

Tackling the Sources of Corruption and State Capture: **Illicit Financial Flows**

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Outline



- What is Illicit Financial Flows (IFFs)?
- Why is this a crucial topic?
- What are the main components, channels, and drivers of IFFs?
- Contextualizing IFFs in Southeast Europe!



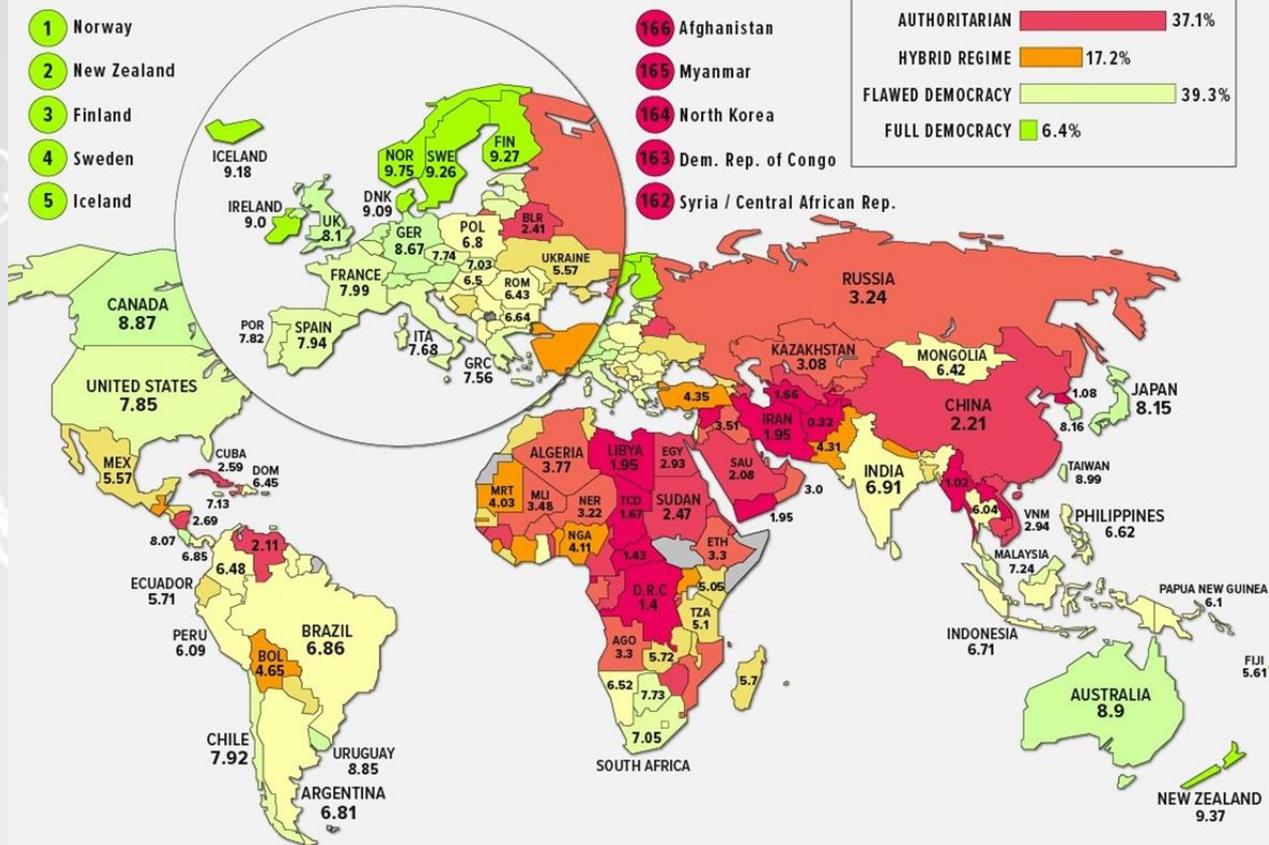
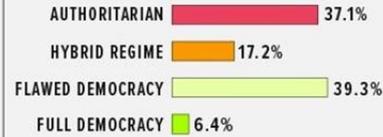
Top 5 Ranked Countries

- 1 Norway
- 2 New Zealand
- 3 Finland
- 4 Sweden
- 5 Iceland

Bottom 5 Ranked Countries

- 166 Afghanistan
- 165 Myanmar
- 164 North Korea
- 163 Dem. Rep. of Congo
- 162 Syria / Central African Rep.

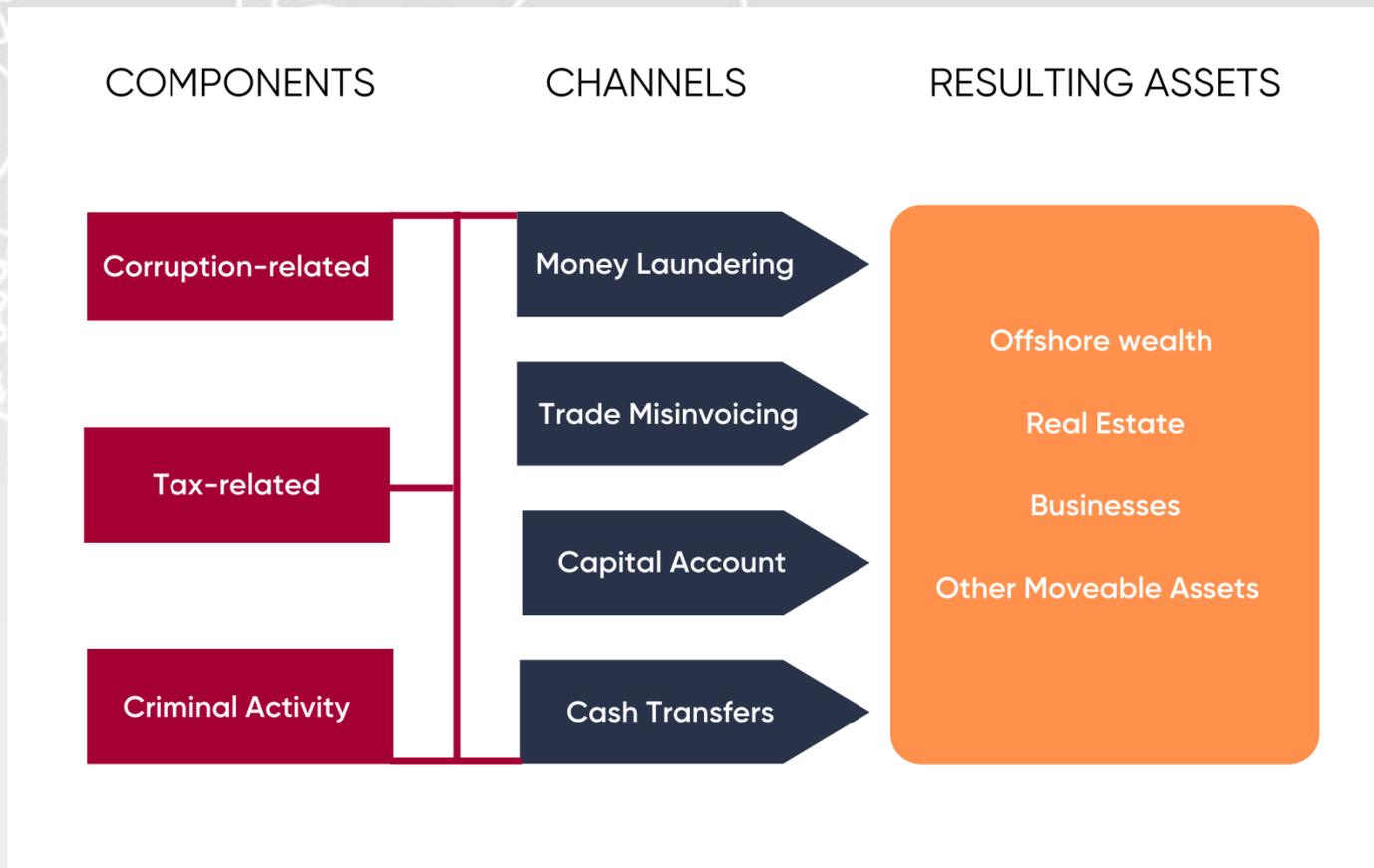
In 2020, 49.4% of the world population lived in some sort of democracy. This has dropped substantially to 45.7% in 2021 and 37.1% of the world population live in "authoritarian regimes".



THE DEMOCRACY INDEX IS BASED ON FIVE CATEGORIES:



IFFs Sources and Channels

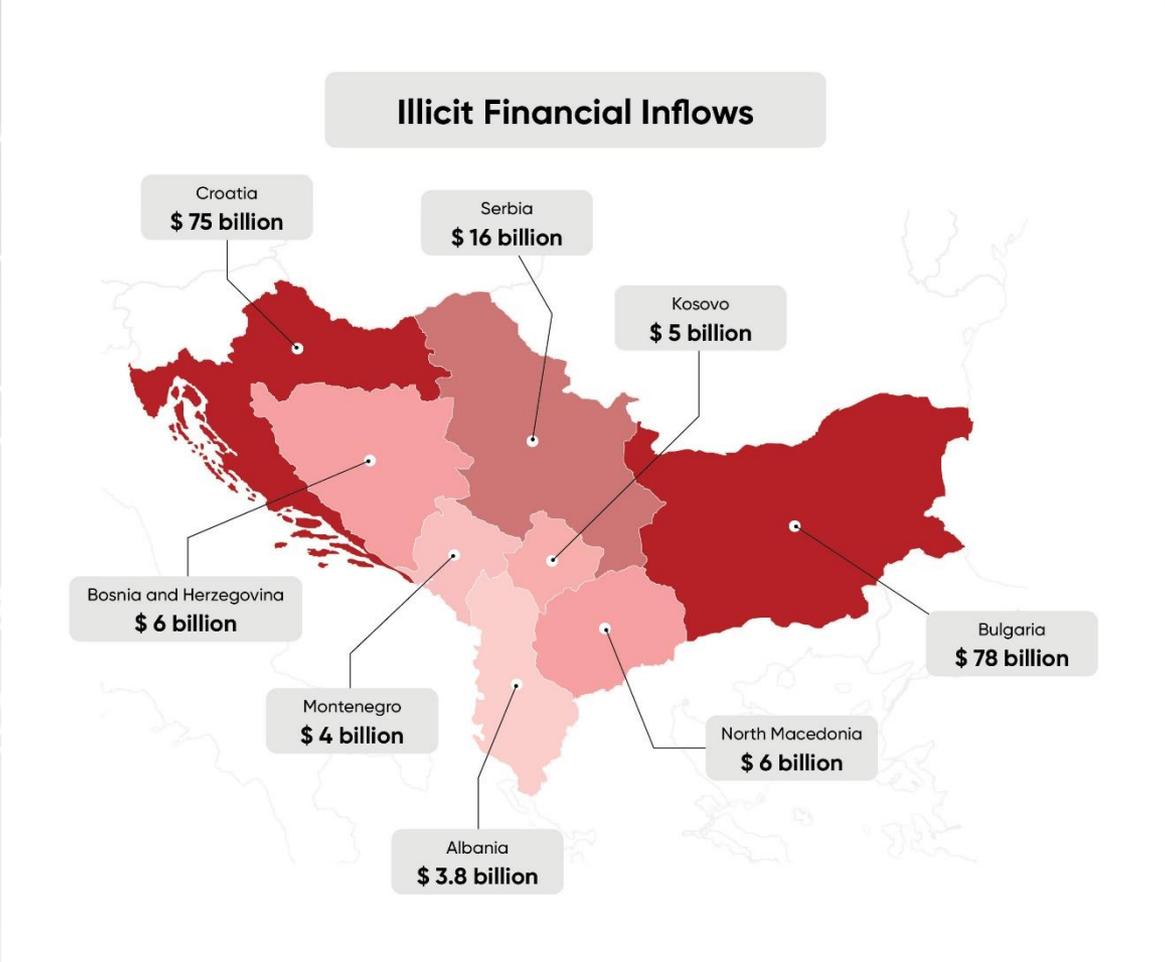


Source: *Financing for Development: Progress and Prospects, 2017*

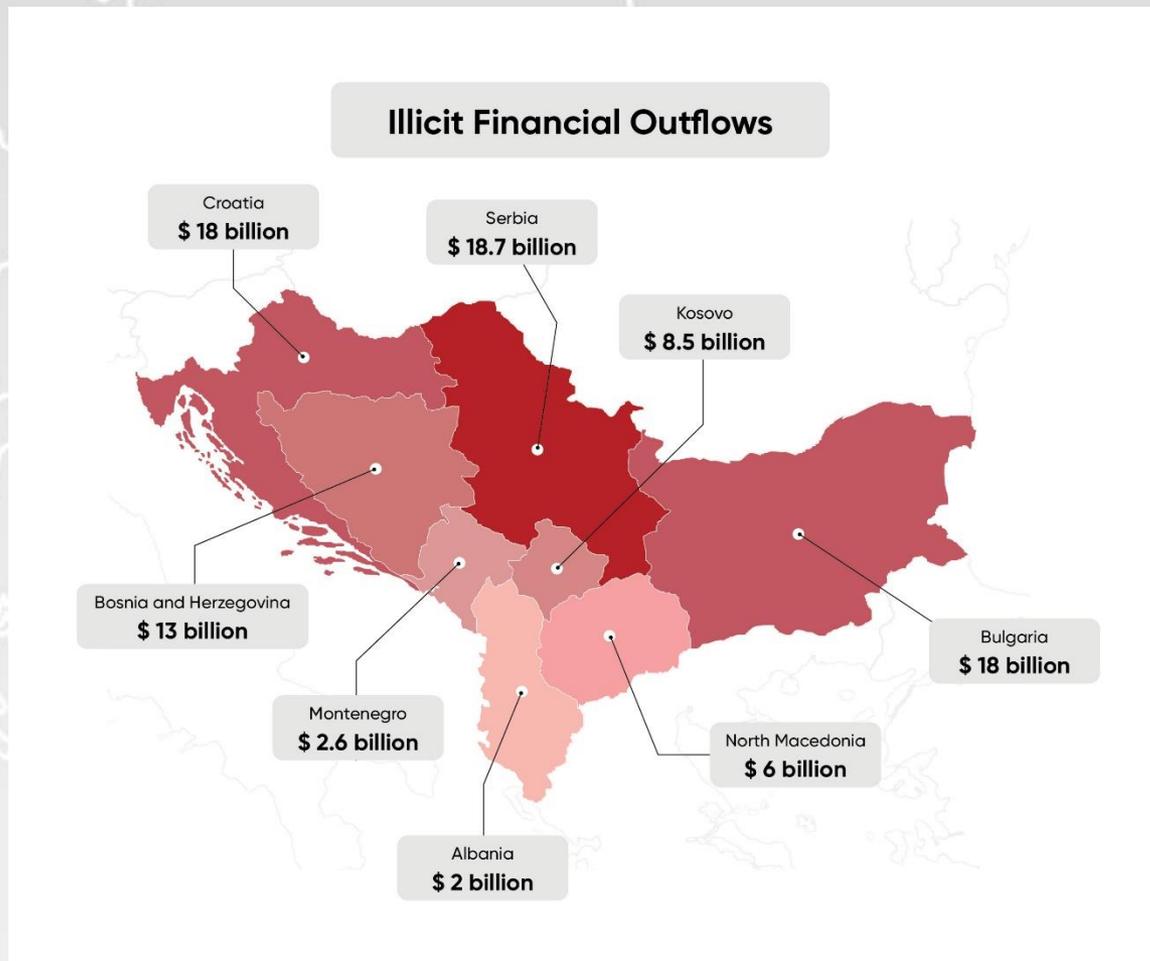
Measuring IFFs: Overview and Problems

- IFFs are hard to estimate and even more difficult to aggregate.
- **Obstacles:**
 - **Measurement problem**
 - **Overlapping methods**
 - **Estimation bias**
- **Methods for Measuring IFFs:**
 - **Top-down methods:** interpreting/modeling inconsistencies in different types of aggregated data (e.g., int. trade, BoP).
 - **Bottom-up methods:** start from the analysis of a given illicit activity, define the set of flows that can be identified as IFFs, and then produce estimates.
- Indices indicating the risk of IFFs (e.g., FSI, BFSI, Basel AML Index)

IFFs in Southeastern Europe, 2000-2020: **Inflows**



IFFs in Southeastern Europe, 2000-2020: **Outflows**

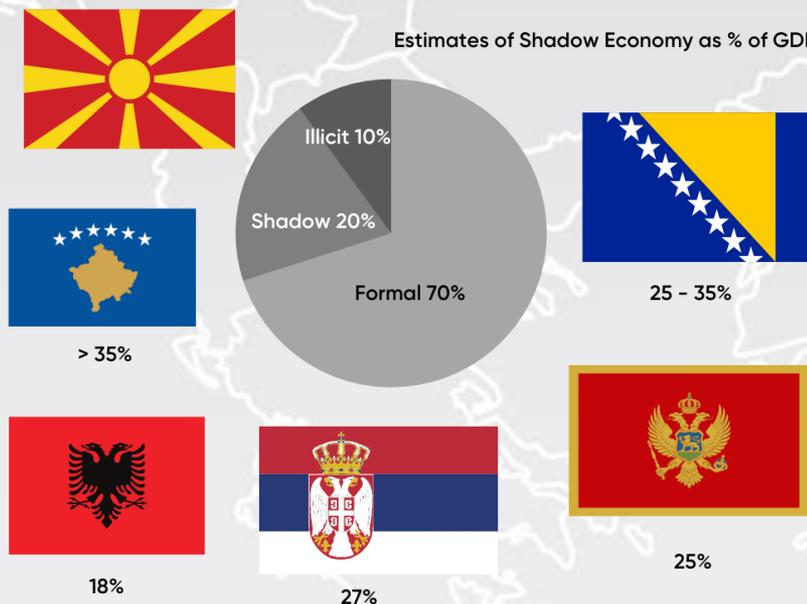


IFFs in Southeastern Europe: Enablers

Socio-economic and governance factors increasing IFF vulnerabilities in the region:

- Strategic geographic location;
- Large shadow economies;
- Governance weaknesses (e.g., corruption; rule of law; lack of transparency in political financing; captured media);
- High unemployment and low average wage rates;
- Interdependent economies; Remittances, etc.

Estimates of Shadow Economy as % of GDP



Source: World bank open data, 2020

IFFs in Southeastern Europe: Components

1. Corruption-related Crime

- Public procurement, graft, bribery, political-party financing, fraud

Albania: EUR 300 M lost annually to abuses in public procurement (GI-TOC, 2020)

2. Organized Crime

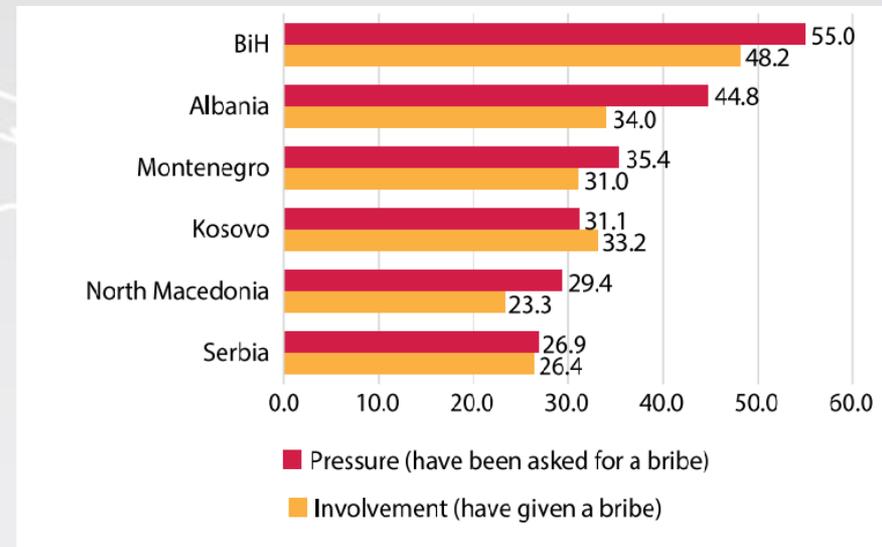
- Drug trafficking, illicit trade, smuggling of migrants, arms smuggling

Western Balkans: EUR 200 M lost annually from the illicit tobacco trade (GI-TOC, 2022)

3. Tax-related Crime

- Tax Evasion

Serbia: ≈ EUR 240 M lost in tax every year (Tax Justice Network, 2021)



IFFs in Southeastern Europe: Channels

1. Money Laundering

- Real estate and construction, tourism, gambling, cryptocurrency

Bosnia and Herzegovina: Money laundering is worth EUR 500 M – 1 B (GI-TOC, 2022)

2. Trade Misinvoicing

- GFI Estimate: 80% of IFFs are moved through trade misinvoicing

North Macedonia: > EUR 600 M IFFs annually (CSD)

- Cash smuggling, currency exchange, credit card fraud

3. Capital Account

- Offshore accounts



Albania: EUR 3.4 seized



THANK YOU!

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