

Combating Illicit Financial Flows

Global Program in the GIZ Section Governance, Human Rights

Program name	Combating Illicit Financial Flows
Commissioned by	Federal Ministry for Economic Cooperation and Development (BMZ) & co-financed by the Norwegian Ministry of Foreign Affairs
Program region	Global – Africa, Latin America, and the Western Balkans
Duration	October 2021 – September 2024
Volume	EUR 23.5 million

Definition

IFFs refer to financial flows that are illicit either due to their:

- **origin** (e.g., stemming from environmental crime),
- **transfer** (e.g., for money laundering), or
- **use** (e.g., to finance terrorism).

The challenge

Illicit financial flows (IFFs) are a rising global threat. Finance leaks such as the Panama Papers, FinCEN Files, and Swiss Leaks reveal the magnitude of these flows and how wealthy and powerful individuals manage to conceal their illicit assets around the world.

IFF-related activities, such as corruption, human, arms, or drug trafficking, destabilize countries and regions, weaken the rule of law, erode citizens' trust in government and law enforcement, and, thus, **increase the risk of violent conflicts**.

The effects of IFFs are especially devastating for low- and middle-income countries and increasingly **undermine international efforts to promote sustainable development**.

The United Nations Office on Drugs and Crime (**UNODC**) estimates that **1.6 trillion US-Dollars** are lost per year due to IFFs resulting from transnational organized crime. In 2020, IFFs surpassed the amount low- and middle-income countries in Africa received in official development assistance (**UNCTAD**). IFFs, therefore, directly impair the **mobilization of domestic resources** and prevent much-needed investments in health, education, and other public services.

Not only do countries lose resources, but their ability to prevent “dirty money” from entering the financial system also determines their access to international finance. Thus, preserving the **integrity of their financial system** and complying with international standards in this field is a prerequisite for **sustainable development**.

The international community pledged to combat IFFs as part of the **United Nations Sustainable Development Goals** (SDG, Target 16.4) and the debate on **sustainable development financing** (Addis Ababa Action Agenda). The African Union, the FACTI Panel, the G7, and the G20 countries, among others, have identified the fight against IFFs as a priority in several political declarations.

Our approach

The **Global Program “Combating Illicit Financial Flows” (GP IFF)** pursues a holistic “follow the money” approach by targeting activities aimed at concealing the **illicit origin, transfer, or use of IFFs**. The focus lies on the financial transactions of illicit activities rather than on a specific source of IFFs. Perpetrators can only be stopped if they are no longer able to launder their illicitly acquired assets and thus benefit from them.

To safeguard the integrity of the financial system, the program supports partners to implement anti-money laundering and countering the financing of terrorism (AML/CFT) standards of the **Financial Action Task Force (FATF)** in an **effective and development-oriented manner**. The program’s **holistic approach** covers:

- **Prevention:** To prevent and detect IFFs, the GP IFF supports partner countries to improve their legislative and regulatory frameworks, increase transparency on beneficial owners who ultimately control and profit from illicit assets, and strengthen the risk-based supervision and compliance of so-called “gatekeepers” to the financial system (e.g., banks, lawyers, real estate agents, etc.).
- **Financial investigation:** The program assists law enforcement agencies in partner countries in producing useful, timely, and risk-based financial intelligence, adopting new investigation methods to trace IFFs, and strengthening cooperation between relevant agencies – within and across borders.
- **Asset Recovery:** To support the seizure and recovery of stolen assets, the program improves partners’ capacities to confiscate assets, strengthen informal asset recovery networks, conduct successful mutual legal assistance, and improve the management and social reuse of recovered assets.





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Since IFFs are multi-layered, the program follows a **multi-level approach** and seeks to improve the systems to combat IFFs at the **national, regional, and international levels**. Interventions align in international standards with regional and national policies. Global agendas are fed into regional and national processes while national and regional experiences are introduced into international debates. This helps to ensure **policy coherence** while **avoiding overlaps and unintended consequences** that might arise due to the indiscriminate implementation of AML/CFT regulations.

Activities and results

The program achieves broad impact in its partner countries and priority regions **Africa, Latin America, and the Western Balkans**.

The GP IFF supported **Kenya** to enhance **beneficial ownership (BO) transparency** by drafting BO legislation and setting up a BO e-register. After completing the e-register, GP IFF in collaboration with the Business Registration Services (BRS) produced and disseminated awareness-raising materials for user groups. Businesses bidding for public tenders must now ensure that their BO information in the register is up to date – resulting in higher coverage of firms. BRS presented Kenya's experience in establishing a BO e-register in international fora such as the conference on "Strengthening Democracy – towards Resilient Institutions and Societies in the G7 and Africa", which took place in September 2022.

In **Peru**, the Financial Intelligence Unit (FIU) is receiving a growing number of **suspicious transaction reports (STRs)**. To reduce the time needed to process information and improve the analysis of STRs, the program developed **artificial intelligence tools** with the FIU to automatically update a database on politically exposed persons and enable an exploratory analysis of STR data. So far in 2023, the number of suspicious incidents communicated to the Public Prosecutor's Office for further investigation has increased by 30 percent due to the improved processing of STRs.

In **Albania**, the GP IFF and the Global Partnership on Drug Policies and Development partnered with Albanian authorities to transform two seized cars from drug traffickers into mobile libraries. As

limited access to education is a significant problem and a substantial driver for engagement in illicit economies, mobile libraries are used to provide education to children in rural Albanian municipalities. To ensure the sustainability of this **social reuse of assets**, the municipalities own and are responsible for the confiscated cars.

In the **Western Balkans**, the program supports **inclusive and participatory risk assessments** between non-profit organizations (NPOs) and governments to jointly mitigate terrorism financing risks. This approach ensures compliance with FATF Recommendation 8 – which requires countries to identify NPOs at risk of terrorist financing – while avoiding overregulation of the NPO sector.

As **regional cooperation** is crucial to combating IFFs, GP IFF works closely with asset recovery interagency networks (ARINs) that aim to strengthen asset recovery efforts and with FATF-style regional bodies (FSRBs) that guide and evaluate the implementation of FATF standards in their region. To enhance the quality of mutual evaluations, the program provides training to assessors.

To facilitate the development-oriented fight against IFFs and coherent agenda-setting on the **international level**, the program established **various exchange formats**. Among them, are the German inter-ministerial dialogue on IFFs, the ARINs' Talk, and the FSRBs Forum. The FSRBs Forum fosters informal **peer-to-peer learning** among FSRB Secretariats from Africa, Latin America, and Europe to tackle common challenges and discuss possible solutions. As a result, FSRBs shared reports on best practices with their peers and considered learning from each other's digital tools.

Lastly, GP IFF established the **Global Forum on Illicit Financial Flows and Sustainable Development**. The Global Forum hosted two online conferences and launched a public call for ideas to transfer the symposium's learnings into innovative measures.

GP IFF supports partner countries to get off the **FATF list**:

- **Past:** Mauritius (listed between 02.2020 and 10.2021)
- **Present:** Albania (listed since 02.2020) and Senegal (listed since 02.2021)

Published by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

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Last updated August 2023

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