CORRUPTION AND ILLICIT FINANCIAL FLOWS IN NEPAL

Tara Prasad Bhusal[*]

ABSTRACT

In recent years, considerable intellectual interest has arisen over the extent of illicit financial flows which may have development, governance or other consequences for both developed and developing countries. Illicit financial flows involve the cross-border transfer of the proceeds of corruption, trade in contraband goods, criminal activities, and tax evasion. The main objective of this article is to explore the current situation of illicit financial flows from the developing countries with special reference to south Asia and Nepal. The article also explains its causes, impact and measures to stem those flows. Although much effort and resources have been used to stem the illicit financial flows in the world, it is in increasing trend specially in case of developing world.

Key Words: Illicit financial flows, corruption, money laundering, tax havens.

INTRODUCTION

The term "illicit financial flows" is understood differently by different stakeholders. At one end of the spectrum, IFFs are defined strictly as capital flows that are illegal in the way they are created, transferred, or utilized. Funds that are illegally earned, transferred or utilized are called illicit financial flows (IFF). Global Financial Integrity (GFI) classifies this movement as an illicit flow when the funds are illegally earned, transferred, and/or utilized. 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, VAT, or income taxes; a corrupt public official using an anonymous shell company to transfer dirty money to a bank account in the United States; an human trafficker carrying a briefcase of cash across the border and depositing it in a foreign bank; or a terrorist wiring money from the Middle East to an operative in Europe (GFI, 2016). Components of IFFs include: theft, bribery and other forms of corruption by government officials, other criminal activities, including drug trafficking, money laundering, racketeering and counterfeiting, international commercial

[*] Mr. Bhusal is Reader in Economics at Central Department of Economics, Tribhuvan University, Kirtipur, Kathmandu, Nepal.

transactions, including tax evasion, trade mispricing, over or under invoicing etc. mostly involving multi-national corporations.

In the international development community, the concept of IFFs is emerging as a powerful and constructive umbrella to bring together previously disconnected issues. The term emerged in the 1990s and was initially associated with capital flight. It now generally refers to cross-border movement of capital associated with illegal activity or more explicitly, money that is illegally earned, transferred or used that crosses borders. This falls into three main areas:

(a) The acts themselves are illegal (e.g., corruption, tax evasion); or

(b) The funds are the results of illegal acts (e.g., smuggling and trafficking in minerals, wildlife, drugs, and people); or

(c) The funds are used for illegal purposes (e.g., financing of organized crime).

However, there is an ongoing global discussion on whether and what commercial activities – such as tax avoidance – should be considered part of IFFs, considering that many business practices to lower tax liabilities are legal. So, while the term “illicit financial flows” is increasingly used, there is still no agreement on the precise definition. The World Bank Group recommends focusing on flows and activities that have a clear connection with illegality. Regardless of how IFFs are precisely defined, it’s clear that the flows are an impediment to development. What’s most important is to understand how and why money flows out of developing countries and to devise strategies to stem these flows (World Bank, 2016).

The concept of illicit financial flows is characterized by a lack of terminological clarity, which in turn limits effective international discourse and coalition-building as well as the development of adequate policy recommendations. The OECD (2015) defines that the term illicit financial flows as being generated by “a set of methods and practices aimed at transferring financial capital out of a country in contravention of national or international laws. In practice an ‘illicit financial flow’ ranges from something as simple as a private individual transferring funds into his/her account abroad without having paid taxes on the funds, to highly complex money laundering schemes involving criminal networks setting up multi-layered multi-jurisdictional structures to hide ownership and transfer stolen funds". The term capital flight is often used synonymously for illicit financial flows.

Capital flight, however, refers to money flowing out of a country in search for investment opportunities that are both secure and likely to yield a high return on investment. This may be in response to an unfavorable event in the country of origin or in anticipation of such an event. Money leaving developed economies with high saving rates is mostly termed as foreign direct investment, while capital flight usually refers to money leaving developing countries. Capital flight might be licit or illicit depending on the source of the capital and the method used to transfer the money. While economists and international organizations have discussed capital flows for decades 2, illicit financial flows have only recently been receiving widespread attention.

REVIEW OF LITERATURE

Illicit financial flows are a consequence of inequity of the macro-economy, and in turn make a large contribution to that inequity (Kar and Cartwright-Smith, 2010; UNECA, 2014). Illicit flows are defined as "Money that is illegally earned, transferred, or utilized" (Kar and Cartwright-Smith 2007, iv). It includes illegal capital flight but not substantively large legal or 'licit' capital flight, where flows are specifically in violation of laws and regulations. Also, according to Global Financial Integrity, it does not currently include criminal smuggling or proceeds derived from mispriced asset swaps (Kar and Cartwright-Smith, 2007). According to UNECA, estimates are low because they do not include the proceeds of smuggling or the mispricing of services. The definition includes trade mispricing, but there is a notorious difficulty in working out where the licit and illicit begin and end when so many trade transactions take place between parts of the same firm and where 'arm's-length' pricing data is unavailable. This latter context is that which defines trade pricing in much of the African natural resource sector, which is both oligopolistic and opaque (Bracking and Sharife, 2014).

Baker (2005) generated the term IFFs to include unrecorded capital flows from criminal corporate transfers and related practices, the proceeds of corruption, and the proceeds of trade in illegal goods and in people. While much focus goes to government corruption, Baker estimated that 60–65 per cent of IFFs globally are generated through commercial transactions in multinational corporations, particularly through trade mispricing. Thirty to 35 per cent are criminal such as trade in drugs, weapons and people, while five to seven per cent are generated by corruption, defined in its boundary type as the bribery of public officials. However, as Chaikin and Sharman (2009) note "corruption and money laundering are symbiotic: not only do they tend to co-occur, but more importantly the presence of one tends to create and reciprocally reinforce the incidence of the other. Thus many IFF components, such as transfer pricing, are facilitated by corruption, such that its low measurement might belie its importance or facilitation of the other categories (UNECA, 2012).

Kar and Cartwright-Smith (2009) provided an estimation of the volume and pattern of IFFs from developing countries by using a combination of the World Bank Residual model and the Trade Mispricing

Model and two measures of net external indebtedness of the public sector based on changes in the stock of external debt (CED) and the net debt flows (NDF). They find that in 2006, developing countries lost an estimated US$858.6 billion to US$1.06 trillion in illicit financial outflows. As worrying as the global total was, over the five-year period of the study (2002 to 2006) IFFs grew at a compound rate of 18.2 per cent. Dev and Cartwright-Smith (2008) put illicit money flows from developing countries at between US$800 billion and US$1 trillion by 2006 (Palan *et al*., 2010).

Baker (2005) argued that half of this flows out of developing and transitional economies and into major international banking centres. He further estimates that 80 to 90 per cent is a permanent outward transfer, but that some comes back as FDI having taken a 'round trip' (Baker, 2005). Illicit money annually and to date amounts to an estimated US$800 million to US$1.3 trillion (Palan *et al.,* 2010).

OBJECTIVES AND METHODOLOGY

The main objective of the paper is to explore the concept of illicit financial flow and present status of illicit financial flows of developing countries and Nepal. This paper also tries to explore the impact of corruption to the illicit financial flows as well as its impact in the economy. The methodology adopted in this article is analytical and explanatory. This paper is based on the secondary data published mainly by Global Financial Integrity.

FORMS OF ILLICIT FINANCING FLOWS

Illicit financial flows are often defined as the transfer of illegally earned assets or the hiding of legally earned assets to facilitate illegal tax evasion. The Eurodad (2016) report 'Giving with one hand and taking with the other: Europe's role in tax- related capital flight' expanded upon common definitions to include aggressive tax planning or tax avoidance. The report explains the tax avoidance is a "technically legal activity that results in the minimization of tax payments" and significantly contributes to the volume of illicit financial flows. Illicit financial flows take many forms and circulate through a global maze in which ownership is obscured and profits, assets, and tax authorities become lost. If one or more of the following conditions is fulfilled, then such funds are considered to be illicit. The transfer itself is illegal; the funds are proceeds of illegal activity; legal obligations relating to the funds, such as payment of tax, have not been observed.

TRANSFER MISPRICING

This is used by large corporations to reduce their tax bill by trading between two related companies. Goods are exported under one invoice which is redirected to a tax haven. The price is then altered on the invoice and sent to the importing country for payment.

This process shifts profits out of developing countries and reduces the tax received by governments though either import-overpricing or export under-pricing.

ROUND-TRIPPING

This is the practice whereby, profits located overseas return to their country of origin disguised as foreign-direct-investment. By obscuring ownership and origin companies are able to harvest the favorable tax breaks offered to foreign direct investors.

HIDDEN OWNERSHIP

The complex architecture that allows for round-tripping is made up of shell companies, foundations and trusts with nominal beneficiaries that operate to exploit tax loop-holes by concealing who the actual owners are. Profits directed through tax havens can then be disguised or laundered and returned to their owner as profits legitimately earned.

INFORMAL FLOWS

Not all informal flows are illicit. Many cross-border flows are legitimate remittances sent home by workers abroad through underground banking systems. Such systems may be used simply due to difficulties faced by such persons in opening bank accounts, or because the recipients of such flows (typically poor relatives) have no bank accounts (McCusker, 2005).

CAPITAL FLIGHT

The term capital flight is often used as a synonym for illicit flows. However, capital flight is generally understood as the movements of fund abroad in order to secure a better return or protect them, often in response to an unfavourable event in the country of origin (Kant, 2002). Capital flight may be legal or illegal. In the former case – for example where an investment fund transfers assets from domestic government bonds to safer government bonds in a different country – capital flight will be recorded on the books of the entity transferring the capital, and returns on the investment are likely to return to the source country. Illegal capital flight tends to be unrecorded and typically of proceeds of illegal activities – in other words illicit flows:

(i) **MONEY LAUNDERING:** Money laundering is a process to disguise the source of criminally derived proceeds to make them appear legal. Money laundering is a specific legal concept that includes only the proceeds of a set of predicate criminal offences, which are defined by the laws of a given country. Funds originating from other criminal offences may not be used to build a case of money laundering in that particular country, although such funds may well be illicit as defined by this paper. This is important for practical purposes, as anti-money laundering regimes suffer from the fact that the range of predicate offences on which a money laundering prosecution may be based varies across countries, and does not always include corruption and tax evasion. Put another way, conflating illicit flows and money laundering may tend to encourage over-reliance on anti-money laundering policy (AML) to tackle illicit flows.

(ii) **TAX HAVENS:** The term tax haven conjures images of tropical islands but 'secrecy jurisdiction' is a more apt term as secrecy is the service provided. "By providing high secrecy, tax havens are the privileged destination of money from crime, the drugs trade and corruption. But this is just the tip of the iceberg. A much bigger share of activities taking place in tax havens are the result of legal operators. Transnational corporations commonly use tax havens in order to escape tax burdens and regulation as well as to disguise their accounts and indebtedness levels. Big international banks and insurance companies have subsidiary companies registered in tax havens and most of the hedge funds and private equity funds are registered in tax havens."

CORRUPTION AND ILLICIT FINANCIAL FLOW

Corruption distorts public policies in that resources are allocated not based on efficiency or internal rates of return but in favor of those who are willing and/or able to bribe or pay kickbacks to public officials. Weak governance spawns public corruption and encourages corporate malfeasance. Public corruption typically involves the abuse of authority or trust for private benefit. But this is a temptation indulged in not only by government officials but also by rent-seekers in private enterprises and nonprofit organizations. In general, poor governance provides greater latitude for corruption, both in the public and private sectors, so long as the corrupt are convinced that they are likely to get away with the loot. The misallocation of resources also hurts the private sector because infrastructure tends to get neglected even as the corrupt enrich themselves at the expense of the state. The impact on the poor is particularly harmful because the siphoning of funds reduces resources for social programmes and investments in the MDGs. The state of governance and the extent and type of corruption will vary considerably from one LDC to the next depending upon institutional weaknesses, cultural and historical propensities, economic structure and policies, state of bureaucracy, etc. Hence, the policies needed to strengthen governance and curtail the generation of illicit funds would also vary depending on these factors.

SOURCES OF ILLICIT FINANCIAL FLOWS

Illicit financial flows have different sources. There are tax-related components such as domestic tax evasion and avoidance, which become an illicit financial flow if the proceeds are transferred across borders.

International tax evasion and avoidance is another component of illicit financial flows, i.e. making deliberate use of a mis-match in different countries' tax systems. Transfer mis-pricing is a form of international tax evasion and avoidance while at the same time being a method used to transfer money across borders. Other components such as proceeds from drug trafficking or domestic corruption that have illegally crossed borders, are also part of these flows.

TAX-RELATED COMPONENTS

According to UNCTAD, as the economy became more globally integrated, so did corporations. Globalization has resulted in a shift from country-specific operating models to global business models which make use of integrated supply chains and centralized management and line functions either at the regional or the global level. The growing importance of the service component of the economy, and of the e-economy has made it much easier for businesses to locate many productive activities to geographic locations that are distant from the physical location of their customers. This has facilitated non- or low taxation of economic activity, which artificially segregates taxable income from the activities that generate it.

Tax evasion and avoidance: Tax avoidance could be a strictly legal arrangement used to lower a taxpayer's tax liability though contradicting the intent of a country's tax law. Tax evasion is an illegal practice where a taxpayer hides income or information from the tax authorities thereby paying less tax than he would be legally obliged. While tax avoidance may not be illegal, it can be regarded as an abusive tax practice if it clearly violates the intent of tax legislation and thus the will of elected parliaments.

Transfer mis-pricing: Transfer pricing refers to the mechanism by which cross-border intra-group transactions are priced. This is in itself a normal part of how an MNE operates. However, if the price that is charged between different companies belonging to the same group does not reflect their true economic value, and thus not at arm's lengths, profits might effectively be shifted to low-tax or no-tax jurisdictions and losses and deductions to high-tax jurisdictions. This practice, commonly referred to as transfer mis-pricing, unfairly deprives a country of tax revenues thus reducing the amount of resources available for funding public goods and services.

PROCEEDS FROM ILLEGAL ACTIVITIES

Proceeds from illegal activities are the money earned from illicit activities. The activities that give rise to such proceeds can be purely domestic activities, such as theft or corruption. However, as the world has globalized, so has the crime. The proceeds from transnational organized crime such as trafficking of humans, drugs, firearms and environmental resources (for example wildlife and timber); product counterfeiting, maritime piracy, migrant smuggling and cybercrime are both a source as well as a method of an illicit financial flow. The activities giving rise to such proceeds will often take place in developing countries but the proceeds will only materialize once the products of such economic activity crosses borders (with the exception of maritime piracy, where ransom is extorted).

ILLICIT FINANCIAL FLOWS FROM DEVELOPING COUNTIES

Report from Global Financial Integrity, "Illicit Financial Flows from Developing Countries: 2004-2013," finds that developing and emerging economies lost US$7.8 trillion in illicit financial flows from 2004 through 2013, with illicit outflows increasing at an average rate of 6.5 percent per year—nearly twice as fast as global GDP. During this ten-year period, the developing world as a whole lost US$7.8 trillion in real terms, these flows increased at 6.5 percent per annum. After a slowdown during the global financial crisis, illicit outflows have been rising, topping US$1trillion since 2011 and reaching a new peak of US$1.1 trillion in 2013 (Table-1, GFI, 2016).

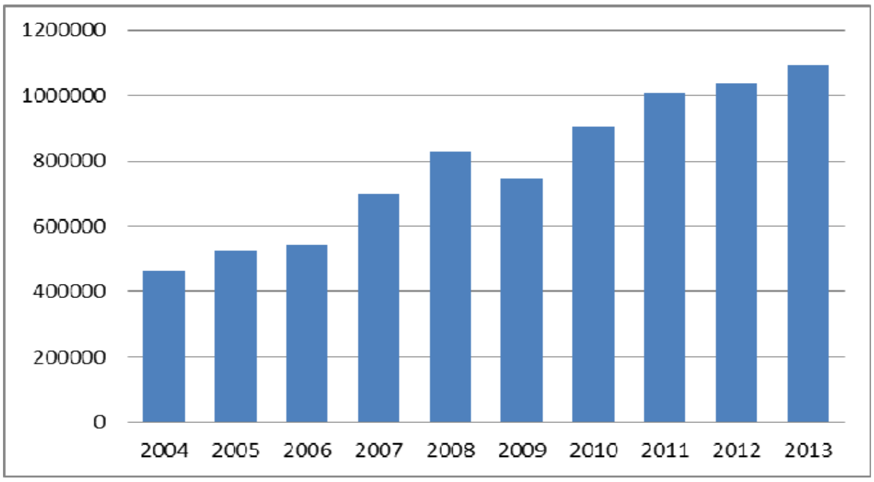
Table-1: Illicit Financial Flows from Developing Countries, by Region, 2004-2013 (in billions of U.S. $, nominal)

Region	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Cumulative**	**Average Share**
Sub-Saharan Africa	32.5	51.9	56.4	77.0	78.6	85.0	78.0	74.3	66.7	74.6	675.0	8.6%
Asia	174.6	191.9	209.1	236.5	277.5	277.1	381.7	361.1	456.7	482.0	3,048.3	38.8%
Developing Europe	107.3	118.4	133.8	190.6	233.8	204.9	221.8	295.5	242.5	250.4	1,998.9	25.5%
MENA+AP	29.9	31.0	33.3	57.4	80.3	51.9	53.0	81.1	68.2	70.3	556.5	7.1%
Western Hemisphere	120.9	131.4	111.0	137.7	157.8	128.1	172.0	195.8	201.8	212.8	1,569.3	20.0%
Total	**465.3**	**524.6**	**543.5**	**699.1**	**828.0**	**747.0**	**906.6**	**1,007.7**	**1,035.9**	**1,090.1**	**7,847.9**	-

Sources: GFI, 2016.

From the Table-1, it is revealed that the illicit financial flows have been increasing throughout from 2004 to 2013. It is also found that developing countries of Asia occupies about 39 percent of illicit financial flows. The Figure-3 also shows that Illicit Financial Flows from Developing Countries during the period 2004-2013 is in increasing trend.

Figure-3: Illicit Financial Flows from Developing Countries: 2004-2013(in billions of U.S. $ nominal)



Source: GFI, 2016.

ILLICIT FINANCIAL FLOW IN SOUTH ASIAN COUNTRIES

India ranked top in the South Asian Illicit Financial Flows Index, reporting illegal outflows of $510.29 billion in between 2004 and 2013, followed by Bangladesh, which recorded illicit outflows of $55.88 billion in the same period. Globally, $7.85 trillion worth of illicit financial flows were reported in between 2004 and 2013, the report says.

Table-2: South Asian Ranking of Illicit Financial Flow

Country	South Asian Ranking	Global Ranking	Average Illicit Financial Outflow (million US$)	IFF as Percentage of GDP
India	1	4	51029	3.75333
Bangladesh	2	26	5588	5.25404
Sri-Lanka	3	53	1997	4.70886
Nepal	4	86	567	4.2559
Pakistan	5	109	192	0.11248
Afghanistan	6	115	133	1.08417
Maldives	7	120	109	5.51958
Bhutan	8	132	40	2.45612

Source: GFI, 2016.

The Table-2 also shows that the percentage of average IFF to the GDP of Maldives is 5.51 which is the highest in south Asia followed by Bangladesh.

ILLICIT FINANCIAL FLOWS AND NEPAL

Nepal recorded illicit financial outflows of $5.67 billion in between 2004 and 2013, or average of $567 million per year, shows the latest report, 'Illicit Financial Flows from Developing Countries: 2004-2013', released by Global Financial Integrity (GFI), a Washington, DC-based non- profit research and advisory organisation. In Nepal, of the total money that flowed out in between 2004 and 2013, $5.39 billion, or 95 per cent, was related to import under-invoicing, says the report (GFI, 2016).

Table-3: Illicit Financial Flow of Nepal, constant 2010 million US$.

Year	2007	2008	2009	2010	2011	2012	2013	Cumulative	Average
Illicit Financial Outflow	544	854	899	1,521	262	NA	NA	5,674	567
Hot Money Outflows	NA	107	NA	175	NA	NA	NA	282	28
Trade misinvoicing	544	747	899	1,346	262	NA	NA	5,392	539

Source: Global Financial Integrity, 2016.

GFI estimates that in 2013, US$1.1 trillion left developing countries in illicit financial outflows. This estimate is regarded as highly conservative, as it does not pick up movements of bulk cash, the mispricing of services, or many types of money laundering (GFI, 2016).

IMPACT OF ILLICIT FINANCIAL FLOWS

Many empirical studies suggested that illicit financial flows are a problematic phenomenon. Due to these flows, countries forfeit large amounts of money. In fact, illicit financial flows drain resources and tax revenues as well as foreign reserves. Illicit financial outflows drain hard currency reserves, heighten inflation, reduce tax collection, cancel investment, undermine trade, worsen poverty, and widen income gaps. The followings are the major impacts of illicit financing flows.

(i) **Challenge on Political and Economic Security**: IFFs pose a huge challenge to political and economic security around the world, particularly to developing countries. Corruption, organized crime, illegal exploitation of natural resources, fraud in international trade and tax evasion are as harmful as the diversion of money from public priorities. Illegal logging, fishing and mineral extraction are strongly connected with deforestation, the depletion of fishing stocks and environmental degradation as well as the impoverishment of individuals and communities who rely on those resources to sustain their existence. Drugs counterfeiting can have even more dire consequences, such as the thousands of preventable deaths from malaria and tuberculosis due to sub-standard counterfeit drugs.

(ii) **Hampering Domestic Resource Mobilization**: Domestic resource mobilization (DRM) and IFFs are closely linked, as tax evasion, the practice of illegally hiding income from tax authorities and sending it abroad hampers government efforts to mobilize domestic resources. Global estimates indicate that IFFs are substantial and growing. IFFs are inherently difficult to measure, given the illegality of the flows and their underlying activities. While it's difficult to quantify IFFs, there is widespread agreement that the amounts involved are significant and growing and that they pose deep problems, particularly in resource-rich countries and fragile and conflict-affected states.

(iii) **Low Level of Investment and Capital Stock:** The long-term effects of such flows on economic growth may be just as problematic. Lower levels of investment and a low capital stock, due to money illicitly leaving the country, could hamper economic development in the medium and long term. Money held in secrecy jurisdictions that was moved to be hidden from local tax authorities is no longer available for investments in the real economy and subsequently distorts investment patterns. Commercial activities are providing, due to their illegal nature, high returns crowd out other economic activities and entrepreneurial ventures.

(iv) **Impact on Governance System:** Another long-term consequence of illicit financial flows is the impact that such flows have on a countries' governance system. The illegal activities that give rise to parts of illicit financial flow and/or the illegal activities that are used to transfer the money across borders undermine both the institutions that are responsible for curtailing such flows (such as anti-money laundering units, central banks, financial intelligence units, tax administrations) and the democratic institutions that-willingly or due to a lack of capacity fail to hold those responsible accountable. Inevitably, tax revenues that are "lost" as companies are shifting their profits and/or other illicit activities have to be compensated through higher taxes on compliant taxpayers, such as small and medium-sized companies and individuals, severely compromising tax justice and thus further damaging a country's governance system.

MEASURES TO STEM ILLICIT FINANCIAL FLOWS

The objective is not to be exhaustive with regard to the various methods used to generate and transfer illicit funds.GFI recommends a number of steps that governments and other international regulators can take to develop greater financial transparency and curtail illicit outflows.

(i) **Beneficial Ownership:** Governments should establish public registries of verified beneficial ownership information on all legal entities, and all banks should know the true beneficial owner(s) of any account opened in their financial institution.

(ii) **Anti-Money Laundering:** Government authorities should adopt and fully implement all of the Financial Action Task Force's anti-money laundering recommendations; laws already in place should be strongly enforced.

(iii) **Country-by-Country Reporting:** Policymakers should require multinational companies to publicly disclose their revenues, profits, losses, sales, taxes paid, subsidiaries, and staff levels on a country-by-country basis.

(iv) **Tax Information Exchange:** All countries should actively participate in the worldwide movement towards the automatic exchange of tax information as endorsed by the OECD and the G20.

(v) **Trade Misinvoicing:** Customs agencies should treat trade transactions involving a tax haven with the highest level of scrutiny. Governments should significantly boost their customs enforcement by equipping and training officers to better detect intentional misinvoicing of trade transactions, particularly through access to real-time world market pricing information at a detailed commodity level.

(vi) **Sustainable Development:** The indicator for SDG goal 16.4 should be country-level estimates of illicit outflows related to misinvoiced trade and other sources based on currently available data, and the International Monetary Fund or another qualified international institution should conduct and publish the analysis annually.

CONCLUSION

Although much efforts and resources have been used to stem the illicit financial flows in the world, it is in increasing trend specially in case of developing world. The poorest developing countries including south Asian countries will continue to rely on tariff revenues as a major source of revenues given weak domestic taxation, and as long as such duties are levied, smuggling will continue. In addition, the significant fiscal deficits in many LDCs may well be driving tax evasion as higher deficits signal to private markets that direct and indirect taxes may have to increase in the medium term in order to close the gap. Even higher rates of economic growth achieved by some LDCs in recent years could act as a driver of illicit capital if growth is not accompanied by a better distribution of income.

These out flows are of serious concern, given inadequate growth, high levels of poverty, resource needs and the changing global landscape of official development assistance. Although Nepalese economies have been growing at an average of about 5 per cent a year since the turn of the century, this rate is considered encouraging but inadequate. It is, for example, below the double-digit growth that has propelled transformation in parts of Asia. Further, the benefits of this growth have mostly been confined to those at the top of the income distribution and it has not been accompanied by an increase in jobs.

The subject of illicit flows (like corruption) is clouded by a lack of terminological clarity, which obstructs an effective policy debate. According to all credible evidence, illicit flows are a phenomenon on a massive scale. They have a major negative impact, particularly on developing countries, while the net effect for rich democracies may well be positive. Illicit flows are intimately linked to large-scale corruption. Acknowledgement of this is important in order to clarify the extent and ways in which corruption may be tackled via policies to stem illicit flows. Policies to tackle corruption through addressing illicit financial flows have been focused primarily on anti-money laundering (AML) policy. Current policies to tackle, prevent, or address illicit flows and by implication to tackle corruption by hindering such flows – should therefore be based on an evidence-based approach to policy selection, a better balance between different policy instruments (including an emphasis on good governance policies to prevent the corruption that yields illicit flows), and an equitable allocation of the costs of implementing such policies between rich and poor countries.

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