

This thematic brief provides Sida staff with a short introduction to illicit financial flows. It explains what IFFs are, how they connect to Sweden's broader development finance and anti-corruption objectives, and what can be done about them.

Developing countries require a wide range of financial flows for development and poverty reduction, encompassing both public and private sources as well as foreign and domestic capital. Within the broader financing for development (FFD) agenda, the issue of illicit financial flows (IFFs) has gained increasing prominence over the last decade. The enormous negative impact of IFFs is now recognized as a major impediment to poverty reduction, accountability, and economic stability. IFFs can both undermine a country's rule of law and drain nations of substantial resources that could otherwise be used to finance development. **For instance, in 2020, UNCTAD estimated that Africa alone loses approximately \$88.6 billion per year through IFFs, equivalent to 3.7% of the continent's GDP and more than both ODA (70 billion USD in 2023) and Foreign Direct Investment (48 billion in 2023) inflows to the continent.**¹ By curbing IFFs, Africa could significantly reduce its annual SDG financing gap.²

"Increasing revenue mobilisation ability is not enough if countries' resources are simultaneously drained as a result of illicit activity."

[*Inter-agency Task Force on Financing for Development*](#)³

Illicit Financial Flows: A definition

IFFs are defined by UNODC/UNCTAD as "financial flows that are illicit in origin, transfer or use, that reflect an exchange of value and that cross country borders".⁴

"Crossing country borders" is a central feature of IFFs, with resources typically flowing out of low-income countries with weak rule of law (source countries) into countries or territories with stronger property protections and often banking secrecy (destination countries).

TYPES OF ILLICIT FINANCIAL FLOWS

The UNODC/UNCTAD framework identifies four broad categories or sources of IFFs:



1. Tax and commercial practice IFFs:

These include flows of funds from tax evasion and aggressive tax avoidance⁵



2. Illegal market IFFs:

This category covers flows from trafficking in drugs, firearms, wildlife as well as people smuggling.



3. Corruption-related IFFs:

These encompass bribery, embezzlement, abuse of functions, and other forms of corruption involving transnational flows.



4. Exploitation-type and financing of crime and terrorism IFFs:

This includes flows related to forced labor, human trafficking, and financing of organized crime and terrorism.

IFFS AND THE FINANCING FOR DEVELOPMENT (FFD) AGENDA

Illicit Financial Flows are intricately linked to the Financing for Development (FfD) agenda, and the Addis Ababa Action Agenda explicitly calls for a substantial reduction in IFFs by 2030, emphasizing the need for improved international cooperation on tax matters and increased transparency in financial transactions⁶

The clearest connection between IFFs and the FfD agenda is within domestic resource mobilization. IFFs significantly reduce the tax base of affected countries, limiting their ability to mobilise domestic resources.

“The United Nations Conference on Trade and Development’s Economic Development in Africa Report found that some countries with high IFFs spend on average 25 per cent less on health and 58 per cent less on education compared with countries with low IFFs”.⁷

By combating IFFs, countries can potentially recover substantial funds that can be redirected towards achieving the SDGs. According to the [2023 Tax Transparency in Africa](#) progress report, **African countries have already realized additional revenues of €1.69 billion thanks to anti-IFF efforts** including voluntary disclosures, the implementation of information exchange mechanisms, and rigorous offshore investigations.

Illicit Financial Flows in Agenda 2030: SDG Target 16.4

With SDG target 16.4, the 2030 Agenda identifies the reduction of IFFs as a priority area: “by 2030, significantly reduce illicit financial flows and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organised crime”.

IFFS AND CORRUPTION

Corruption is a major source of illicit financial flows, allowing corrupt officials and criminals to move money across borders and hide illicit wealth in tax havens or foreign assets like real estate. Research shows that most large-scale corruption cases involve shell companies to conceal identities.⁸ This not only rewards corrupt behavior but also incentivizes further corruption.

IFFs can also facilitate corruption by creating new incentives and opportunities for corruption. Corruption may be used to facilitate the transfer of illicit goods between countries or as a means to avoid detection.

IFFs undermine the integrity of financial systems and public institutions, eroding public trust and hampering efforts to establish good governance practices. They create shadow economies that operate outside the realm of official oversight, making it difficult for governments to implement effective economic policies.

WHAT CAN BE DONE TO COMBAT IFFS?

Although policy responses to IFFs must depend on the type of IFF and the source and destination of the flows, a number of central tools are emerging in the fight against IFFs. Sida is already supporting some of these efforts. These include⁹:

- New methodologies to measure and track the flows of finance and illicit trade. See for example, recent [national-level estimates of IFFs](#).
- The development of “[Beneficial Ownership Registers](#)” to allow law enforcement agencies, civil society and journalists to uncover ownership relationships.
- Exchange of tax information mechanisms, for example through the OECD led [Global Forum on Transparency and Exchange of Information for tax purposes](#).
- Country by Country (CbC) reporting by multinationals, one of the [OECD/G20 Base Erosion and Profit Shifting \(BEPS\) minimum standards](#).
- Strengthening country anti-money laundering (AML) systems, for example regulation of financial institutions to meet AML standards set by the [Financial Action Task Force](#).
- Efforts to end [financial secrecy jurisdictions](#) and the abuse of [Double Taxation Agreements](#).
- Initiatives to increase transparency around [debt and tax issues](#).
- [Asset recovery efforts](#) to return stolen assets to their countries of origin.

Example: Sida’s support to tax transparency and exchange of information for tax purposes

Through the Global Strategy for Sustainable Economic Development, Sida supports the **Global Forum on Transparency and Exchange of Information for Tax Purposes** — an international network with more than 170 member jurisdictions working on the implementation of global transparency and exchange of information standards around the world. The forum establishes international tax transparency standards, conducts peer reviews of national systems, and provides technical assistance to improve countries’ financial information exchange mechanisms.

CONCLUSION

IFFs have become a new frontier in global efforts to combat transnational corruption and other crimes, as well as an emerging area of focus in development finance. Sida has a good track record of supporting efforts to combat IFFs, particularly at global and regional levels, but, given the size of the challenge and its links to other global challenges, will need to further strengthen these efforts in the coming years at global, regional and country levels.

REFERENCES AND FURTHER RESOURCES

UNCTAD and UNODC, Conceptual Framework for the Statistical Measurement of Illicit Financial Flows (Vienna, 2020): [UNODC/UNCTAD "Conceptual Framework for the Statistical Measurement of Illicit Financial Flows"](#)

2020 UNCTAD: [Tackling illicit financial flows for sustainable development in Africa](#)

2015 AU-ECA High Level Panel on Illicit Financial Flows from Africa (the Mbeki Panel): [Illicit Financial Flows: Report of the High Level Panel on Illicit Financial Flows from Africa | African Union \(au.int\)](#)

Addis Ababa Action Agenda of the Third International Conference on Financing for Development (2015): [2051AAAA Outcome Dokument](#)

OECD Global Forum on Transparency and Exchange of Information for tax purposes 2023 Tax Transparency in Africa 2023: Africa Initiative Progress Report: [OECD temporary archive](#)

Endnotes

- 1 See [UNCTAD \(2020\)](#) for IFF estimate, OECD (2024), ["Geographical Distribution of Financial Flows to Developing Countries"](#) for ODA and [UNCTAD \(2024\), "UNCTAD Investment Monitor"](#) for FDI.
- 2 UNCTAD (2020) Tackling Illicit Financial Flows for Sustainable Development in Africa
- 3 United Nations Inter-Agency Task Force on Financing for Development (2017) Financing for Development: Progress and Prospects
- 4 UNODC/UNCTAD (2020) [Conceptual Framework for the Statistical Measurement of Illicit Financial Flows](#)
- 5 The inclusion of (legal) aggressive tax avoidance or tax planning in the IFF definition is subject to debate and conceptual challenges. Aggressive tax planning is defined by the European Commission as "taxpayers' reducing their tax liability through arrangements that may be legal but are in contradiction with the intent of the law,"
- 6 UN Addis Ababa Action Agenda (2015)
- 7 UNCTAD (2020) Tackling Illicit Financial Flows for Sustainable Development in Africa
- 8 U4 (2012) [Tackling shell companies: Limiting the opportunities to hide proceeds of corruption](#)
- 9 This is a non-exhaustive list intended to give examples of activities that donors may support. For a more comprehensive overview see for example U4's Basic Guide to IFFs [Defining illicit financial flows](#)