

Illicit Financial Flows

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This document is a printable version of the introductory guide on the [Illicit Financial Flows](#) topic page of the Targeting Natural Resource Corruption (TNRC) [Knowledge Hub](#). It outlines the impact of illicit financial flows on conservation goals and approaches that can help conservation and natural resource management practitioners to strengthen their programming and related responses.

Contents

1. How illicit financial flows affect conservation objectives	2
2. Preventing money laundering	2
3. Targeting IFFs through “follow the money” approaches	3
3.1 Conducting financial investigations beyond low-level offenders	3
3.2 Engaging financial institutions	4
3.3 Beneficial ownership transparency: A cornerstone of tackling IFFs	5
3.4 Confiscating the proceeds of crime and corruption	6
4 Politics and power: Assessing risks and constraints on financial approaches	6

Key takeaways

- » **Understanding the financial aspects** of natural resource crimes and corruption can reveal opportunities **to reduce the incentives** to illegally exploit and trade in natural resources, as well as to **strengthen law enforcement** against those who profit from environmental destruction.
- » **Targeting the financial aspects of natural resource crimes, especially where money crosses borders**, can help to identify and break up corrupt and criminal networks and lead to the recovery of illicit proceeds.
- » “Follow the money” approaches vary according to context, but generally require **multi-stakeholder and cross-sector collaboration** and information sharing.

1 How illicit financial flows affect conservation objectives

Illicit financial flows (IFFs) are “[money illegally earned, transferred, or used that crosses borders.](#)” IFFs can take the form of cash, mobile money, bank transfers, cryptocurrencies, and other items of value such as luxury goods, gold, or property. They may also consist of informal transfers of value through trust-based networks of brokers, such as “[hawala](#)” systems, without physical or digital money actually changing hands.

IFFs from environmental crime and corruption can be huge: [estimates](#) value timber trafficking at USD 50–150 billion per year, illegal wildlife trade at USD 7–23 billion, and IUU fishing at USD 10–23.5 billion. In one tropical country, for example, deforestation [generated over USD 350 million over 20 years](#), with the country’s president using international banks to siphon off some of the profits for himself. Even low-level officials can profit significantly from corruption, [earning bribes of between USD 12,000 and 48,000](#) per vessel to facilitate illegal fishing, for example.

The impact of IFFs on conservation objectives can be relatively direct:

- » IFFs **into a resource-rich country** can be used to pay poachers and traffickers and to purchase equipment or supplies needed to exploit and illegally traffic goods. They can also be used give bribes and kickbacks to officials to issue permits, falsify documents, or turn a blind eye to the illegal activity.
- » IFFs **out of a resource-rich country** can include the proceeds of environmental corruption and from other environmental crimes.
- » IFFs **into and between consumer countries and financial centers** might include profits from illegally sourced or traded natural resources, often hidden behind layers of shell companies. The ability to launder and/or hide these funds constitutes a significant incentive for continued illegal activity, the corruption that facilitates it, and the environmental devastation that results from it.

Conservation efforts will never fully succeed while it remains easy to profit from environmental crimes and to launder the profits internationally.

2 Preventing money laundering

Once crimes are committed, the proceeds must be [laundered](#) to [disguise their source, owner, or controller](#). Typically, this involves introducing the illicit money into the international financial system and making multiple transfers and transformations to build up “layers” of disguise. The money is then reintegrated back into the economy as a “legitimate” source of funds.

Preventing the proceeds of natural resource crime and corruption from being laundered abroad is key to reducing financial incentives to engage in this behavior. Dirty money has [minimal value](#) if it cannot be used internationally. As a basic first step, practitioners therefore need to be aware of the [various money laundering techniques that exist](#).

One important method that conservation practitioners may encounter directly is [trade-based money laundering](#) (TBML). This refers to manipulating regular trade transactions, such as invoicing, to transfer illicit money. TBML is a common method of laundering money linked to natural resource crimes. This is partly because the legality and value of shipments of wildlife, fish, and timber are difficult to verify, so paperwork is easily falsified (especially if it is actual paper). [TBML techniques were used](#) in the case of hardwood floor retailer Lumber Liquidators, which in 2016 was prosecuted and handed a record fine in the U.S. for timber trafficking.

Getting started

- » Read about [why money laundering is a critical issue in natural resource corruption](#) and how it takes place.
- » Find cases of money laundering relevant to your context in TRAFFIC’s [Case Digest: An Initial Analysis of the Financial Flows and Payment Mechanisms behind Wildlife and Forest Crime](#).
- » Read the authoritative [reports](#) of the Financial Action Task Force (FATF), which sets international standards on anti-money laundering. The reports detail common methods of money laundering related to the illegal wildlife trade and other environmental crimes, as well as tools for disrupting the resulting IFFs.

3 Targeting IFFs through “follow the money” approaches

A “[follow the money](#)” approach can help actors understand and, where possible, target IFFs to stop corruption and money laundering from undermining conservation objectives. In this context, following the money refers to [applying a financial perspective to the entire illicit natural resource supply chain and related corruption](#). (“Follow the money” can mean different things to different people, so a first step when discussing such approaches is to ensure all parties understand the concept in the same way.)

Illicit payments link criminals with each other and with corrupt facilitators in the public and private sectors. Following the money can therefore help to [reveal the networks](#) behind the crimes and [identify other criminals and corrupt facilitators](#).

Where there is evidence of [convergence](#) between natural resource crimes and other serious crimes such as drug or human trafficking, following the money can reveal leads that trigger additional investigations and charges. A 2019 U.S. indictment against one [wildlife trafficker](#), for example, included heroin distribution as well as charges of elephant ivory and rhino horn trafficking. Law enforcement officials may be more willing to investigate environmental crimes when they are connected to crimes they perceive as “more serious.”

Getting started

- » Explore the full possibilities of follow the money approaches in: [Targeting corruption and its proceeds: Why we should mainstream an anti-corruption perspective into “follow the money” approaches to natural resource crime](#).

3.1 Conducting financial investigations beyond low-level offenders

Investigations into natural resource crimes often go no further than seizure of an illegal product and sanctioning the poacher or trafficker caught red-handed. This allows the organized crime groups, high-level criminals, and corrupt officials who profit from and perpetuate the illegal activity to continue their operations. To reach these individuals and actually disrupt the enterprise, [financial investigations should be initiated](#) in parallel to traditional investigations into natural resource crimes.

Financial investigations involve analyzing records of transactions between banks, money transfer services, mobile money accounts, etc., to reconstruct the trail of suspect money through the financial system. These investigations can generate evidence to support prosecutions for financial crimes such as fraud, tax evasion, and money laundering. These crimes may trigger higher penalties than under existing environmental laws.

Often, following the money leads across borders, and this cross-border nature of IFFs can be a [challenge](#) for financial investigations. However, it also [opens up potentially powerful international options](#) to detect, investigate, and prosecute environmental criminals and their corrupt facilitators. When IFFs flow through a foreign jurisdiction or are held in its banks, law enforcement authorities in that jurisdiction can launch their own investigation and potentially prosecute the actors under that jurisdiction's financial crime laws.

In the so-called "[Fishrot scandal](#)", for example, a European fishing company was shown to have paid senior figures in an African country millions of dollars in bribes for fishing rights. The financial evidence led to the seizing of assets linked to the corrupt dealings, financial crime trials for the former fisheries minister and others, and the investigation of the largest bank in a third country for its role in processing transactions used as bribes.

Law enforcement authorities are generally responsible for conducting financial investigations, which require specialist skills and greatly benefit from access to information that only law enforcement authorities can legally request, like bank account details or intelligence from abroad. However, practitioners, policymakers, and donors can do a lot to support the systematic application of financial investigations in natural resource-related cases.

Getting started

- » Technical assistance and training programs can help relevant agencies build capacity to systematically [conduct financial investigations](#) following seizures of trafficked wildlife, timber, fish, or other natural resources.
- » Multi-agency coordination, for example joint taskforces, can be important because [anti-corruption authorities](#), financial intelligence agencies, customs authorities, or other entities may all hold different pieces of the puzzle.
- » Financial investigations do not always need to follow a seizure: detection of IFFs can also be the trigger for investigations. One method for detecting IFFs is [trade discrepancy analysis](#) to identify potential mis-invoicing. An analysis of timber data supported allegations that the [volume of high-value species was deliberately overestimated](#) in logging permits in order to allow traffickers to launder timber illegally logged in the Amazon.
- » Explore opportunities to engage international law enforcement.

3.2 Engaging financial institutions

Financial institutions such as banks and money transfer companies are potentially a powerful partner in targeting IFFs by "following the money" as it moves through their systems or freezing it in response to a court order.

Under typical anti-money laundering laws, banks are legally obliged to [monitor for suspicious transactions and report them](#) to the local financial intelligence authority. Depending on local laws, other sectors such as real estate companies, lawyers, accountants, casinos, and dealers in precious metals and art may well also be "reporting entities" that have a legal obligation to report suspicious transactions.

However, many reporting entities may not have either [information on typologies](#) and "red flags" for natural resource crimes and associated corruption, or data on specific suspect individuals and companies. In some contexts, therefore, increasing [information sharing](#) with private institutions at both the strategic (big picture) and tactical (individual cases) levels could be a powerful lever to help detect, investigate, freeze and seize IFFs linked to natural resource crimes and associated corruption.

This information sharing can take place in addition to, or in the context of, broader [multi-stakeholder partnerships](#) that may involve governments, law enforcement, the private sector, academia, and conservation or other civil society actors.

Getting started

- » Take the self-paced TNRC eCourse on [engaging the financial sector to reduce money laundering and corruption linked to wildlife trade](#). The sessions explain the role that financial intelligence and suspicious reporting can play in wildlife trade investigations and empower conservation practitioners and policymakers to engage financial institutions.
- » Explore and raise awareness of the 2022 [IWT Financial Flows](#) Toolkit aimed at supporting financial institutions in addressing and reporting suspicious transactions relating to illegal wildlife trade.
- » It may be possible to foster systematic information sharing by bringing together law enforcement and wildlife management authorities with private-sector players in established [networks](#) and [platforms for public-private collaboration](#), such as the United for Wildlife [Financial Taskforce](#).

3.3 Beneficial ownership transparency: A cornerstone of tackling IFFs

[Beneficial ownership](#) registers enable law enforcement (and [ideally the private sector and civil society](#)) to identify the individuals who ultimately own and control the assets of companies linked to natural resource crimes or corrupt activities.

These companies may be [shell companies or complex corporate structures](#) based in offshore financial centers, sometimes set up with the sole purpose of paying bribes and kickbacks or laundering illicit proceeds. An inability to identify the beneficial owner or trace money flows through these structures hinders prosecutions and attempts to recover illicit assets. In one case of [lobster overfishing](#), for example, prosecutors sought to recover illicit profits held in complex structures in Jersey; in the end, only a third of the estimated USD 60 million in illicit assets were recovered.

Most countries are yet to establish a register of the beneficial owners of companies registered in their jurisdiction, and fewer still have transparent registers that are accessible to the public. However, calls for greater beneficial ownership transparency are growing around the world, as it is fundamental to both following the money and stopping money laundering. These calls are driven in part by civil society organizations such as [Open Ownership](#) and [Transparency International](#), as well as financial institutions and private-sector actors who need to perform due diligence on potential partners.

Getting started

- » Read a general overview of [beneficial ownership transparency and natural resource corruption](#).
- » Dive deep into the issue in the [fisheries industry](#), which is particularly vulnerable to abuse by companies with opaque and complex ownership structures.
- » Explore resources like [Open Ownership](#) to understand the beneficial ownership requirements and mechanisms relevant to your country and sector.
- » Consider possibilities to advocate for greater BOT, for example by making the provision of beneficial ownership information a prerequisite for obtaining a license to exploit natural resources like timber or fisheries.

3.4 Confiscating the proceeds of crime and corruption

An important end goal of following the money is to confiscate illicit profits, ensuring that natural resource crime doesn't pay. As well as reducing the profit motive, asset confiscation or recovery ensures that illicitly obtained money cannot be used to finance other criminal activity or make corrupt payments.

Recovered [assets can also provide governments with revenue](#) to develop and manage natural resources responsibly, as well as attain other conservation and sustainable development objectives.

Many countries have a range of asset recovery mechanisms in their anti-corruption and anti-money laundering laws. They often include [non-conviction based forfeiture provisions](#) that allow courts to recover illicit assets even without a specific criminal conviction. This is helpful in cases where the higher-level criminals and corrupt facilitators are careful to distance themselves from the physical crime.

Getting started

- » [Read about non-conviction based forfeiture in environmental crime](#) and explore the full natural resource-relevant possibilities of asset recovery provisions in anti-corruption and anti-money laundering laws.
- » Organizations with advocacy functions could push for the implementation of existing anti-corruption, anti-money laundering, and asset recovery laws in natural resource cases. This could include supporting the creation of [inter-agency, multidisciplinary taskforces](#) to boost information-sharing and mutual accountability.

4 Politics and power: Assessing risks and constraints on financial approaches

Differing legal frameworks, tools, and technical capacity are not the only constraints on following the money to address natural resource crimes and corruption, particularly in contexts of weak governance and systemic corruption.

[Powerful corrupt actors](#) may wield their influence to abort financial investigations, and political dynamics in the criminal justice system may discourage looking too deeply into the illicit finances of politicians and other politically exposed persons (PEPs). Indeed, PEPs may be deeply implicated in illegality and corruption, as was the [former head of one wildlife management authority](#), arrested in 2015 for facilitating the illegal export of baby chimpanzees and gorillas to Asia.

Authoritarian governments could also use laws designed to combat financial crime for illegitimate purposes, such as to intimidate critics or incarcerate opponents.

Though challenging, successful cases around the world demonstrate that [it is still possible](#) to follow the money, even in corrupt environments. Civil society organizations and the media often play an outsized role in [triggering investigations into IFFs](#). For example, it was [investigative reporting](#) for U.S. news program "60 Minutes" that led to the investigation, prosecution, and fining of U.S. hardwood flooring retailer Lumber Liquidators on charges linked to illegal logging.

Getting started

- » Begin by conducting a political economy analysis or other situation analysis to better understand specific drivers of corruption and the incentives and disincentives for officials to investigate IFFs and bring prosecutions for financial crimes. The analysis can also illuminate the potential risks and implications of promoting a follow the money approach, to avoid wasting resources or unintentionally doing harm.

» Where direct actions targeting IFFs carry significant risks or challenges, or where the political economy analysis reveals wider institutional gaps that hinder such approaches, it may be more feasible to support [broader transparency reforms](#) relevant to the financial aspects of natural resource management. These may include the use of [asset declaration](#) systems by government officials, [corruption risk mitigation measures](#) in relevant government agencies, the streamlining and auditing of [permitting processes](#) and controls, or [efforts](#) to address vulnerabilities in [special economic zones](#).

Find all [resources on IFFs](#) on the [TNRC Knowledge Hub](#).

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