



# International Monterrey Model United Nations Simulation

American School Foundation of Monterrey



## Economic and Social Council (ECOSOC)

**Topic:** Combating and preventing the harmful effects of illicit financial flows (illegal trade and business) which generates a loss in government funds, lack of trust in government, stability, and increased corruption.

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### I. Committee Background

The Economic and Social Council (ECOSOC) is one of the six principal organs of the United Nations (UN). Its primary purpose is coordinating the UN's diverse economic, social, cultural, educational, and health programs. To do this, the council works with non-governmental organizations (NGOs), occasionally inviting them to their meetings to gain insight into pending problems worldwide. The council consists of 54 member states, and the General Assembly selects 18 new members each year who serve 3-year terms. Additionally, to adequately address all topics, this council divides itself into a series of commissions that specialize in specific areas of social development. Contrary to how many organs of the UN function, ECOSOC has no binding resolution; this means that resolutions are passed on to the General Assembly to be considered as recommendations for all countries to adopt but are not forced to accept. Member countries are elected to serve in three-year terms by the General Assembly and are chosen strategically to achieve full regional representation. The council meets once a year during a six-week session held in Geneva or New York. During these meetings, voting procedures are done by a simple majority of votes—each state having a single one.

### II. Introduction

#### Description and Definition of the Topic

Illicit financial flows (IFFs) are illegal transactions of assets or money from one nation to another. The United Nations (UN) defines IFFs as “financial flows that are illicit in origin, transfer or use; that reflect an exchange of value instead of purely financial transactions; and that cross country borders” (SDG Action, 2022). When money is obtained, transported, or used unlawfully across international boundaries, it is characterized by the Global Financial Integrity (GFI), as an illicit flow. Another aspect of an IFF is that the outflows of developing countries, meaning the money leaving a nation or company, is much larger than the inflows, which is the money arriving at said nation. Governments worldwide are working together to tackle the main manifestations of IFFs, commonly identified as international bribery, tax evasion, drug trafficking, and money laundering. IFFs have disastrous impacts on developing countries, as, in most cases, the money transported through the illicit flows should ideally be used to develop impoverished communities and their economy (GFI, n.d.). The income lost from IFFs results in

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hundreds of millions of dollars that could have potentially been used for improving a country's livelihood. Every year, overbearing sums of money are lost to IFFs, and though this happens worldwide, it disproportionately affects developing countries "given their smaller resource base and markets" (OECD, 2021). Although different categories of illegal flows have been identified, delegates should focus on preventing the increase in IFFs and tackling the damages resulting from this issue.

## The Problem

As stated, illicit financial flows have become a significant problem in developing countries since these operations result in sizable sums of money lost from a country's development. This, therefore, "challenges their political and economic security" (The World Bank, 2017). Although the results of IFFs, such as organized crime, illegal exploitation of natural resources, corruption, fraud in trade, and drug counterfeiting have been identified, they are challenging to measure and track because of their illegal and dishonest nature. The main problem that stems from IFFs is the impact they cause on the economy of developing countries, seeing as IFFs can drain foreign exchange reserves, lower tax receipts, enable tax evasion, lower governmental revenue, and increase corruption.

However, it is also imperative to address where the money lost from developing countries commonly ends up. Most of the time, the sums of money trafficked from IFFs are transferred to fully-developed first-world countries; those who engage in IFFs find it more profitable to transact assets to economically developed nations (GFI, n.d.). This consequently fuels the economic disparity between nations, making it harder for global citizens to have equal opportunities (OECD, 2021). IFFs could also impact citizens from developed countries since this newfound money coming into their nation could impact both public and private domestic investment and expenditure. In other words, it could interfere with inflation and even result in the loss of resources.

One of the most common ways thought to counteract IFFs is to increase transparency between companies, governments, and citizens. However, the global consensus emphasizes that transparency should originate from the government and be directed towards its citizens, not vice versa. This belief is supported since governments demanding transparency from its people is considered by many to be a violation of their privacy. Nevertheless, "enforcing greater transparency of company ownership" is vital concerning IFFs (OECD, 2021). To illustrate, suppose there is a case in which a foreign direct investment goes through an empty corporate shell, a term used for a company with no active business. If no information is provided to authorities, all of the enterprises' actions become inconspicuous - this includes illegal activities. These unrestricted measures successfully shield the empty shell company and deceive the government from detecting a potential IFF. Individuals against transparency between the government and corporations emphasize that publicly disclosing the company's information,

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such as an enterprises' name, type of incorporation, address, or list of directors will increase the company's susceptibility to blackmailing, extortion, and cybercrime. Because of such issues, there is still an ongoing debate on whether companies should be transparent with their monetary transactions.

Discussing this topic is crucial because IFFs decrease tax revenue and domestic resources by diverting money from public priorities, such as infrastructure, crime, and education. On a larger scale, the draining of resources globally also hinders the resolution of more significant problems such as global warming, world hunger, and poverty, as it strips assets from the countries that struggle with these issues the most. Considering the World Bank predicts IFFs are "substantial and growing," the Economic and Social Council (ECOSOC) should discuss IFFs, their consequences, and their causes earnestly (GFI, 2017).

### III. History of the Topic Chronological History of the Topic

Historically, illicit financial flows have been an international phenomenon since the early 18th century. Today, IFFs modernly manifest in the forms of illegal trade, fraud, embezzlement, and other types of corruption. Over the years, IFFs have expanded globally, becoming a "trillion-dollar problem" (Gudzowska, 2022).

One of the earliest IFFs was observed during the First Opium War in the 1800s. This war was fought by the United Kingdom and China. By illegally smuggling opium across Chinese borders, British merchants were able to take advantage of Chinese resources and its vulnerable citizens. The import of opium fueled the illegal drug trade in China, and by 1838, China's rate of opium addicts had risen to a severe amount. Although the war eventually ended in Britain's victory, this event paved the way for similar IFFs in other nations.

After several decades, treaties with nations such as the Russian Empire, the Second French Empire, China, and Britain, were created to manage the growing drug trade. In the 20th century, countries like the United States started engaging in IFFs. Critical events during this time include the banning of liquor in 1933, the rise of the "modern American mafia", and the creation of large crime syndicates around the country (Snaello, 2022). Consequently, cartels, organizations, and individuals were contributing to the rising traction of IFFs because of their involvement with money laundering and drug trafficking amongst other illegal activities. An example of this would be when the notorious Colombian drug dealer Pablo Escobar and his cartel were ruling the international narcotics trade during the 1970s. Escobar became infamous because of the power and wealth he gained from his illegal activities, including money laundering, fraud, and more. Similarly, during the 21st century, North American and European countries started to influence the illegal drug trafficking market highly. The market for cocaine and marijuana had rapidly increased in demand. As a result, "international organized crime

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syndicates such as the Sinaloa Cartel and ‘Ndrangheta [...] increased cooperation among each other to facilitate trans-Atlantic drug-trafficking” (Snaello, 2022). As time progressed, the narcotics industry advanced and led to an assortment of involvement in IFF activities. Due to current circumstances, such as the COVID-19 pandemic, tackling IFFs has become more complex than ever recorded since the issue has advanced and become much more severe. Researchers found that “with the onslaught of the COVID-19 crisis, concerns are growing that the scale and scope of IFFs could be increasing as authorities are distracted and overwhelmed by the unprecedented economic fallout” (Gfintegrity, 2021). Countries continue to lose billions of dollars due to the abundance of illegal trafficking routes and terrorist organizations to this day. While research has been done to weed out the ever-growing patterns and trends of illegal activity, much work still needs to be done to eliminate or decrease the enterprises directly involved in IFFs.

## Historical Case Studies

### The First Opium War (1839–42)

As mentioned previously, since the 18th century, opium was illegally exported from India to China by foreign traders, primarily the British, but the trade increased significantly starting around 1820. The widespread addiction in China upset the country's social and economic order. Around 1,400 tons of opium were seized and burned by the Chinese authorities in the spring of 1839 from British merchants' storage facilities. Furthermore, when several inebriated British sailors murdered a peasant from China in July of the same year, tensions between the two sides grew stronger (Pletcher, n.d.). Though China demanded the culprits be put to trial in their country, the British government declined to deliver the accused individuals to Chinese authorities. It was later revealed the government did this because it did not want its citizens to be tried in the Chinese legal system. The roots of this war trace back to conflict during trade. China, who possessed great resources such as tea, silks, and porcelain, would only exchange their goods for silver. As a result, “large amounts of silver were leaving Britain” (National Army Museum, n.d.). In order to regain some of their silver, British and Indian merchants smuggled opium into the country, which made Chinese citizens addicted to the drug. British merchants would then only exchange opium for high amounts of silver. The payment delivered back to Britain was then used to buy more tea and Chinese goods. By 1839, “opium sales to China paid for the entire tea trade” (National Army Museum, n.d.). What initially started as an illegal trade escalated to violence and war. This conflict claimed “520 British casualties” and “between 18,000 and 20,000” killed or wounded Chinese citizens (Kamieński, n.d.). This war, centered by “psychoactive substances”, is one of the first instances recorded in which illicit transactions caused national damage and economic troubles (Kamieński, n.d.).

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## Wachovia Bank's ties with IFFs (2006-2009)

On April 10, 2006, an investigation was held about a plane landing in Ciudad del Carmen in Campeche, Mexico. It was believed that this aircraft was purchased by the Sinaloa drug cartel, an international organized crime syndicate dedicated to drug trafficking and money laundering. The plane was believed to be a vehicle to transport money and drugs; thus, it was investigated by law enforcement agencies like the United States Drug and Law Enforcement Administration (DEA) and the Internal Revenue Service (IRS), who were aided by Mexican authorities. The plane was believed to be the cause for multiple IFFs conducted by the Sinaloa drug cartel. Moreover, since the plane was found to be linked and handled by Wachovia banks, later taken over by Wells Fargo, the bank was subjected to an investigation as well.

Wells Fargo is a prominent American financial services company founded in 1852. During the investigation, "Mexican police forces also found 5.7 tons of cocaine valued at \$100 million dollars [...] in wire transfers, traveler's checks, and cash shipments through Mexican exchanges into Wachovia accounts" (Justice in Mexico, 2011). Additionally, 13 billion dollars were channeled through Wachovia bank accounts which purchased the airplanes that were employed for drug trafficking operations in Mexico. Consequently, Wachovia was investigated thoroughly, especially since the bank had failed an anti-money laundering program which the bank had previously committed to. After the investigation concluded, Wachovia faced a mandatory payment of \$110 million dollars worth of forfeiture and a \$50 million dollar fine. The case's federal prosecutor, Jeffrey Sloman, stated how the bank's "blatant disregard" for the U.S. banking system was met with a fine of less than 2% of Wachovia's 12.3 billion dollar profit in 2009 but "gave international cocaine cartels a virtual carte blanche to finance their operations by laundering at least \$110 million in drug proceeds" (Fletcher, 2010). According to the Justice in Mexico Organization, due to the multiple concerns and allegations between Wachovia banks and suspicious money transfers, the bank decided to terminate operations with some of its currency exchange locations in Mexico. As for this case, illicit financial flows significantly impacted the bank's economy and security since illegal activity took place in the planes tied to Wachovia, making American citizens' distrust part of their national banking system.

## Pablo Escobar and the Medellin Cartel (1980s and early 1990s)

As previously established, a common type of IFF is drug trafficking. A prime example of a drug trafficking IFF is the case of Pablo Escobar and his organized crime group controlling the Colombian narcotics industry. Escobar was a criminal known for previously being the wealthiest individual in the drug trafficking community during the 1980s and early 1990s. In his early life, Escobar was engrossed in a life of crime, with some of his early offenses being auto theft, fraud, and more. However, it was not until the mid-1970s that he began to carry out drug-related crimes. The cocaine industry was multiplying in Colombia at the time, and Escobar decided to capitalize on the illegal drug market by founding the Medellin cartel; the crime syndicate aimed to produce and smuggle cocaine into the United States.

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The Medellín cartel quickly grew successful, as they could fully control the international narcotics trade using a well-organized and well-financed team. Consequently, one of the most significant feats they achieved was when “3,748 pounds of cocaine was found in a Tampa International Airlines warehouse at the Miami airport”, marking the highest seizure of cocaine in U.S. history (Perera, 2015). Furthermore, the rise of the drug cartel led by Escobar put Colombian criminals under strenuous watch from law enforcement, as they were considered to be possibly linked to Escobar’s crimes, and hence, the transfer of IFFs. Pablo Escobar quickly became one of the most globally notorious criminals by his twenties, being worth “approximately \$25 billion” from his drug-related sales alone, leaving him with immense sovereignty and wealth (Britannica, 2022). After Colombian authorities successfully managed to detain Escobar in 1991, he surrendered himself and complied with authorities.

The druglord, along with the Medellín cartel, were an influential IFF case because of the amount of money transacted during the years in which the cartel was active. This case proved just how powerful the drug industry could become, with the cartel reportedly earning approximately “\$100 million in drug profits a day” during its prime (Serena, 2021). Authorities from Colombia, the United States, and Canada worked together to track and take down the cartel, mainly done by killing Escobar after his escape from jail in 1993. After his death, the enterprise completely fell apart without his leadership, marking the end of the Medellín cartel and the end of the countless IFFs the group took part in. Nevertheless, this case gained immense traction, which then inspired other drug cartels to use similar methods to illegally transact money.

## Huachicol (2019-Present)

Another example of a typically identified IFF is gas stealing. The *Guachicoles*, or *Huachicoles*, are groups who steal gas from transportation trucks or other sites. These groups primarily operate in Mexico because “oil in Mexico is nationalized, so corruption and theft of Pemex [the national oil company] directly implicates the Federal government” (MINNJIL, 2021). Pemex’s leading infrastructure, located in Guanajuato and Puebla, has “saddled one of the highest homicide rates per capita in México” (MINNJIL, 2021). This has been reported to be partly due to the systematic gas thievery, which is thought to involve violent Mexican cartels who operate the surrounding area. The primary goal of this group is to steal the fuel and later sell it illegally in black markets. The nature of the crime generates prominent violence in the area.

In just two years, “fuel theft [has] cost Pemex 2.46 billion pesos (US \$123.6 million) between 2019 and 2021” (Mexican Daily News, 2022). Mexico’s government has attempted to curb the issue, with Mexico’s current president, Andres Manuel Lopez Obrador (AMLO), enacting a program involving the collaboration of federal and local authorities to stop such crimes. The program also seeks to involve military support to dissuade criminal bands from stealing gas. Currently, this program has shown relatively positive results, with “[official]

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numbers [showing] a decrease in stolen gasoline from 81,000 stolen barrels a day to 5,000 since AMLO (Andres Manuel Lopes Obrador) assumed office.” (CSIS, 2022). Nevertheless, *Huachicoleros* continue to be one of Mexico’s leading concerns and known IFFs. Apart from the loss of resources, the stealing of petrol has implied corruption, since these operations are thought to be impossible to carry out without “official complicity or, at least, negligence [by authorities]” (CSIS, 2022). Moreover, it has led to the death of various citizens who are unfortunately caught in the crossfire between *Huachicol* groups and Mexican authorities. In essence, this is critical since it endangers the wellbeing of innocent citizens while damaging the country’s economy.

## Danske Bank (2007-2020)

Danske Bank, Denmark’s largest financial services company, had reportedly been found to have moved over 200 billion euros through the company’s Estonian branch between the years 2007 and 2015, making it Europe’s largest money laundering scandal known to date. The money mostly originated from Russia, the U.K., and Estonia; it was discovered in more than 150 countries, including China, Switzerland, and Turkey. The IFF began “following the acquisition from Danske Bank of Finnish Sampo Bank” (Bjerregaard, 2019). The Finnish company also had an Estonian branch; individuals later noticed that since 2007, there had been multiple suspicious signs involving the Estonian branch of the company. For instance, Russia’s Central Bank warned Danske that the branch was being utilized for dubious transactions. Moreover, “Estonian financial regulators [...] criticized the bank for underestimating compliance risks,” and not possessing enough information about their customers and employees’ activities (Logan, 2019).

Moreover, “Danske’s head office had no person responsible for anti-money laundering [protocols], as required by Danish law” (Logan, 2019). The vulnerability of the Danish bank to money laundering schemes caused J.P. Morgan, an American investment banking company, to terminate their relationship with the branch, which meant the company stopped being a correspondent bank for dollars. Later on, in 2014, a mid-tier executive in the Estonian branch reported suspicious activity from non-resident accounts moving up to 30 million U.S. dollars per day. This report led to the involvement of higher political institutions and a meticulous investigation of the topic.

Four years later, “Danske released the findings of the investigation from Bruun and Hjejle [a Danish law firm],” the report listed that “\$236 billion [dollars] of non-resident money passed through the Estonian branch from 2007 to 2015 because of inadequate control and money laundering checks at the branch” (Logan, 2019). With these updated reports, the “Danske Bank [could] reliably estimate the total financial impact of a potential coordinated resolution amounting to a total of 15.5 billion [dollars]” (Wass, 2022). Once the scale of the operation was discovered, the “U.S. Office for Foreign Assets Control, a Treasury enforcement

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agency, in December 2020 closed its investigation into potential sanctions breaches by Danske” (Wass, 2022).

When the scale of the IFF, in this case money laundering, increases to this capacity, the bank is not the only party affected. Instead, the citizens of Denmark lost trust in the country’s banking system as a whole, which ultimately hindered the government’s economic relationship with its citizens. Furthermore, this case demonstrates how anti-money laundering policies are vital in a company in regards to the prevention of IFFs. Implementing these processes would enhance the ability of such companies to detect IFFs in their earlier stages, which would prevent them from developing to the scale that Danske’s illicit financial flow grew. The research has revealed that “[tracing] is key to successfully investigating and disclosing the origins of [...] illicit trade”, which is what the Danske bank lacked (UN, 2022)

## Past UN Actions

Although IFFs are complex to properly track, as stated previously, the United Nations has held multiple conferences in order to address this issue and discuss possible action plans. For instance, IFFs are recognized in various sections across the Sustainable Development Goals (SDGs), with most of its mentions being within Goal 16, “Peace and Justice” (SDG, n.d.). For instance, target 16.4 states that by 2030, the UN’s plan is to “significantly reduce illicit financial and arms flows [and] strengthen the recovery and return of stolen assets” (SDG, n.d.). The UN has also collaborated with its internal organizations, such as the UN Office on Drugs and Crime (UNODC) and the UN Conference on Trade and Development (UNCTAD) to monitor the implementation and progress of such goals (UNODC, n.d.).

Furthermore, as of October 2020, there was a series of findings in regards to illicit financial flows published by UNODC, called the “Conceptual Framework for the *Statistical Measurement of Illicit Financial Flows*”; it was later approved by the United Nations in March 2022. This framework aims to provide full-on measures of IFFs elaborated by the UN, including statistics on their origin, transfer, use, exchange, and value. This project aids the international organization in obtaining a deeper insight into the illegal flows of money in order to be able to measure them and ideally halt their continuation.

Similarly, the United Nations has begun statistical research in over 42 countries, investigating their monetary routes and transactions. This investigation is essential in understanding the possible channels IFFs travel through, creating patterns and points of interest that may later be acted upon in the future. The UN also encourages countries to ratify the United Nations Convention Against Corruption, which will be amplified to “deter, detect, prevent and counter corruption and bribery, prosecute those involved in corrupt activities and recover and return stolen assets to their country of origin” (UNODC, 2016).

Working alongside the World Bank, the UN has dedicated itself to recovering stolen assets from developing countries regarding IFFs. The recent continent of focus is Africa, since

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they lose about “US\$88.6 billion, 3.7 [percent] of its gross domestic product (GDP) annually” due to IFFs (United Nations, n.d.). Additionally, the United Nations Economic Commission for Africa (UNECA) is collaborating with the UNCTAD, the UNODC, and the Addis Ababa Action Agenda on financing the reduction of illegal financial flows in the continent. The three main objectives of this project are to gain knowledge about the origin and extent of IFFs, demonstrate evidence for an effective policy response, and improve countries’ ability to measure them. Presently, the project has made progress by setting up a global task force and working with different stakeholders to create statistical measurements of illicit financial flows (SDG Pulse, 2022). The United Nations continues to develop investigations to prioritize the developing nations that are greatly struggling with the impacts of IFFs.

## IV. Key Players and Points of View

### Egypt

Egypt is currently one of the countries that is most impacted by IFFs. A 2014 economic report on the African continent found that “IFFs from Egypt are estimated to have reached US\$105.2 billion, [2007-2011] constituting 14.7 percent of the total illicit outflows from Africa” (UNECA, 2014). According to the UNCTAD, there are two general categories for IFFs: tax and commercial IFFs and crime-related IFFs. Reportedly, nations typically struggle with one of the categories more than the other; however, in Egypt, both cases are equally damaging to the country. Thus, Egypt is not only scrambling with IFFs due to their lack of economic safety measures, but also because of their “limited technical capacity to tackle cases of asset recovery and money laundering” (AfricaPortal, 2018). Because of Egypt’s vulnerability in this issue, the UN has begun a project named the “United Nations Joint Fund Support to Egypt for Integrated SDGs Financing” in order to aid Egypt to reach their SDGs amidst their economic crisis (UNCTAD, n.d.). This project has a budget of \$139,100 US dollars and one of its main goals is to manage the IFFs in the country. The action plan states that “UNCTAD will offer practical policies and statistical capacities to measure and reduce tax and commercial illicit financial flows” (UNCTAD, n.d.). Moreover, Egypt has joined the aforementioned “United Nations Convention Against Corruption,” which is meant to “deter, detect, prevent and counter corruption and bribery, prosecute those involved in corrupt activities and recover and return stolen assets to their country of origin” (UNODC, 2016). Nevertheless, Egypt has yet to follow the convention’s requirements and continues to jostle in recovering its assets.

### Mexico

Mexico is one of the nations most involved with money laundering schemes and illegal methods of garnering capital, mostly because of its ongoing war on drugs and organized crime. According to the Global Financial Integrity report titled *Mexico: Illicit Financial Flows*,

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*Macroeconomic Imbalances, and the Underground Economy*, the nation lost \$872 billion in potential taxes from 1970-2010 to illegal monetary flows, making them one of the leading countries most vulnerable to illicit economic activity. In Mexico, IFFs are prominent due to multiple factors, such as drug trafficking, corruption, and criminal activity. However, IFFs in Mexico are mainly caused due to the underground economy, which occurs when a country undervalues its exports and over values its imports.

A report to the Bank for International Settlements (BIS) shows that Mexico's trade sector primarily interacts with the United States, islands in the Caribbean, and Europe. It has been shown that trade with these countries commonly causes mispricing, which ends up in the loss of Mexico's assets. Moreover, since Mexico is one of the most prominent oil exporters, petrol contributes an important role in the underground economy, primarily because of its high demand.

Furthermore, data in the book "Illicit Financial Flows From Developing Countries: 2001-2010" by Dev Kar and Sarah Freitas, exposes the direct correlation between oil prices and the levels of illicit financial flows in Mexico. The chart shows that as oil prices in the United States increase, Mexico's IFFs increase. This encumbering imbalance makes Mexico, a developing country, lose the true worth of its exports to developed countries, such as the U.S.

Another IFF that many researchers seem to not take into account in Mexico is the IFFs from the smuggling of migrants. The UNODC estimates that during the years 2016 to 2018, an average of 13.8 millions of USD are generated from migrant flows; this includes illegal fees from smuggling migrants to other countries (UNODC, n.d.). The methodology concluded that the IFFs "are generated whenever there is a cross-border exchange of value related to services offered by smugglers not resident in Mexico that help Mexican irregular migrants to cross Mexico and enter the United States" (UNODC, n.d.). Overall, Mexico's illicit financial flows are mainly driven by the underground economy, trade mispricing, and smuggling of migrants. Mexico continues to have a lack of policies and actions regarding these issues, with researchers believing these illicit flows of money will only worsen in the future.

## United Kingdom

As mentioned before, the United Kingdom and their conflicts, such as the opium wars, set the example for the future of IFFs, making the UK a prominent country regarding this issue. Apart from their wars involving narcotics, the 20th century also caused illicit drug activity in the country, especially during World War I because "restrictions were placed on the possession [of] opium, cannabis and cocaine as part of wartime measures" (Transform Drug Policy Foundation, 2021). In these time periods, the UK attempted to enact multiple laws in order to contain illegal activity such as the The Misuse of Drugs Act (DrugWise, n.d.).

In recent years, the United Kingdom has played a significant role in combating the dilemma of IFFs, including crimes such as fraud and corruption. The British government has been involved in the Department for International Development (DFID), and its former prime

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minister, David Cameron (2010-2016), organized events to bring forth awareness to anti-corruption policies (ICAI, 2022). Similarly, Cameron urged for the UK to host the London Anti-Corruption Summit, in which “43 governments made over 600 pledges to tackle corruption” (Meads and Powell, 2021). Other UK government efforts have included multiple levels of action on a national and international scale; the nation “coordinates its anti-corruption efforts with international bodies” and tackles the issue within its own accord (ICAI, 2022). One of the leading solutions the British government has acted on is strengthening the government’s reliability and authority. The country has decided to reform public government procedures and national financial management.

Moreover, multilateral accounts and global efforts such as forming the “organization for Economic Cooperation and Development (OECD) guidelines,” focusing on money laundering, tax fraud, and corruption, will be implemented in the near future in attempts to combat IFFs (ICAI, 2022). However, the problem still prevails in the country as “64% of businesses have experienced fraud, corruption or other economic/financial crime within the past 24 months, a substantial increase compared to 56% in 2020, and 50% in 2018,” this is mainly due to the progression of technology and the rise of cybercrime that has been simultaneously generated advancements in these schemes (PricewaterhouseCoopers, 2022). Consequently, the UK will continue its efforts with international bodies, such as the United Nations, along with British authorities in order to seek solutions to the ever-growing issue of IFFs.

## Russia

Russia is one of the countries most involved in IFFs because of its high number of exports and imports. According to a study conducted in 2013 by Global Financial Integrity (GFI), “Russia lost at least US\$211.5 billion in illicit outflows from 1994-2011” (Freitas, 2013). This means that Russia has been evidently affected by IFFs, as it has had harmful repercussions to its economy. It was also estimated that over 46% of Russia’s GDP comes from its underground economy, which has significantly grown over the previous 18 years (Freitas, 2013). This is because illicit inflows and outflows happen discretely and will reportedly keep increasing in the following years. Additionally, GFI “estimated that around \$12 billion in illicit money has flowed out of Russia each year, a swift current in an even larger river of unrecorded outflows that may or may not be licit” (Kirschenbaum, n.d.). The study also discovered that approximately \$552.9 billion USD of these illegal transactions are mainly due to trade-based money laundering, also known as trade misinvoicing; both are a method that focuses on illicitly moving money among countries (Freitas, 2013).

The problem with Russia is that the country produces large opaque financial flows and a large percentage is illegal, which means that its economy depends on these IFFs. These transactions rob the required investment of the country, feed economic inequalities, and facilitate corruption and organized crime. Moreover, according to an article by the U.S. Department of Justice, “laundered cash, both foreign and domestic, has become integral to

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Russia's economy” (Celarier, 1994). The article also mentions that the money comes from drugs, arms sales, prostitution, and other illegal manners, showing how Russia is reliant on unjust means of profit.

Furthermore, the Financial Intelligence Units (FIU) of the United States, Canada, France, Germany, and Italy, among others, stated that they hope to ease some of Russia's problems because of the Ukrainian war. They intend to “[enhance] financial intelligence on sanction-related matters and associated financial flows and economic activities” (FCEN, n.d.). This means that these countries want to work to maintain a stable economy in Russia to prevent illicit financial flows . Their action plan consists of ensuring that participating Working Group Members are identifying concrete actions by increasing financial intelligence, engaging in concerning FIU discussions, and strengthening working relationships between FIUs, public authorities, and the private sector, among other targets (FCEN, n.d.). Nevertheless, Russia, amidst gaining support from other countries economically, still struggles with their IFFs, given that members of the Russian parliament planned illegal oil transfers within the country. One of these deals, organized by three Russian men tied to the parliament and Italian bankers, involved a “major Russian oil company selling diesel fuel to an Italian oil company at a discount” (Mayne, 2022). Although Russia received monetary aid to combat these IFFs, these illicit money flows will not halt until they resolve how politicians are prone to incite these unjust transactions.

## Colombia

The UNODC has recognized Colombia as one of the countries most prone to IFFs because of illicit drug trafficking and illicit gold mining; this is a threat to the country's economic development. The illegal markets for cocaine and gold, from the exploitation of minerals, fuel criminal rings associated with violence and human rights violations, which limit the opportunities for progress among the population (UNODC, n.d.). In Colombia, a major cocaine producer country, inward IFFs are generated when the cocaine produced is exported and trafficked globally . Outward IFFs are categorized by the acquisition of drugs that are imported from abroad, mainly for the payment of the chemical substances used in the different production processes. In the mining sector, inward IFFs are generated when gold produced outside the legal and regulatory framework is exported to the rest of the world. In contrast, outward IFFs occur when intermediate inputs needed to carry out illegal economic operations related to gold exploitation, such as chemicals, explosives, machinery, and equipment, are imported from abroad.

Colombia's unstable economy mostly is caused by the way the country's “heavily depends on energy and mining exports, making it vulnerable to fluctuations in commodity prices” (CIA, n.d.). Because of this reliance, its citizens are bound to resort to illegal means of profit such as involving themselves in the narcotics and illegal mining industries. Nonetheless, the UNODC has started multiple projects in the country to attempt to monitor its illegal movements. For instance, the “Forest-Warden Families Programme” aims to incorporate “farmer families into a

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process of voluntary eradication of illicit crops and the recovery of the forest in ecologically and socially vulnerable areas” (UNODC, n.d.). Despite these efforts, Colombia still has a long way to go for their citizens to relearn proper means of livelihood and profit.

## V. Possible Solutions

IFFs are complex to tackle because of their underground nature, which deceives authorities and governments — preventing their understanding of the roots of the illegal movements. Though many believe increasing transparency is the only way to combat this trillion-dollar issue, there are other, more effective ways to battle it, including implementing anti-money laundering policies and strengthening customer due diligence procedures among others.

A way to combat illegal monetary transactions is by implementing anti-money laundering policies (AMLs). Although it is commonly referred to as a way to combat IFFs, countries that implement this solution “have never been subject to any serious regulatory impact assessment or cost-benefit analysis,” meaning there is no data that prove this solution to be effective (Reed, 2011). However, due to the uncertainty of IFFs, researchers have suggested that AMLs will not damage a company’s performance, and could even benefit them in specific cases. For instance, adapting to Know Your Customer (KYC) standards is a known way to detect possible suspicious activity. KYC policies have been adopted by multiple countries, such as the United States, Canada, and Switzerland. These standards elaborate on the process financial institutions take when interacting with clients in different scenarios, such that the client is inspected before any binding negotiation. For example, “[identifying] the beneficial owner [and taking] reasonable measures to verify the identity of the beneficial owner” is a crucial aspect of determining potential manipulation of certain corporations in one’s favor (Financial Action Task Force, 2017). AMLs, if tracked accurately, have the potential to be helpful in preventing corporate service providers (CSP) from facilitating money laundering. This is done by including CSPs under AML legislation that forces them to disclose any suspicious transactions.

Another way to tackle IFFs is strengthening customer due diligence procedures. There is a need for financial institutions and non-financial companies alike to conduct “proper, risk-based, customer due diligence procedures, both when starting a business relationship and throughout the business relationship” (OECD, n.d.). This way, if there is any suspicious activity in a customer’s profile, the company could detect the possible IFF before it is fully carried out. Some important elements of these procedures include the following: obtaining sufficient identity documentation; this will help the company know exactly who the customer is and leave no room for false identification. Determining whether a client is politically affiliated; as previously showcased, many IFFs originate from the government or politically-involved individuals. Lastly, understanding “source of wealth and funds” is imperative (OECD, n.d.). If a bank is informed

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about the origins of the money, whether that be from a job or a benefactor, it decreases the possibility of a company managing money that was obtained by illegal means.

## VI. Current Status

Despite IFFs becoming more widespread, an annual report posted by the Financial Action Task Force (FATF) titled “Annual Report 2020-2021” stated that countries are becoming successful at being “effective in detecting, investigating, prosecuting and preventing financial crime”, meaning that the solutions being implemented are working (FATF, n.d.). However, the problem must continue to be addressed since those involved in IFFs persistently try to find innovative ways to move capital and avoid taxes. Moreover, although some developed countries have found success in their methodological approach to IFFs, developing countries with no means to carry out large-scale solutions have found their attempts unsuccessful.

Currently, IFFs are being taken more seriously, and many suggestions and action plans have been implemented to help counter this worldwide issue. However, as mentioned previously, not all of these solutions have been successful, and some haven’t been implemented correctly or at all by some countries. Presently, IFFs are a prominent problem in Africa; according to the UNODC, “Africa is estimated to be losing more than \$50 billion annually in IFFs. But these estimates may well fall short of reality because accurate data do not exist for all African countries” (UNODC, 2019). Because African countries have low resources, they are stuck in the cycle of IFFs, many of them even relying on these IFFs for profit. Similarly, in a recent UNCTAD study, it was found that there are two main IFF categories plaguing developing countries. Tax and commercial IFFs mainly target South Africa, Angola, Nigeria, Senegal, and others while crime-related IFFs are commonly found in Latin American countries such as Mexico, Colombia, Ecuador, and Peru. Unfortunately, there are countries such as Egypt, Vietnam, and Nepal that struggle with both. If nations do not tackle this issue soon, IFFs will become much harder to solve. The path to solving the issue is clear: nations must work to end IFFs and learn to acknowledge their causes. However, it is up to the committee to find an action plan that effectively deals with the mentioned problems.

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[https://www.unodc.org/documents/NGO/AU\\_ECA\\_Illicit\\_Financial\\_Flows\\_report\\_EN.pdf](https://www.unodc.org/documents/NGO/AU_ECA_Illicit_Financial_Flows_report_EN.pdf).

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