determine the relevant bundle of causes and indicators. The resulting set of variables is rather arbitrary and not necessarily reinforced theoretically.[77] In addition, as discussed with regard to the importance of accounting for the legitimacy of flows, the shadow economy is not wholly criminal, but rather consists mostly of informal economic activity.

Case studies

Given the significant drawbacks of the methods described in the preceding sections and the lack of adequate data on money laundering globally, research often relies on individual investigative efforts and leaks of documentation, such as the FinCEN files and Panama Papers, which provide insight into the scope of money laundering. Similarly, specific case studies, such as money laundering through construction and the real estate industry in Tirana, Albania,[78] or the systemic laundering of proceeds from illicit gold trade between Zimbabwe, South Africa and the UAE,[79] help to shed light to the vulnerabilities of certain economic sectors but do not provide an overall estimate of money laundering.

Illicit financial flows

In 2011, a UNODC study on estimating IFFs related to drug trafficking acknowledged that there is no certain manner of accurately measuring the scale of IFFs and that would render indubitable results.[80] Although more than a decade has passed since, the situation persists, not just with regard to drug trafficking but for IFFs overall.

Various models have been proposed, each having its own benefits and drawbacks. This creates a further problem, as different approaches often yield different results and the lack of a unified, coordinated model used internationally compounds the problem of measuring IFFs.

Approaches to measurement are broadly categorized as top-down or bottom-up. Top-down approaches focus mostly on macroeconomics and use modelling inconsistencies in aggregated data where discrepancies provide indications of IFF presence.[81] Bottom-up approaches assess and aggregate the underlying crimes of IFFs (predicate offences such as organized crime, corruption and tax evasion) and the channels through which they flow (the financial system, trade and informality).[82] This means that the same flow can, in theory, be captured multiple times through these different lenses, but it also provides a means of double-checking financial flows related to underlying crimes.[83]

Macroeconomic methods

Macroeconomic models can be divided into three core categories, depending on the data they use, namely balance of payment (BOP) data, trade data, or a combination of the two types. Each category is subsequently discussed.

Balance of payment methods

These methods use differentials between purported transfer of value (goods or money) out of a country versus what is received by purported destinations.

METHOD	DESCRIPTION	COMMENT
Sources and uses[84]	Sources of capital inflows should only exceed the uses of capital inflows when capital is moving overseas. If sources exceed uses, IFFs are presumed present through capital flight.	Discrepancies may include many legitimate investments.
Hot-money narrow[85]	Considers net errors and omissions, where the discrepancy between transfers declared in one country versus those in another is considered illicit. In theory all funds received by a country (credit) should be offset by funds going out or being used to pay debts (debt). However, in practice, BOP data usually shows unexplained 'leftovers'. To achieve a zero balance, these discrepancies are captured in a 'catch-all' line item called 'net errors and omissions'. Errors are considered to be IFFs.	There could be legitimate reasons for moving money and some that do not meet the definition of aggressive tax avoidance. These 'net errors' could also simply be errors as opposed to undue transfers, meaning that a shortcoming of this approach is that it includes aspects that are not IFFs within what it declares 'illicit'.[86]

continued

METHOD	DESCRIPTION	COMMENT
World Bank residual model[87]	Similar to the sources and uses method, where illicit outflows occur when sources of funds exceed their uses, and illicit inflows occur when uses of funds exceed sources. A subcategory is the Change in External Debt model, which uses change in external debt as an indicator of new loans.	This method only considers gross illicit outflows and it is unsure how well illicit flows stemming from crime are reflected. Originally designed to capture only capital flight, the method cannot capture swap, arrangements such as *hawala*,[88] cross-border smuggling of goods, criminal activities, asset swaps or fake transactions, as they are impossible to be traced using official statistics.[89] Moreover, the approach does not include other discrepancies such as time lags and different calculation conventions.[90]

FIGURE 3 Overview of selected BOP methods to estimate IFFs.

Comparing the three methods, the World Bank Residual Model is likely to generate more reliable estimates, as it collects raw data from each country and then calculates the discrepancy between the sources and the uses of funds. In contrast, the Hot-money narrow model simply considers the 'leftovers' (balance of payment discrepancies).[91]

Trade-gap analyses

Models based on trade data largely measure trade mispricing. They include methods where the price, quantity or value of imports and exports is misrepresented in a practice known commonly as 'trade misinvoicing', to register the value of the traded commodities in another jurisdiction. Price and quantity traded should match partner import and correlative export data, apart from deviations due to, for example, cost of freight and insurance. If notable deviations exist, illicit flow is presumed.

METHOD	DESCRIPTION	COMMENT
Partner country method[92]	Import values are compared with corresponding export values from a trading partner's trade statistics. Where the values do not match, illicit trade is presumed, subject to costs incurred through shipping and insurance.	This presupposes accuracy of data on the part of both parties and uniformity in reporting and recording methods. Differences in trade systems, classification and valuation of goods and services, as well as recording errors, can all contribute to discrepancies in data. To address limitations, qualitative input to identify how and where discrepancies occur is required. This can take the form of interviews and on-the-ground checking. However, this depends on levels of transparency in countries concerned and is time consuming.

continued

METHOD	DESCRIPTION	COMMENT
Gross excluding reversals (GER)[93]	Rather than partner-to-partner trade, this method looks at a country's trade with the world at large. Illicit outflows are judged to be present where exports are underinvoiced and imports are overinvoiced. This is swapped for illicit inflows. Discrepancies between the country's declared exports and world imports and the country's declared imports and world exports thereto are considered illicit.	More intensive applications of the GER model consider both the country risk and merchandise risk when assessing which flows are vulnerable to money laundering. For example, John Zdanowicz, a pioneer in the field of trade-based money laundering, has undertaken comprehensive analysis of US trade data to quantify losses due to trade mispricing. Like others, the GER model operates on the assumption that all unusual prices have a criminal intention and are not due to error.
Global financial integrity model[94]	Conducts a value-gap analysis of multiple sets of bilateral trade data reported to the UN. It eliminates all 'orphaned, lost and other records' and applies UN Comtrade data treatments to mitigate potential distortions resulting from human error, misattribution of the harmonized system product codes, double reporting, etc.[95]	This method only covers trade data and not trade in services. The model does recognize that there are many forms of IFFs that cannot be detected through its value-gap analysis, including cash or *hawala* transfers.[96]

FIGURE 4 Overview of selected trade-gap methods to estimate IFFs.

The popularity of trade data to estimate IFFs stems from its broad availability. Nevertheless, key questions around the accuracy and comprehensiveness of this approach remain. In fact, the lack of comprehensive trade data was cited as a significant obstacle to using Zdanowicz's methodology in many countries. In addition, there may be many, often valid, reasons why partner-country trade data will differ. This includes the different categorization of goods across countries or adjustment for transport costs.

In addition, while criminal gains may be laundered through trade mispricing, models based on trade data offer an incomplete estimate of IFFs stemming from criminal activity. Illicit flows linked to crime may cross over borders in numerous ways and a variety of forms, not always captured by trade data. Other drawbacks include the lack of a direct nexus between the proceeds of crime and trade-based money laundering, and that the same money may be counted multiple times as the funds are moved from country to country for laundering.[97]

Other macroeconomic methods

Some models combine measures to BOP and trade data to generate IFF estimates. Others focus on offshore wealth or foreign direct investments (FDIs).

METHOD	DESCRIPTION	COMMENT
Zucman method[98]	This involves aggregate liabilities and assets globally. Where a liability is reported on one end of the world, an asset should be owned by someone elsewhere. As tax havens, and other sorts of secrecy jurisdictions, generally do not report asset holdings of foreigners,[99] the result is that measurable liabilities generally outweigh measurable assets globally. Using a similar methodology, Alstadsaeter *et al.*[100] estimate offshore wealth at country level using data on funds held by foreign nationals in country bank accounts in known tax havens.	This method, together with hot-money narrow and sources and use, only measures capital flight and not tax avoidance by companies through, for example, profit shifting.
Aggregate domestic versus foreign firms[101]	This method considers the activities of foreign firms in host countries, including wages and profits. Analyses are used to measure profit-shifting activities. This comparatively measures profitability of foreign firms in high-tax countries versus low-tax countries. Using statistics from BOP analyses, so-called 'above-normal profits' are derived where profitability is considerably higher in low-tax countries than high-tax countries.[102] These above-normal profits are then apportioned to countries in which they would, hypothetically, have been reported if another favourable tax regime was not used.[103] Foreign affiliates' statistics are used for estimating profit-shifting activities. An estimated 40% of profits made by multinational corporations outside of their parent company's host country are believed to be moved to tax havens, using the method described here.	Profits considered 'above normal' could be due to various factors, such as production costs in countries of operation, higher retail prices in relation to production costs, reduced transport costs resulting from being closer to source or destination countries and other factors relating to production and consumption.
Tax gap estimation[104]	This measures revenues minus tax that should be paid according to law. The wider this gap, the less tax is presumed to be paid. This is not necessarily the result of evasion, as avoidance strategies through tax planning and tax shopping also account for this gap. While not a determinant of illegality, this can determine whether aggressive tax avoidance is present and categorize such as an illicit flow.	Important to note is that this is also subject to accurate reporting and other limitations outlined in other methods. For accuracy, qualitative measures such as tax audits and interviews with insiders are required.
Phantom FDIs[105]	Not all FDIs are invested in the country to which it is purportedly destined. Instead, what are termed 'phantom' FDIs pass through tax havens and are actually invested further abroad to earn tax-free returns and charge excessive interest from subsidiary companies.[106] The tell-tale sign lies in similar rates of outward FDIs compared with inward FDIs emanating from or entering into countries, indicating that these countries (usually tax havens) are transit countries for FDIs destined to go elsewhere. 'Real' FDIs are measured according to ultimate owner rather than the immediate receiver,[107] the latter of which could be a conduit for 'phantom' FDIs.	Distinguishing between real and phantom FDIs is difficult as amounts may not be exactly the same. Although FDIs entering and leaving known tax havens are suspicious and an indicator of IFFs, definitively distinguishing between what is genuine and what is fake cannot be done through quantitative means alone.

FIGURE 5 Overview of selected macroeconomic methods to estimate IFFs.

A general shortcoming of all the approaches described here is the tendency to compartmentalize IFFs into one bracket or another when a holistic view of the problem is required. This does not mean a catch-all way of dealing with IFFs, but rather an acknowledgement that illicit flows have multiple means of movement. To measure them, understanding their nature and the environment in which they operate, is therefore necessary. The 'IFFs pyramid', proposed by Reitano, is useful in this regard, as it breaks down IFFs by type, including financial, trade and informal flows.[108]

Methods and associated difficulties of measuring IFFs have also disproportionately focused on financial and trade-based flows; the informal economy receives substantially less focus. The IFFs pyramid draws attention to this, but it does not propose methods of measuring IFFs. Rather, it highlights the need for more qualitative understandings of IFFs where quantitative methods are limited owing to opacity of relevant markets and difficulties in acquiring baseline data, or even finding gaps in said data, for analytical purposes.[109]

With this in mind, the Tax Justice Network's vulnerability tracker is useful in that it uses certain indicators to determine a country's vulnerability to IFFs.[110] However, although it is useful for creating a platform for potential measurement of flows, it still requires assumptions for estimations. Levels of secrecy, while a good indicator of illicit flows, do not necessarily equate with illicitness as legitimate money could accompany these flows.

Microeconomic approaches and case studies

Microeconomic or bottom-up approaches focus on assessing and aggregating the underlying crimes of IFFs and the channels through which they flow. Given the challenges around single measures or indicators for IFFs, in 2017 the Inter-Agency Task Force on Financing for Development led a discussion on the separate components of crimes (proceeds of crime, stolen assets, goods trade misinvoicing, profit shifting and transfer mispricing, and undeclared and untaxed offshore wealth) to determine and design policy responses. However, significant disagreement remained around the estimation methodology to be used.[111]

The discussion was further refined at the UNCTAD–UNODC Task Force meeting on statistical methodologies for measuring IFFs in July 2019, where it was agreed that four main types of IFF (tax and commercial practices; corruption; theft-type flows and terrorism; and illegal markets) should be disaggregated and analyzed separately to provide a more comprehensive picture of IFFs. In addition, given the close interconnectedness of many illicit activities and the significant risk of double counting, it was proposed that income generation (i.e. how the illicit proceeds are generated) should be accounted for separately from income management (i.e. the way it is managed across borders).[112]

The UNCTAD–UNODC task force also discussed a risk assessment method to identify vulnerability to IFF exposure, based on the methodology suggested by Alex Cobham,[113] by breaking trade transactions down into three categories:[114]

- Low-risk exposure to IFFs: Direct imports/exports not through tax havens
- Medium-risk exposure: Triangular exports/imports not through tax havens
- High-risk exposure: Triangular exports/imports through tax havens.

The idea behind breaking up trade transactions is that triangular shipments involve moving goods through a third country instead of directly to the destination, the purpose of which is to obtain some sort of beneficial outcome. This is useful, as transport of goods to third-party countries on their way to their destination is generally legal and commonly used but increases the scope for practices such as tax evasion and conceals the details of the supplier. Hence, while not necessarily an IFF, this sort of trade increases the risk of IFFs. Specifically, categorizing the risk posed by trade transactions of a particular type can provide a useful departure point for qualitative research, as one can start at points where the risk is most pronounced. This can further be supplemented by using estimates of informal economies to measure the presence of illicit cash flow based on qualitative samples through surveys and interviews.

To overcome known limitations of the proposed bottom-up approach, the task force also called for conceptual discussions on when an illicit flow blurs into an illicit economy. These often become inseparable and make illicit flows, which is a distinct (albeit, ancillary) concept to illicit markets, difficult to extricate and analyse separately. It requires deconstructing value chains carefully and identify 'tainted' markets that should receive greater scrutiny to understand how illicit finances flow across borders from there.[115]

An additional step towards a common bottom-up approach was taken jointly by the UNODC and UNCTAD in October 2020, when they published a conceptual framework for the statistical measurement of IFFs with the goal to develop common statistical definitions and methods for the measurement of different types of IFFs in one indicator.[116] The framework is 'an attempt to measure IFFs by analyzing the functioning of relevant illicit activities, identifying the set of flows that can be identified as IFFs and producing estimates for each. Overall estimates are obtained by aggregating from a lower to a higher level; for example, by IFF type or source.'[117] This entails examining the predicate offence and market and the ways and means in which proceeds are transferred. This approach can also be compared with that of Reitano,[118] and has since been employed by other organizations, like the Global Initiative Against Transnational Organized Crime, who used it to analyze IFFs in selected countries in the Western Balkans, Eastern and Southern Africa, and the Mekong region.[119] Although there is still no agreement on how to estimate each component and channel individually, the approach proved to be practical and pragmatic, especially in countries where informal economies are sizeable, and is conceptually useful, even if not perfect, as a micro-level approach.

In addition to the lack of comparability across countries, one key concern with microeconomic approaches (as mentioned earlier) is the risk of double-counting, when overlap in noting IFFs occur.[120] For example, proceeds from a drug transaction could be picked up by the police, while a tax authority might note money being moved into real estate without knowing the precise origins. Hence, the illicit flow in this case is measured twice, distorting any estimates being determined.

Another approach to measuring the scale of IFFs, albeit on a more limited scale, is case studies. Case studies have been done on a limited basis and there is a lack of quantitative country studies available for comparison. One major challenge with the use of case studies is the question of how representative they are of total IFFs. Their limited nature requires a number of additional assumptions to be made if findings are to be extrapolated to estimate larger flows, which may not reflect reality. In addition, case studies often rely on interviews to inform estimates, which may suffer from several potential biases: the sample might not be representative, the people interviewed may have their own perception biases, and there can be biases on the part of the research team in interpretation, non-response and sampling.[121]

DISCUSSION

While the models and research methodologies are helpful to understand economic crimes and IFFs, comprehensively measuring the extent and degree of the crime, and the different means by which value is moved, remains difficult. Indeed, methods of gauging the impact of economic crimes and IFFs are far from fool proof as there is little overall quantitative data on economic crime and IFFs, and where it does exist, it relies on country-level transactions and statistics. This is particularly challenging given the lack of a common definition of economic crimes and IFFs and different countries following diverse data collection methods (if data is collected at all). Although there have been some attempts to close these gaps, including through the UN Statistical Framework and the UN CTS database, available quantitative data is unsatisfactory and expert interpretation and context setting remain important in any attempt to better understand the extent and impact of the problem.

Country-level approaches to measuring economic crimes and illicit financial flows

Economic crimes, including fraud, money laundering, bribery and tax evasion, are often intertwined and predicate crimes to IFFs. However, definitions of these predicate offences, particularly of money laundering, differ and it is unclear to which degree they are comparable. This is further complicated by the covert nature of money laundering, as only a few cases tend to be uncovered, while the extent of criminal money being diverted largely remains hidden from the public. All quantitative methods presented, including surveys, reporting or the DYMIMIC model (to estimate money laundering), have clear limitations and need to be complemented by qualitative research regarding the harms of economic crime.

As economic crime covers diverse offences with differing characteristics (including embezzlement, financial fraud, tax evasion, etc.), there is no single manner of measuring their prevalence and degree collectively. Instead, each needs to be measured individually using an appropriate methodology. For example, survey reporting may work for fraud, in some of its forms, but forensic accounting may be needed to capture tax evasion more accurately. Once each offence has been measured, an overall assessment of the prevalence of economic crimes as a whole can be made through comparison of each subcategory.

Following the availability of statistics and data, the most widely referenced models estimating IFFs focus on trade mispricing and capital flight.[122] This has resulted in trade mispricing or money laundering often being used as a proxy for IFFs as a whole, but models that rely on large, official data sets cannot take into account flows in the informal economy or those resulting from illicit activities, such as moving contraband or smuggling, and the resulting profits from such activities. Neither is captured in national accounts and they are therefore likely to be missed as significant portions of IFFs.[123]

As a result of the focus on money laundering, IFFs are also often conceptually restricted to the flow of money for which the anti-money laundering regime and particularly the Financial Action Task Force's standards are seen as the core responses. This is problematic, not only because of its questionable legal status, unrepresentative membership as well as a problematic peer review process but also because the instruments focus almost entirely on state institutions and mechanisms within the formal economy and formal financial system.[124]

The review of existing methodologies and models for measuring IFFs has shown that numerous benefits and shortcomings exist for each, which precludes a one-size-fits-all approach. Case studies are particularly helpful in understanding the spirit of IFFs, but typically provide insights only into a specific region or sector rather than the overall scale. Prescribing an appropriate model for measuring IFFs on a global level – or by country – is even more challenging. Instead, guiding principles for selecting a model for measuring IFFs are proposed here, and further study is recommended. In particular, the nature of the flow or transaction in question must be acknowledged prior to selecting the model, as some are better tailored to gauge illicit proceeds moved through the formal financial system, while others focus on trade-based discrepancies. Trade flows are further often used as a proxy for dealing with informal flows given that trade in goods is often used as a means for laundering money acquired illicitly in the informal economy, which is then shifted across borders. However, not all informal flows converge with trade flows, as money is often shifted across borders informally in cash, through mobile money transfers or mechanisms like *hawala* and *feiqian*.

Cybercrime and IFFs

As technology develops, people's lives are made easier and communication and transactions become more efficient. However, the scope and methods of crime also expand, including through the clandestine movement of money and online transactions, whether on the open or dark web. Indeed, as discussed, cyber-enabled crimes[125] such as fraud become increasingly more pronounced and impactful as they become more prolific through the use of technology, especially in countries where responses have not yet developed with the pace of technological innovation.[126] Interpol identifies financial crimes as occurring on three levels of the internet:[127]

- The surface web, through online scams
- The deep web, through phishing emails, fake social media accounts aimed at social engineering and conditioning
- The dark web, through malware attacks and theft of identification and financial data; ransomware is common among these, whereby data is stolen or access to an organization's servers is blocked, and money is demanded for release.

The increasing presence of both cyber-dependent and cyber-enabled economic crimes is made evident by recent incidents across Africa and Asia. These include an attack on Ethiopian government servers by Egyptian group Cyber Horus, an attack on the South African state-owned critical infrastructure enterprise Transnet,[128] and the apprehension of numerous members of the Nigerian global online scamming group, the Black Axe, in South Africa.[129] In the Mekong, hundreds of thousands people are reported to have been trafficked into special economic zones, resorts or hotels since the beginning of the COVID-19 pandemic and forced to conduct cyber-fraud scams, including pig butchering, investment and romance scams.[130] Cryptocurrencies are commonly used to transfer money and proceeds from these scams.[131] Other examples include the transfer of funds through unauthorized electronic channels and their use for criminal purposes through fraudulent e-commerce companies serving as fronts.[132]

Technology and cyber transactions facilitate economic crimes and IFFs across the value chain, including in acquisition, transfer and use of illicit funds.[133] Indeed, the examples from Africa and Asia underline the close interconnectedness of these crimes. Another common method indicating this overlap is mobile and internet-based payments, which allow for the deposit, transfer, withdrawal and disbursement of funds through the use of a mobile device, where details are ordinarily stored on the user's SIM card. Examples of mobile money include M-Pesa (prolific throughout Africa), LINE, and WeChat Pay.[134] In Africa specifically, M-Pesa is often linked with payments facilitating wildlife trade.[135]

Alternative approaches

Efforts to determine the scale of economic crimes, as well as other predicate crimes for IFFs, need to be improved as a first step in estimating IFFs. This is not to say that existing models and methodologies should not be used; however, they need to be triangulated and cross-checked with other sources.

There are significant holes in the current system, which cannot be monitored with the suggested approaches: informality, offshore tax havens and special economic zones. Transactions related to these three areas may not be economic crimes or IFFs themselves, but previous research has confirmed their role as enablers and facilitators of illicit finance and as such additional research is needed to better understand where illicit flows begin and end.[136] For example, the wide use of informal financial networks (such as *hawala* transfer systems), enables (illicit) flows to easily cross borders without any records.[137] Future research models, as well as policy responses, need to be aimed at closing this gap and gather further data on the enablers and facilitators of illicit finance. Hence, bottom-up approaches, identifying predicate offences or markets and trade practices for which there are higher risks of IFFs are required to craft a holistic response to IFFs. One way this could be achieved – and globally comparable data on economic crime and IFFs can be generated – is by designing a specialized index on IFFs which would assess the risks and vulnerabilities for each country and measure how IFFs are generated, held and moved.

This is also closely linked with the need for a greater focus on the actors perpetrating economic crimes, as well as enabling IFFs. Not only does there appear to be limited political will to tackle IFFs, but elites and those in power are also reported to be the main beneficiaries, purposefully creating laws and policies to preserve and grow their wealth, move their assets free of taxation and beyond the oversight of regulatory bodies.[138] Recent research reports like Al Jazeera's 'Gold mafia', which examines smuggling and related IFFs in Africa,[139] lend credence to these findings.

Sanctions on states themselves also usually result in state-embedded actors seeking alternative illicit means of transferring money or value. This has been seen in Zimbabwe and Venezuela in respect of gold and its associated financial flows.[140] Alternative means of compelling compliance need to be conceptualized and implemented.

Lessons from countries that have succeeded in reducing IFFs, or at least demonstrating greater will and compliance in reducing IFFs, should be heeded. Important, and also overlooked, is ensuring that parties under whose mandate investigations and prosecution of offences fall receive proper training.

CONCLUSION

It is undisputed that economic crime and IFFs are widespread and cause significant harm. Around the world, elites misuse and divert wealth from natural resources and the environment and transfer public money intended for infrastructure investment, education and healthcare offshore. Money laundering, corruption and bribery cause harm to communities, damage legitimate businesses and leave a trail of victims. Nevertheless, despite their apparent serious impact, there is still no clear and precise definition of economic crimes or IFFs.

The lack of commonly accepted definition also makes it difficult to measure the impact of the threat. This is compounded by the hybrid nature of many of the concepts under review, such as money laundering, which is commonly associated with both IFFs and economic crimes, but does not fall squarely within either definition and is often considered an extension of the predicate offence from which the laundered funds were initially derived. As a result, so far, there is no wholly reliable estimate of the total scale of economic crime and IFFs – neither within a single country or globally. However, all methods and available assessments indicate that the scale of the threat continues to grow. There is a clear need to refine methodologies and identify overlooked and understudied areas, which can aid in making more rigorous estimations and identifying priorities for response.

This paper has shown that economic crimes and IFFs are not the same, nor should the terms be used interchangeably. On the one hand, economic crime refers to a set of diverse illegal activities ultimately aimed at profit generation or hiding the illicit proceeds from crime and corruption. In contrast, IFFs refers to the system through which illicit proceeds are generated, moved and used, and which exacerbate the conditions under which organized crime grows and thrives. As a result, while the different illegal activities falling under the economic crime definition can be measured separately and added up on a national level for the purpose of putting together an index of organized crime, the concept of IFFs may require a specialized index altogether.

The broad spectrum of illicit finance – from economic crimes to IFFs – offers numerous and diverse entry points for response. However, while there is no shortage of ideas on how to tackle some of the issues raised in this report, research has shown – and expert discussions underline – a lack of political will in getting things done. We continue to see anti-money laundering laws being introduced but not implemented and offshore tax havens or special economic zones being established without the necessary safeguards in place to prevent misuse. Where efforts to address vulnerabilities exist, these appear to be based on individual attempts rather than broader reform of the status quo.

Going forward, stemming the flow of illicit finance that underpins organized crime and corruption must be a priority. For this to succeed, responses need to go beyond the formal financial system (and the Financial Action Task Force toolbox) and address corruption, trade and informality as enablers and facilitators of illicit flows. That being said, FATF still has a key role in setting standards and shaping the formal financial sector's response.

Economic crime and IFFs are a multisectoral problem, which requires the efforts and solutions of government, civil society and the private sector. But first, clear and comprehensive definitions are needed for a better understanding of the threat and facilitate its measurement. This is a prerequisite for detecting changes and trends, assessing the harms of IFFs, monitoring and evaluating policies and, ultimately, designing better responses to IFFs and economic crime.

NOTES

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