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Illicit financial flows and asset recovery: The role of international financial institutions

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Abstract
Illicit financial flows (IFFs) drain resources from developing economies on a scale that exceeds the official development assistance they receive, and the recovery of stolen assets has become a recognised target of the 2030 Agenda for Sustainable Development. This article examines the role of the World Bank Group and the International Monetary Fund in curbing IFFs and facilitating asset recovery. It first clarifies the concept and measurement of IFFs on the basis of the UNCTAD–UNODC statistical framework and the most recent empirical estimates. It then analyses the instruments deployed by the World Bank – the Stolen Asset Recovery Initiative, its knowledge products, the Global Forum on Asset Recovery and financial integrity assistance – and by the IMF, whose anti-money laundering strategy, governance framework, financial sector assessments and programme conditionality operate on the preventive side of the same problem. Using the Abacha, 1MDB and Ukrainian experiences, the article evaluates the achievements and structural limits of these institutions and proposes measures to strengthen their contribution, including the integration of asset recovery into country engagement, coordinated support for beneficial ownership transparency and the regulation of virtual assets, and targeted assistance to states such as Uzbekistan that are building national asset recovery systems.

Keywords: Illicit financial flows, asset recovery, international financial institutions, World Bank, International Monetary Fund, Stolen Asset Recovery Initiative, anti-money laundering, sustainable development

Introduction

Illicit financial flows are among the most serious obstacles to development finance in the twenty-first century. They comprise the cross-border movement of money that is illegally earned, transferred or used – the proceeds of corruption, tax evasion, trade misinvoicing, organised crime and the laundering that accompanies them. Their effect is cumulative: each dollar that leaves a developing country illicitly reduces domestic revenue, distorts investment, erodes institutions and, once abroad, becomes extraordinarily difficult to recover. The United Nations recognised this in 2015 by including in the Sustainable Development Goals a target to significantly reduce IFFs and strengthen the recovery and return of stolen assets by 2030 [2].

International financial institutions (IFIs), and in particular the World Bank Group and the International Monetary Fund, occupy a distinctive position in this field. Unlike law enforcement bodies, they have no coercive powers; unlike standard-setters such as the Financial Action Task Force, they command financial resources, a permanent presence in member countries and a mandate that links financial integrity to macroeconomic stability and development. Their engagement with IFFs has therefore been indirect but pervasive – through analysis, technical assistance, surveillance, conditionality and the convening of states and practitioners.

This article assesses that engagement. It asks what IFIs have actually done to curb IFFs and to support asset recovery, how far their instruments have proved effective, and where their structural limits lie. The analysis draws on the institutions' own policy documents, on the empirical literature on IFFs and on documented recovery cases, and concludes with recommendations addressed both to the institutions and to states, such as Uzbekistan, that seek to use IFI support to build national capacity.

The Concept and Scale of Illicit Financial Flows

For many years the debate on IFFs was hampered by the absence of an agreed definition. The 2020 Conceptual Framework for the Statistical Measurement of Illicit Financial Flows, developed jointly by UNCTAD and UNODC as custodians of SDG indicator 16.4.1, closed that gap. It defines IFFs as financial flows that are illicit in origin, transfer or use, that reflect an exchange of value and that cross a border, and it distinguishes four categories: flows from illegal markets, from corruption, from theft-type activities and terrorism financing, and from tax and commercial practices [1]. The framework is important for asset recovery because it isolates the corruption and theft-type flows – the categories most amenable to recovery – from the far larger volume of aggressive tax avoidance and trade misinvoicing.

The scale remains contested but is undoubtedly large. UNODC's early estimate placed all criminal proceeds at about 3.6 per cent of global GDP, with roughly 2.7 per cent – some USD 1.6 trillion – laundered annually [6]. UNCTAD's 2020 Economic Development in Africa Report calculated that Africa loses about USD 88.6 billion a year, or 3.7 per cent of its GDP, to capital flight and IFFs, a sum that exceeds combined inflows of official development assistance and foreign direct investment [3]. Global Financial Integrity's trade-gap analysis identified value gaps of roughly USD 1.6 trillion in the trade of 134 developing countries in 2018 [4]. The High-Level Panel on International Financial Accountability, Transparency and Integrity, reporting in 2021, estimated that some 10 per cent of world GDP is held in offshore financial assets and that states lose USD 500–600 billion a year to corporate tax abuse alone [5]. Macroeconomic research on the ownership of offshore wealth confirms that it is concentrated at the very top of the distribution and disproportionately originates from countries with weak institutions [18].

These figures explain why IFFs have migrated from a law enforcement concern to a development finance concern, and why IFIs came to regard them as falling within their mandates. Every estimate, however, also reveals the asymmetry at the heart of the problem: the sums that leave are measured in hundreds of billions, while the sums returned through asset recovery are measured in hundreds of millions. A World Bank–OECD study found that OECD countries returned only USD 147 million to foreign jurisdictions between 2010 and mid-2012 [9]. The role of IFIs must be judged against that gap.

The World Bank Group: From Knowledge to Facilitation

The World Bank's engagement with IFFs rests on its finding that corruption and the flight of its proceeds are obstacles to its twin goals of ending extreme poverty and promoting shared prosperity. Its most visible instrument is the Stolen Asset Recovery Initiative (StAR), launched jointly with UNODC in 2007. The founding action plan set out four objectives: to lower barriers to recovery in financial centres, to build capacity in victim states, to assist specific recovery cases and to monitor progress [7]. StAR has no investigative or prosecutorial powers; its value lies in expertise, neutrality and the ability to convene authorities that would not otherwise communicate.

StAR's knowledge products have shaped the field. The Puppet Masters documented, on the basis of more than 150 grand corruption cases, how legal persons and arrangements are used to conceal ownership, and its recommendation that beneficial ownership information be collected and made accessible to authorities anticipated the later revision of FATF Recommendation 24 [8]. The Asset Recovery Handbook, now in its second edition, provides practitioners with step-by-step guidance on tracing, freezing, confiscation and return and is used by prosecutors and financial investigators worldwide [10]. Few and Far introduced the first systematic measurement of returns by OECD countries and exposed how little was being recovered [9]. Through these studies the Bank has done what no single state could: it has created a common vocabulary and evidence base for the asset recovery community.

The Bank's facilitation role is visible in case work. In the Abacha matter StAR helped to broker the 2017 memorandum of understanding under which Switzerland returned USD 321 million to Nigeria in accordance with Article 57 of the UN Convention against Corruption [20], with the Bank itself monitoring the use of the funds in a social safety net programme [19]. The Global Forum on Asset Recovery, co-hosted by the United Kingdom and the United States with StAR support in 2017, brought together practitioners on cases involving Nigeria, Sri Lanka, Tunisia and Ukraine and adopted ten principles for the disposition and transfer of confiscated assets that now serve as the reference for negotiated returns [15]. Beyond StAR, the Bank's Financial Market Integrity team assists countries in implementing FATF standards, and the Bank has been a consistent advocate of beneficial ownership transparency in its dialogue with financial centres.

The limits of this model are equally clear. StAR acts only at the request of governments and cannot compel financial centres to act. Its impact depends on the political will of both the victim state and the requested state, and it has been criticised, along with the FATF process, for concentrating attention on the vulnerabilities of developing countries rather than on the financial centres that absorb the flows. The empirical work commissioned by the Bank itself shows that the assets frozen through international cooperation dwarf those returned, and that the gap is explained less by the absence of knowledge than by the absence of enforceable obligations [17].

The International Monetary Fund: Prevention, Surveillance and Conditionality

The IMF's contribution lies on the preventive side of the same problem. Its anti-money laundering and counter-terrorist financing (AML/CFT) strategy, most recently reviewed in 2023, integrates financial integrity into the Fund's three core functions: surveillance, lending and capacity development [11]. In surveillance, AML/CFT issues are addressed in Article IV consultations and Financial Sector Assessment Programs where they are macro-critical – where laundering, corruption or the flight of illicit capital threaten financial stability, growth or the effectiveness of policy. The 2023 review emphasised a more risk-based and outcome-oriented approach and strengthened the Fund's attention to the misuse of the financial system for corruption proceeds and to emerging risks from virtual assets.

The 2018 Framework for Enhanced Fund Engagement on Governance marked a turning point by committing the Fund to a systematic, evenhanded and candid assessment of governance vulnerabilities, including corruption, in all member countries [12]. Importantly, the framework addresses not only the countries where corruption occurs but also the countries whose financial systems facilitate the concealment of its proceeds, inviting the Fund's largest members to volunteer assessments of their AML/CFT and transparency measures. This is the first attempt by an IFI to treat the supply side of IFFs as part of its mandate.

Conditionality gives the Fund leverage that the Bank lacks. The 2015 Extended Fund Facility for Ukraine, worth USD 17.5 billion, made the establishment of independent anti-corruption institutions, asset declaration systems and AML reforms structural benchmarks of the programme; subsequent reviews maintained pressure on the authorities when domestic resistance emerged. The experience illustrates both the power of conditionality to create and sustain institutions and its limits: benchmarks can be met formally while enforcement lags, and the Fund's leverage recedes as the programme ends.

On virtual assets, which have become a significant channel for laundering and for the concealment of corruption proceeds, the IMF and the Financial Stability Board issued a joint synthesis paper in 2023 setting out a coordinated policy framework for regulation, supervision and oversight [13]. Its recommendations – comprehensive licensing of virtual asset service providers, application of the FATF standards including the travel rule, and cross-border cooperation between supervisors – are directed at closing the gap between the speed of crypto transfers and the capacity of authorities to trace and freeze them. Together with the Fund's technical assistance to financial intelligence units and supervisors, this work strengthens the preventive perimeter within which asset recovery becomes possible.

Assessment and Recommendations

Judged against the scale of IFFs, the achievements of IFIs are modest; judged against what they can lawfully do, they are considerable. The World Bank has built the knowledge base of the field and facilitated returns that would not otherwise have occurred; the IMF has embedded financial integrity in macroeconomic surveillance and used conditionality to create anti-corruption institutions. Both have shifted the international discourse so that asset recovery is now treated as a development and financial stability issue rather than a purely criminal justice one, a shift reflected in the FATF's 2023 decision to require countries to treat asset recovery as a policy priority [14].

Four structural limits nonetheless persist. First, IFIs act through states and cannot substitute for the political will of either the victim country or the financial centre; the Abacha and 1MDB cases succeeded because the requested states chose to act, not because an IFI compelled them. Second, the institutions' governance gives greater weight to the economies whose financial systems absorb the largest share of illicit wealth, which has historically produced a focus on the vulnerabilities of developing countries rather than on the enablers in advanced ones. Third, measurement remains inadequate: neither institution systematically tracks the outcomes of its own interventions in terms of assets frozen, returned or used. Fourth, the evolution of financial crime – complex corporate structures, professional enablers, virtual assets – outpaces the institutions' capacity to adapt their instruments.

Several measures would strengthen the contribution of IFIs. Asset recovery should be mainstreamed into country engagement: governance assessments under the 2018 framework and Bank country diagnostics should include the state of the domestic asset recovery system – the availability of non-conviction based confiscation, the existence of a specialised recovery authority, participation in practitioner networks and the transparency of returned-asset management. Support for beneficial ownership transparency should be coordinated between the Bank's financial integrity work and the Fund's surveillance so that financial centres receive consistent messages. The virtual asset framework should be translated into technical assistance for financial intelligence units in developing countries, where the capacity to trace crypto-assets is weakest. A standardised outcome measurement framework, building on the methodology of Few and Far, should be adopted and published annually. And the political economy of recovery should be addressed openly, through analysis that identifies where enablers and beneficiaries of IFFs sit within the countries concerned rather than treating capacity as the only constraint [16].

For Uzbekistan these recommendations have direct application. The country has received IMF technical assistance on AML/CFT and financial supervision and is engaged with the World Bank on governance reform, and it has benefited from a negotiated return of confiscated assets from Switzerland structured through a United Nations trust fund in accordance with the Global Forum principles. What it has not yet done is to build the domestic infrastructure that would make such returns systematic: non-conviction based confiscation, a specialised asset recovery office and a transparent mechanism for managing returned assets. IFI engagement that treats these elements as governance benchmarks, and that links them to the country's ongoing financial sector reforms, would convert individual successes into institutional capacity.

Conclusion

International financial institutions occupy an intermediate position in the global response to illicit financial flows: they lack the coercive powers of law enforcement but possess resources, presence and convening authority that no enforcement body commands. The World Bank has used these attributes to build the knowledge base of asset recovery and to facilitate returns; the IMF has used them to embed financial integrity in surveillance and conditionality. Their combined effect has been to redefine asset recovery as a development and stability issue and to create the analytical and institutional preconditions for more effective action by states.

The gap between the scale of IFFs and the volume of assets returned remains, and it will not be closed by IFIs alone. It will be narrowed by states that adopt the legal tools and institutions IFIs recommend, by financial centres that accept responsibility for the flows they absorb and by a measurement discipline that makes progress visible. The task for the institutions is to sharpen their instruments accordingly – mainstreaming asset recovery into country work, coordinating their support for transparency, extending their virtual asset framework into capacity building and measuring their own results. For states such as Uzbekistan, the task is to use IFI support to complete the domestic architecture without which international cooperation cannot deliver sustainable returns.

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