



ILLICIT FINANCIAL FLOWS AND DEVELOPMENT: ADDRESSING THE RISKS OF IFFS IN COMMODITY TRADING

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IFFs and Development – Priority for the DAC

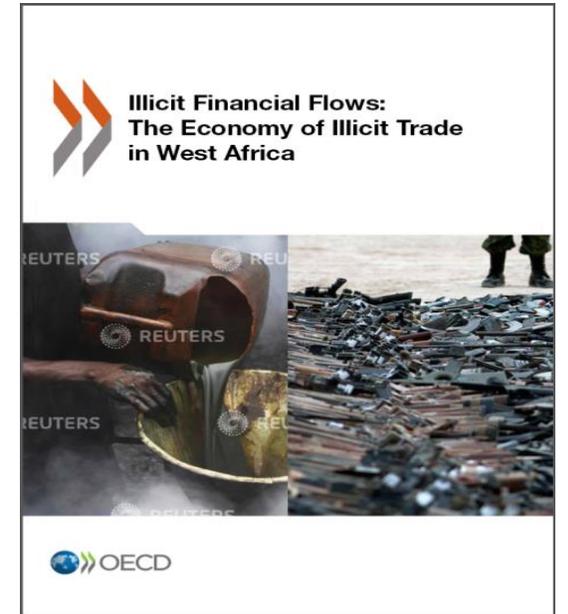
IFFs outstrip ODA, and in many cases even FDI, reducing resources available for domestic inv.

- Bilateral aid to sub-Saharan Africa was USD 24 billion; 41.8 billion from all donors in 2016 (OECD).
- IFFs from Africa as much as USD 50 billion per year (HLP 2013)
- Nine leading oil-exporting countries received ODA \$186 billion; \$186 billion in FDI and experienced \$590.7 billion in total capital flight. (Ndikumana (2012))



OECD-DAC's Prior Work on IFFs.

- OECD Report (2014) on [OECD responses to Countering Illicit Financial Flows from Developing Countries](#)
- Two further publications on OECD (2014) investigation and repatriation of stolen assets to countries of origin ([Few and Far: The Hard Facts on Asset Recovery](#) and [Tracking Anti-Corruption and Asset Recovery Commitments](#)).
- 2018 Report on ['IFFs: The Economy of Illicit Trade in West Africa'](#)
- OECD 2016 ['Due Diligence Guidance for Responsible Supply Chains of Minerals in Conflict Affected and High Risk Areas'](#) Third Ed.





ACTT IFF Policy Priorities

IFF Expert Group identified **three prospective policy priorities, underscoring a shift in focus on links between IFFs and development:**

- **IFFs and commodities supply chain** – focused on trading
- **Effects of IFF de-risking on financial inclusion/exclusion** in developing countries, e.g. impact of financial regulation on remittances and MTOs
- **IFF vulnerabilities in macroeconomic policy approaches** of states coming out of conflict and fragility.

Directive: Focus on crimes that impact governments' domestic resource capabilities - IFFs from trade finance and trade-based money laundering large impost on domestic revenue.



Insights

Economic, equity and stability effects of IFFs particularly marked in 'high vulnerability' countries

ie. developing countries reliant on immobile/natural commodities and grappling with fragility and episodic conflict.

Since 2000, oil crucial to growing share of dev. countries, and sales by govt entities represent large majority of revenue in oil rich countries.

- Btw 2011 and 2013, govt oil sales by ten largest Sub-Saharan African oil exporters = 56 % of combined revenues (Gillies et al. 2014).
- 1970-2010. Oil rich African countries accounted for 72% of total capital flight from sub-region.

Two-thirds of extreme poverty is found in commodity rich developing countries.



IFFs and Commodity Trading: What risks?

Criminal industries driven by natural resources present the most significant net IFF losses:

- Losses in the oil sector represented 79% of total WA IFFs, and 30.5% of Africa's (HLP 2015), with losses of 3-8 billion per year.
- In 2011, exports in mining products reached 1.4 billion (12% GDP), and yet mining revs USD 48 mil. (APP 2013)
- 50-90% of SL diamond trade lost through smuggling (Fanthorpe and Gabelle 2013); only one in five mining companies paid any tax.

Heightened IFF vulnerability around 'first trade' crude oil, equity oil and derivatives, oil-backed lending, commodity swaps, govt subsidy, contracting intermediaries.



Methods of Working

- Not credible to expect developing countries to address problems of IFFs in isolation, nor is it responsibility of single actor.
- **Need to tackle all parts of the problem – source, transit and destination.**
- **Importance of a systems perspective:**
 - Understand IFFs as ‘relational’ ie. mutually sustaining incentive systems between countries of IFF origin and destination to global centres of economic power
- Need for OECD collateral actions: response to fact OECD countries harbouring illicit wealth and driving demand for illicit and illegal trade.



Potential Areas of Work

- I. **Reviewing nature and efficacy of existing remedial measures** taken to address IFF risks arising from oil commodity trades, and extent to which ODA could be better aligned to respond;
- II. **Mapping the ‘mutually sustaining incentive systems’** linking IFF countries of origin with globalized ‘IFF inflow’ systems and destinations, around oil commodity trades;
- III. **Identifying potential OECD-DAC member collateral actions** that might add value to existing remedies/responses, ie. beyond those currently under discussion.

Timeline

- Expert Group (June 2018)
- ACTT Review of Proposed Program of Work (October 2018)
- Modular Implementation (2019-2020)



DAC Role in Advancing Agenda.

Expected outcomes:

- Use ODA to better address ‘*global bads*’ (*IFFs and Corruption*) to expand domestic sources of financing and enhance institutional capabilities for development.
- In partnership with developing countries (AUC and ECA), strength the coherence, relevance and impact of existing IFF responses, and agree more effective approaches;
- Improved evidence-base, knowledge and learning on the links between IFFs and development.