The Basics of IFFs

Definition of Terms

Illicit Financial Flows are illegal movements of money or capital from one country to another. Global Financial integrity (GFI) classifies this movement as an illicit flow when funds are illegally earned, transferred, and/or utilized across an international border. Some examples of illicit financial flows might include:

- **A drug cartel using trade-based money laundering** techniques to mix legal money from the sale of used cars with illegal money from drug sales;
- **An importer using trade mis-invoicing** to evade customs duties, value-added tax, or income taxes;
- **A corrupt public official using an anonymous shell company** to transfer dirty money to a bank account in a country;
- **A human trafficker carrying a briefcase of cash** across the border and depositing it in a foreign bank; or
- **A member of a terrorist organization wiring money** from one region to an operative in another.

What belongs to Africa

"The traditional thinking has always been that the West is pouring money into Africa through foreign aid and other private-sector flows, without receiving much in return," said Raymond Baker, president of Global Financial Integrity, in a statement released at the launch of the report earlier this year. Mr. Baker said the report turns that logic upside down, adding that Africa has been a net creditor to the rest of the world for decades. (Taferinyika, 2020)

Africa is the main source of funding for most Western countries. Ideally, the latter should help prevent and repatriate IFFs. This requires multi-stakeholder effort, including prohibiting financial institutions that receive IFFs from benefiting by holding IFFs when frozen, pending completion of legal/repatriation processes (Economic Commission for Africa, 2012).

Trends

Most recent estimates of and work on IFFs report between 1980 and 2018 (Signé, 2020). Multinational corporations play a significant role in IFFs. They facilitate capital, liquid asset and money transfers to at least one other country than its home country. Having multiple operations bases, complex group structures in various jurisdictions increases the risks of IFFs. These corporations are international, stateless or transnational with budgets that exceed many developing country fiscī (Chen, 2020).

Multinational corporations operate in multiple countries. They derive at least a quarter of their revenues outside their home country. Most are established in Western and/or developed countries, perceived to create high income jobs and technologically advanced goods and services in countries that would not normally have such (Chappelow, 2019). They have been criticised to have undue political influence in governments, exploit labour laws and practices whilst creating job losses in their home and foreign countries of operation.

Future Engagement

Young people need to be included in anti-corruption, IFF and tax injustice work. It cultivates ethics and rules-based leadership towards safeguarding just business practices and policies. Women in all their diversity should be included as well. IFFs deny possibilities for more concrete and scaled gender-based programming. This includes recognition and affirmation of care work (Merkle, 2019).

The financial haemorrhage needs to be stopped. Inclusive growth, infrastructural development and achieving the SDGs would be accelerated with the curtailing of IFFs. State savings, debt payment terms, economic activity and income inequality are all impacted by IFFs (Global Finantial Intergrity, 2015).

The social and legal frameworks for multinational corporations need to be strategically reviewed. Oversight and accountability measures should not be limited to accounting and audit firms, which perpetuate and facilitate IFFs and tax injustice. Repatriation of IFFs should be a focus as part of decolonisation work. This is key to strengthening and safeguarding African country resources bases (Madden, 2020).

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