Research Paper

Forum: 2^{nd} committee
Issue: The fight against illicit financial flows (IFFs): Promoting international cooperation and supporting asset recovery. (cryptocurrency)
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STRUER MODEL UNITED NATIONS

Background

Illicit financial flow is defined as the illegal movement of capital, often between different countries. Financial flow may be illicit because the capital involved is generated through crime, for example drug trafficking or corruption. However, financial flow may also be illicit because the actual transferring of the capital is illegal, even if it is generated through legal means. This is seen in tax evasion.

Current state

Cryptocurrency has recently been playing a larger role in illicit financial flows. Illicit transactions taking part over the internet, specifically the dark web, use cryptocurrency. Capital made legitimately is transferred from fiat currency to cryptocurrency. This cryptocurrency then allows for more anonymity in spending online, and is often then used for illicit transactions, such as drug trafficking, illegal arms trafficking etc. Although cryptocurrency isn't completely anonymous due to the public ledger shared amongst all computers on the blockchain network, anonymity can still be achieved through the use of multiple wallets and addresses, the use of VPNS (virtual private networks) and the practice of tumbling, in which recent transactions of different currencies are blended. The anonymous nature of cryptocurrency makes illicit financial flow even harder to track, as cryptocurrency gained this way is laundered to cover its tracks. This is mainly done in countries with weaker anti money laundering laws, where unregulated cryptocurrency exchanges can take place.

Concerns

Illicit financial flows prevent countries from meeting the 17 sustainable development goals all UN member states have decided to work towards. Although all countries are affected, developing countries are affected the most, as seen in the UNCTAD report which found that "an estimated $88.6 billion, equivalent to 3.7% of Africa's GDP, leaves the continent as illicit capital flight." each year. For developing countries, illicit financial flows are especially harmful. Short term effects include losing capital which could go towards improving public goods. Long term effects are illicit financial flows and corruption becoming a cycle, as the more the country loses capital through these means, the more tempting it becomes for government officials to take part in corruption.

Possible solutions

Putting in clear laws for taxation – would prevent illicit financial flow through tax evasion as it would clearly distinguish between tax planning, tax avoidance and tax evasion. Tax planning is the attempt to reduce taxing without violating the law, tax avoidance is the attempt to reduce taxing by violating the intent of the law, but not the law itself and tax evasion is the attempt to reduce taxing by violating the law. By clearing up taxation laws and closing loopholes, tax avoidance and tax evasion would be easier to distinguish, and illicit financial flow in these areas would be easier to deal with.

Asset recovery – Asset recovery is the process of gaining back capital lost through illicit financial flow by means of seizing. For asset recovery to be successful, international cooperation is vital. Lost capital is often stored in a different country than the one it was lost from, in order to avoid investigators. Therefore, international cooperation is needed in asset recovery as the lost capital must be tracked down, frozen and returned, all of which may be at an international scale.

Attempting to prevent money laundering – capital lost through illicit financial flows is most of the time laundered so the one committing the crime can make the money appear legitimate. According to the basal AML index, the top 3 countries least at risk for money laundering are Estonia, Andorra and Finland, whereas the top 3 countries most at risk for money laundering are Afghanistan, Haiti and Myanmar. By assisting the countries who are most at risk for money laundering, illicit financial flows can be slowed down as the laundering of the money gained by those committing it will be halted. International cooperation could prove to be very useful in this area as well, as the collaboration between countries least at risk of money laundering and the countries most at risk for money laundering would be the most efficient way to improve and could be done through tightening of anti-money laundering laws, promoting public transparency and promoting financial transparency.

Countries involved

Countries where assets are stolen

- United states
- United Kingdom
- Germany
- Switzerland
- France
- United Arab Emirates
- Cayman Islands

Countries where assets are stolen

- Nigeria
- Ukraine
- Philippines

- Libya
- United states
- Mexico
- Brazil

<u>Resolutions addressing the issue</u>

A/RES/71/213
A/RES/74/206
A/RES/72/207