



WHAT ARE ILLICIT FINANCIAL FLOWS?

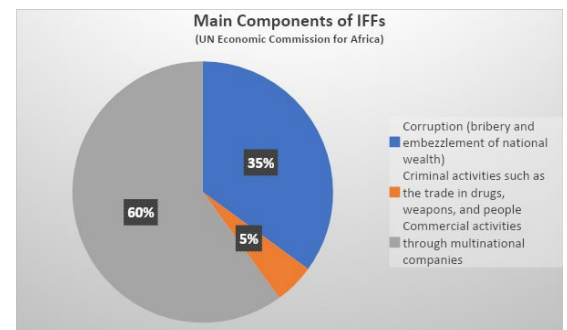
This fact sheet series aims to raise awareness about the global threat to development that Illicit Financial Flows (IFFs) pose, and what we can do to stop the threat.

Illicit Financial Flows (IFFs) are one of the most significant threats to global equity. IFF definitions vary. However, the most descriptive is [funds transferred across an international border using financial mechanisms that are either clearly illegal or illegitimate \(even if possibly legal\) because of the harm they cause to society](#). The United Nations Conference on Trade Development (UNCTAD) estimates that Africa loses 88.6 billion dollars each year, a figure that exceeds development funds and foreign direct investment. Africa's leaders and peoples call for the end to IFFs and the unconditional repatriation of stolen assets.

Estimating how much money is lost is difficult because the methods used are based on financial secrecy. According to the [Financial Transparency Coalition](#), IFFs don't "neatly fit into one box." Instead, IFFs are an umbrella term that describes many kinds of illicit funds. In general, the following chart shows the main components.

The primary IFF mechanisms include:

- **Trade misinvoicing** – A commercial activity where money moves across borders while a corporation deliberately misreports value. For example, a UNCTAD [report](#) calculated that "virtually all gold exported by South Africa leaves the country unreported."
- **Money held offshore and in tax havens** - A [tax haven](#) refers to a country or jurisdiction that enables multinational corporations and individuals to escape the rule of law in the countries where they operate and to pay less tax than they should in those countries. While Luxemburg is ranked as the world's most known tax haven, the October 2021 Pandora Papers reveal the US as a leading tax haven, with South Dakota "[sheltering billions of dollars in wealth linked to individuals previously accused of serious financial crimes](#)."



- **Corporate tax avoidance and profit shifting** - Corporations move money earned in one country to "low-or no-tax jurisdictions." In November 2020, the US Internal Revenue Service (IRS) sued and won a ruling against Atlanta-based Coca-Cola in a landmark profit-shifting case. The IRS charged the company \$3 billion in back tax for wrongly transferring profits from its subsidiaries to countries with lower corporate taxes, specifically Brazil and Ireland; the ruling is under appeal.

- **Criminal activity** – An array of actions that violate national and international laws fall into this category, including drug trafficking, weapon tracking, and human trafficking. Illegal fishing, "estimated at 40% of all fishing along African coastlines," undermines livelihoods, depletes fishing stock, and drives migration. Trawlers from China, Turkey, and companies operating under EU deals are frequent violators. Reportedly, over the last 50 years, "[Africa has lost over \\$200 billion to illegal fishing.](#)"

How do IFFs impact the US?

According to the US-Africa Network, the same consequences of IFFs in Africa apply to low-income communities in the US. The US loses about \$135 billion each year in tax revenue because of offshore tax havens – more than any other country. To put this into perspective, in [2015, Congress voted to cut \\$3 trillion in social programs over ten years](#) (2016-2025). Low-income communities were the targets of these cuts in education, Pell grants, health subsidies, tax credits, and SNAP (formerly food stamps) benefits. The revenues lost to IFFs directly impact the lives of poor people in the US—particularly poor people of color. And lower-income residents in both the US and African countries, who can ill afford it, are paying more than their fair share of taxes because wealthy corporations avoid paying their share. The [International Monetary Fund \(IMF\)](#) reports that IFFs "impact economic stability and the global financial system by "draining exchange reserves, affecting asset prices, lowering tax receipts, distorting competition and reduction government revenue." In its 2021 report, "[Acres of Money Laundering: Why US Real Estate is a Kleptocrat's Dream](#)," Global Financial Integrity explains how more than 2.3 billion dollars has been laundered through real estate, how enablers (attorneys, real estate agents, investment advisers, and financial institutions) facilitate purchases by anonymous shell companies and complex corporate structures. The lack of regulation allows shell companies and others to launder funds and distort local real estate markets.

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IFFs, A Barrier to African Development

IFFs rob development resources from Africa and hobble a country's ability to address global crises like COVID-19. The absence of tax-generated revenue hampers government efforts to maintain education, public health, and democratic standards. Especially during a pandemic, inequality is [easily accelerated](#) by IFFs due to the increased attention on public health issues.

With COVID-19 disproportionately hurting the Global South due to vaccine inequity, revenue that could be spent on public health is instead lost from unlawful and unethical practices. According to [UNCTAD](#), "Curbing capital flight and IFFs, as part of a wider effort to improve tax collection, could raise tax revenue in African countries by an additional 3.9% of GDP, or \$110 billion a year."

What can you do?

The technical solutions to end IFFs exist. However, the political will to end corporate secrecy, enforce existing laws, and ensure that companies pay what they owe is lacking. Increased awareness, mobilization, and public pressure on decision-makers can create the will to stop resource theft in Africa and the US. The petition, [Multinational Corporations are Stealing Africa's Money and Resources](#), is a step toward building that pressure. Please sign the petition! It urges US House and Senate Africa Subcommittee leaders to hold hearings and pass a joint resolution condemning IFFs. After signing, please forward the link to your friends and colleagues. In addition, please:

- Visit the [US-Africa Bridge Building](#) website and sign-up for periodic updates on the petition campaign.
- Visit the [Africa Focus Bulletin](#) for current information.
- Follow the [FACT Coalition](#) and the [Jubilee USA Network](#) on Twitter and Facebook for periodic updates on advocacy efforts to increase corporate transparency and reduce Africa's debt burden.
- Join [Africans Rising for Justice, Peace, and Dignity](#) for related campaigns.

With your support, we can build the collective power needed to ensure that "We The People" overcome corporate corruption, political gridlock, and systemic inequalities in our economic system.

**The US-Africa Bridge Building Project sincerely thanks Research and Social Media intern Seamus Love for contributing to the Stop the Bleeding fact sheet series.*

The US-Africa Bridge Building Project links economic inequality activists and social movements to strengthen collective efforts for tax justice at all levels of the global economy. Ending IFFs is a critical part of that fight. [Please join us to receive periodic updates.](#)

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