

# Illicit Financial Flows in North Africa (Algeria, Egypt, Libya, Morocco and Tunisia)

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## Question

- *What is the evidence base around illicit financial flows originating from or transiting through North Africa (Morocco, Tunisia, Algeria, Libya and Egypt)?*
- *What are the principal routes and methods and is there any recent data on the scale or economic cost?*
- *What are the major data gaps?*

## Contents

1. Summary
2. IFFs
3. Evidence base around IFFs in North Africa
4. Gaps and further research
5. References

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# 1. Summary

This review provides a summary of the evidence on Illicit Financial Flows (IFFs) in North Africa (Algeria, Egypt, Libya, Morocco and Tunisia). Large estimates of the value of IFFs have raised awareness of the issue on the international agenda in recent years. However, there is still no universally agreed-upon definition of IFFs; in particular, an ongoing debate about whether the definition should include international tax avoidance is contentious. Large uncertainties into the magnitude of flows remain, especially given that by their nature IFFs are hidden. In general, the most common working IFFs definitions meet around the core concept of financial transfers across borders that are in some way related to illegal activity (Forstater 2018b). IFFs are also notoriously difficult to measure.

The review first provides some background information on the debates and uncertainties around IFFs, including conceptual issues, difficulties in measuring these flows and their potential impacts. The next section then looks at the evidence base around IFFs in North Africa, including trade-related IFFs estimates, information on money laundering risks and routes, and estimates of stolen assets from previous regimes in North Africa. There are big differences in estimations dependant on methodology, data and assumptions used, although estimations from the same methodology can provide an idea and comparison of the scale of the issue in North African countries. None of these methods (or estimates) is without its detractors and criticisms, and the limitations should be kept in mind when considering the estimates for IFFs. The final section provides some suggestions of further research from the literature.

Key findings:

- Despite the significant differences in estimates, IFFs are high in Africa, and have been increasing over time (UNECA, 2015).
- UNECA (2015) assessed IFFs at the country and sector levels in Africa (2000-2010) through trade mispricing using misinvoicing. In the sector-level analysis, IFFs were highest in the extractive industries, with Algeria accounting for 20.1% of the total IFFs in oil from Africa during this time. Morocco accounts for 51.8% of total IFFs and Tunisia 19.1% in the electrical machinery and equipment sector. In the apparel sector, Tunisia (33.4%) and Morocco (31.4%) register the largest share of IFFs. IFFs tend to be confined to a few sectors within each country, generally reflecting the volumes of the internationally tradable goods exported by these countries.
- The most recent Global Financial Integrity estimates of trade-related IFFs to and from developing countries for 2006 to 2015, includes the use of UN Comtrade data alongside the traditionally used IMF's Direction of Trade Statistics (DOTs). The DOTs estimates for trade-related illicit outflows were highest in Algeria (US\$6.97 billion), followed by Egypt (US\$6.83 billion), Morocco (US\$3.55 billion), Libya (US\$2.34 billion) and Tunisia (US\$1.28 billion). For all five, illicit inflows were larger than outflows (Salomon, 2019).
- Ndikumana and Boyce (2012 and 2018) have estimated capital flight from African countries in a number of studies. Their estimates changed significantly between their 2012 results and 2018, emphasising the difference that changes to data and methodologies and definitions can have. In the 2018 study for the time period 1970-2015, Algeria lost the largest amount through capital flight (US\$141.5 billion in constant 2015 US\$), followed by Morocco (US\$115.9 billion), Egypt (US\$31.3 billion) and Tunisia (US\$27.7 billion). Libya did not have sufficient data to be measured.

- Algeria and Morocco were highlighted as of major concern for money laundering in 2018 by the US Bureau of International Narcotics and Law Enforcement Affairs' annual International Narcotics Control Strategy Report for 2019 (US Department of State, 2019).
- Most money laundering in North African countries occurs primarily through the countries' informal economies, which are cash based (US Department of State, 2019).
- Less data is available for Libya and this lack of data means it cannot always be included in indexes and measurements related to IFFs and corruption.
- More research is needed to go beyond the big top-down numbers or aggregates of flows, and explore the nuances and drivers behind illicit flows, and how these have/are changing between countries and over time.

The review uses a mixture of academic and grey literature sources, and is not exhaustive. Given the complexity and contested nature of IFFs, and that this is an emerging and fast-paced research field, a number of papers are recommended throughout this review to gain further in-depth insights into the debate and issues around IFFs. The review was largely “gender-blind” in the literature reviewed and its findings.

## 2. Background information

### Defining IFFs

Illicit Financial Flows (IFFs) have become a major issue in the development agenda, and reducing IFFs is now a component of Goal 16 of the 2015 Sustainable Development Goals (Reuters, 2016). However, there is no single agreed definition of IFFs, and questions of definitions and measurement of IFFs are contentious (Forstater, 2018a). In general, the most common working IFFs definitions “converge around the core concept of financial transfers across borders that are in some way related to illegal activity” (Forstater 2018b, p. 4). Development Initiatives defines the concept as relating “to flows of money (or other assets used as stores of value) associated with crime and corruption, including tax evasion, usually with a focus on cross border flows” (Development Initiatives, 2018, p. 2). Transparency International defines IFFs as describing “the movement of money that is illegally acquired, transferred or spent across borders. The sources of the funds of these cross-border transfers come in three forms: corruption, such as bribery and theft by government officials; criminal activities, such as drug trading, human trafficking, illegal arms sales and more; and tax evasion and transfer mispricing” (Transparency International, n.d.2). However, there remains some “fuzziness” around the definition (Forstater, 2018b, p. 5, also see Figure 1 in the same reference for a conceptual map of the IFFs definition).

There is an ongoing debate about whether the definition of IFFs should be widened to include financial flows associated with multinational tax avoidance, which does not involve actually breaking the law nor is it characterised by secrecy or misreporting (Development Initiatives, 2018, p. 2; Forstater, 2018a, p. 16). IFFs are notoriously difficult to measure. The difficulties in agreeing a definition are due in part to the inability of countries to come to a political consensus on definition (due to the debate over inclusion of tax avoidance in the definition), which also makes developing methodologies for monitoring and assessment of progress difficult (Chowla & Falcao, 2016 cited in Development Initiatives, 2018, p. 2; Forstater, 2018b).

## Capital flight vs IFFs

Capital flight is generally hard to define; it is not quite the same as IFFs but there is a big overlap (Tax Justice Network, n.d.). Unrecorded capital flight “refers to unreported capital flows between a country and the rest of the world” (Goldsmith, 2019, p. 1). Goldsmith (2019, p. 2) argues that the term IFF is preferred internationally, as “Designating a financial flow as capital flight puts the onus on the country of origin”, whereas IFF “makes it clearer that the resources flow in two directions”. UNECA (2015, p. 15) distinguish IFFs from capital flight in their mandated report of the High Level Panel on Illicit Financial Flows from Africa as “capital flight, which is sometimes driven by macroeconomic and governance factors, could be entirely licit”. Hence, this review mainly focuses on IFFs.

## Different components

When studying IFFs, they are conventionally broken into the three components: commercial activities (these are often hard to distinguish between legitimate and illicit business dealings and use of policy incentives), criminal activities (purpose is to keep the transactions from the view of law enforcement agencies or revenue authorities) and corruption (also facilitates all other aspects of IFFs) (UNECA, 2015). Reuter (2016, p. 3) highlights that “IFFs have five major sources (bribes, tax evasion, criminal enterprise earnings, corporate profit shifting and currency regulation evasion) and a large number of channels for movement of the moneys (e.g., bulk cash smuggling, shell corporations, informal value transfer systems and trade based money laundering).” Furthermore, “each source has different development consequences, both direct and indirect” (Reuter, 2016, p. 5).

IFFs in relation to tax avoidance has been linked to “trade misinvoicing”, however, as highlighted by the Development Initiatives (2018, p. 2), sometimes trade misinvoicing “has been confused with the practice of transfer-pricing, which is a compliance responsibility of multinational companies for pricing transactions between their own subsidiaries” and is legal. This can make these estimates unreliable, “as they can interpret innocent trade as illicit and small changes to underlying assumptions in calculations can have large implications for the resulting estimates” (Development Initiatives, 2018, p. 2).

IFFs are closely associated with money laundering. There are generally three main means to illicitly move assets offshore used by organised crime groups, large-scale tax evaders and kleptocrats<sup>1</sup>: physical cash; financial instruments and entities such as bank accounts and “shell corporations”; and movement of goods through the trade system (Development Initiatives, 2018, p. 2). Money laundering as an IFF has received the most global attention as a result of anti-money laundering and counter-terrorist financing regimes (UNECA, 2015).

Corruption facilitates all other aspects of IFFs; however, there is some debate about the extent of its importance in Africa, with some seeing it as the biggest source of illicit financial outflows and others feeling its importance has been conflated (UNECA, 2015). However, there is global attention being given to addressing corruption and a number of indexes have been developed to explore corruption at a national level. See for example, Transparency International’s Corruption Perception Index results in section 3.

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<sup>1</sup> I.e. a ruler who uses their power to steal their country's resources.

## Measuring and estimating IFFs

Attempts to quantify the scale of IFFs have agreed that they are substantial, but there is a great deal of uncertainty about the exact size of these flows, which by their very nature are hidden and are inherently difficult to calculate. The US Department of State (2019) highlights that, due to its very nature, arriving at a precise figure for the amount of criminal proceeds laundered is impossible. Several empirical models have been developed to tease out estimates of IFFs; these differ conceptually and capture different aspects of the problem, with some focusing on measuring the proceeds of the illegal economy, while others shed light on tax revenues lost through manipulation of invoices (Fontana, 2010, p. 1). According to UNECA (2015, p. 90; also see Goldsmith, 2019), standard approaches include:

- The hot money method: This records short-term public-sector capital movements plus net errors and omission in balance-of-payment records. *Model based on Balance of Payments data.*
- The World Bank residual method: This estimates IFFs as the difference between the balance of payments' source of funds (external debt and foreign direct investment) and use of funds (current account deficit and reserves). *Model based on Balance of Payments data.*
- The trade mispricing method/Mirror trade analysis: This assesses IFFs by looking for deliberate overvaluing or undervaluing of invoices to disguise the movement of money. This uses the International Monetary Fund Direction of Trade statistics (DOTS). Adjustments are made to try to assure that trade records between importing and exporting countries are comparable. *Model based on trade data.*

Most researchers use a composite model, combining models that measure the two main IFFs conduits: funds that flow through the banking system and funds that flow through manipulated invoices in import/export operations (Fontana, 2010). See Forstater (2018a, pp. 16-19) or Fontana (2010) for more information on these methods and a discussion of additional methods. Existing work on IFFs has mainly examined discrepancies in recorded capital flows or discrepancies in recorded trade flows, working on the basis of either gross figures or netted out illicit inflows into Africa (UNECA, 2015, p. 33). There are also studies that explore particular IFF channels (such as the information in section 3 on theft of state assets by past regimes in North Africa (Transparency International, 2014)); Cobham (2014, p. 4) argues that these “have the potential to yield more precise but absolute low-end estimates.” A UN Office on Drugs and Crime (UNODC) study in 2011 to estimate the volume of IFFs resulting from drug trafficking and other transnational organised criminal activity found that “there is currently no single method that would give clear, unambiguous, and indisputable results” (Pietschmann & Walker, 2011, p. 15).

**None of these methods (or estimates) is without its detractors and criticisms**, in particular the debate over the inclusion of tax avoidance in the definition and the focus on trade misinvoicing (for more in depth discussion of the debate see Forstater, 2018b; Fuest and Riedel, 2009; Nitsch, 2016). Some also question the usefulness in attributing approximate estimates to these flows when it is almost impossible to verify these, and it remains unclear how representative they are (Goldsmith, 2019). In general, problems in measuring IFFs stem from lack of conceptual clarity, but fundamentally, given the illicit nature of the flows, all approaches to estimates will have problems inaccurately capturing the phenomenon (Development Initiatives, 2018). Combining estimates of different types of IFFs into one number also raises concerns. Nitsch (2016, p. iv) highlights issues in empirical analyses including “arbitrary assumptions,

mixed methodologies and skewed sampling” and UNECA (2015) underlines how IFFs estimates can differ considerably because of the use of different methods, assumptions and data. Reliance on official statistics that may not reflect the true scale of IFFs is also problematic (Fontana, 2010). Forstater (2018a, p. 19) also highlights another issue with estimating money laundering as it “involves many stages (placement..., layering..., and integration...) so the same money can go through many different transactions”, meaning estimates adding these different transactions together to generate an overall figure are meaningless.

Nevertheless, section 3 provides some information on attempts to measure IFFs in North Africa in recent years. There are big differences in estimations, and the previous limitations in measurements and assumptions behind these should be kept in mind when considering the estimates in section 3 below.

## **Economic and developmental impacts of IFFs**

It is challenging to accurately assess the economic impact of IFFs, given their hidden nature (Lain et al., 2017). Development Initiatives (2018, p. 3) highlights that “Grand corruption, organised crime and money laundering impair long-term economic growth and increase inequality, harming the welfare of entire economies”. Development Initiatives (2018, p. 3) also highlights that “One dollar of illicit financial flow is not the same as one dollar of harm”. On the other hand, the paper highlights that “the harm caused can be even greater than its headline value, since corruption undermines the rule of law, deters investment and corrodes the quality of public works” (p. 3). It is important to note that corruption and crime can also generate illicit finances that flow inwards (Development Initiatives, 2018, p. 3).

IFFs take place because of weak regulatory and law enforcement capacities. UNECA (2015, p. 51) highlights how “IFFs can contribute to political discontent, partly due to the reduced ability of governments to provide social services but also as a result of the resentment of corruption arising from IFFs.” IFFs can have a negative developmental impact on African countries, in terms of growth, job creation and investment in public services, and their economies do not benefit from the multiplier effects of the domestic use of such resources if they are transferred out. Similarly, when profits are illicitly transferred out of African countries, reinvestment and the concomitant expansion by companies are not taking place in Africa. IFFs also mask the real export performance of African countries (UNECA, 2015). IFFs also contribute to worsening inequality in Africa. For example, the African Economic Outlook for 2012 estimated that Africa’s ratio of domestic investment to GDP would increase from 19% to 30% if the stock of capital taken out were available for investment within the continent.

Cobham (2014) highlights the linkages between IFFs and security; IFFs can undermine both the immediate effectiveness of institutions, and confidence in them. Furthermore, “greater illegal capital IFF[s] characterise an economy in which rent-seeking plays a major part; and conflict can arise over control of the state and the associated (criminality and corruption) rents” (Cobham, 2014, p. ii). IFFs can exacerbate conflict and vice versa, with institutional state weakness as both cause and effect. The impact of money laundering can include contributing to the “breakdown of the rule of law, corruption of public officials, and destabilization of economies, and it threatens political stability, democracy, and free markets” (US Department of State, 2019, p. 16).

### 3. Evidence base around IFFs in North Africa

#### IFFs estimates for North Africa

UNECA (2015) explores IFFs in relation to Africa and the above models. The study highlights that there are significant differences in estimates of IFFs for Africa, but that despite these, three noteworthy convergences can be drawn:

- IFFs are high in Africa;
- IFFs from Africa have been increasing over time; and
- Africa is a net creditor to the world rather than a net debtor, due to the flows lost through IFFs. Oil-exporting countries tend to top the list of African net creditor countries, for example, Egypt and Algeria in North Africa. Although non-oil exporting countries can also have high IFFs, such as Morocco (UNECA, 2015, p. 92).

The following estimates for North Africa, from the findings of UNECA's 2015 High Level Panel on Illicit Financial Flows from Africa, the Global Financial Integrity's IFFs studies and research by Ndikumana and Boyce (2012, 2018), are all widely based on the misinvoicing method discussed above, but combine this with other modelling aspects (Forstater, 2018a). The inherent difficulty of measuring IFFs should be kept in mind when considering these estimates.

#### UNECA, 2015

UNECA (2015) came up with its own methodology for assessing IFFs at the country and sector levels in Africa through trade mispricing using misinvoicing. Its methodology is similar to that in the Trade Mispricing Model. The analysis focuses only on the trade mispricing aspect of commercial transactions by multinational corporations; it uses "bilateral data for the same trade flow, comparing country I's exports of product A to country J, with country J's imports of product A from country I" (UNECA, 2015, p. 94). There are a number of limitations with this two-way information, as it is usually mismatched. However, the method assumes that discrepancies are evenly distributed on either side so that they should roughly cancel each other out, and the overall estimates should be accurate. Further details of the methodology can be found in UNECA (2015, pp. 94-95).

The results show that in 2001–2010 African countries lost up to \$407 billion from trade mispricing alone (UNECA, 2015, p. 33). Overall, it was found that "IFFs from Africa measured through trade mispricing show high concentrations in a few countries and a few sectors" (UNECA, 2015, p. 100). In the sector-level analysis for Africa, it was found that IFFs are highest in the extractive industries, including mining, oil, precious metals and minerals. Moreover, these are highly concentrated in very few countries, and have been increasing over the time period studied (2000-2010). In these calculations, Algeria accounted for 20.1% of the total IFFs in oil from Africa during 2000–2010 (UNECA 2015, p. 97). IFFs in edible fruit and nuts, electrical machinery and equipment, fish and crustaceans, apparel and cocoa in Africa have also greatly increased in the past few years (UNECA, 2015, p. 98). In their results, in the electrical machinery and equipment sector, Morocco accounts for 51.8% of total IFFs and Tunisia 19.1%. In the apparel sector, Tunisia (33.4%) and Morocco (31.4%) register the largest shares of IFFs. IFFs in the fish and crustaceans sector are more evenly distributed across African countries (UNECA, 2015, p. 98).

Another key finding of the UNECA (2015, p. 99) report is that “IFFs tend to be confined to a few sectors within each country, reflecting the volumes of the internationally tradable goods exported by these countries”. Although this is not always the case, for example, in Morocco, “the concentration is less pronounced, with 29.9% of total IFFs in electrical machinery and equipment, 14.2% in apparel and 10.7% in edible vegetables” (p. 99). Nonetheless, Moroccan exports are among the most diversified in Africa.

## Global Financial Integrity, 2019

GFI defines IFFs as “money that is illegally earned, used or moved and which crosses an international border” (Saloman, 2019, p. vii). The most recent GFI estimates of IFFs to and from 148 Developing Countries for 2006 to 2015<sup>2</sup>, is the eighth report in a series produced since 2008 (Saloman, 2019). In the most recent publication, the scope has been widened to include the use of UN Comtrade data to estimate the magnitude of trade related illicit flows alongside their traditionally used IMF’s Direction of Trade Statistics (DOTs). GFI’s updated estimates of trade-related IFFs “stem from two main sources: (1) misinvoicing in merchandise trade, and (2) leakages in the balance of payments, labelled by the International Monetary Fund (IMF) as “net errors and omissions” in its Balance of Payments accounts” (Saloman, 2019, p. x). GFI’s estimates indicate that of these two sources, “potential trade misinvoicing is the primary means for illicitly shifting funds between developing and advanced countries” (p. x). For detailed information on methodology, assumptions and limitations see Saloman (2019). Tables 1 and 2 below show the GFI estimated scale of trade-related IFFs from both data sets for Algeria, Egypt, Morocco and Tunisia. Estimates for Libya are available for the DOTs based method, however, there was not sufficient data available to produce estimates for Libya from the UN Comtrade based method.

Table 1: GFI estimated scale of trade-related IFFs in focus countries: DOTs-based estimates of potential trade misinvoicing, 2015

Country	Total Trade (sum of country’s exports and imports in US\$ millions)	Illicit Financial Flows (inflows) (US\$ millions)	Illicit Financial Flows (outflows) (US\$ millions)
Algeria	55,276	7,284	6,971
Egypt	39,623	6,717	6,833
Libya	11,273	3,107	2,337
Morocco	36,489	3,866	3,552
Tunisia	22,863	2,612	1,280

Source: Adapted from Saloman (2019) & GFI (2019). Reproduced under CC BY-NC-ND 3.0 license.

<sup>2</sup> 2006 to 2015 is the most recent ten year period for which comprehensive data are available.



Table 2: GFI estimated scale of trade-related IFFs in focus countries: Comtrade-based estimates of potential trade misinvoicing, 2015

Country	Total Trade (sum of country's exports and imports in US\$ millions)	Illicit Financial Flows (inflows) (US\$ millions)	Illicit Financial Flows (outflows) (US\$ millions)
Algeria	48,366	3,461	4,138
Egypt	24,468	1,848	2,869
Morocco	31,498	2,688	3,421
Tunisia	19,978	2,264	1,841

Source: Adapted from Saloman (2019) & GFI (2019). Reproduced under [CC BY-NC-ND 3.0 license](https://creativecommons.org/licenses/by-nc-nd/3.0/).

Lain et al. (2017) in their review of IFFs in eight Asian countries, explores GFI's data for those countries and highlights that it provides a useful benchmark for discussion but notes GFI's methodology has its limitations. Including that, not all recorded trade mismatches are indicative of deliberate misinvoicing and/or criminality. Nitsch (2016, p. 1) is particularly critical of the GFI's methodology and estimates and argues that they "lack evidence and are uncorroborated."

### **Ndikumana and Boyce, 2012 and 2018**

Ndikumana and Boyce (2012)<sup>3</sup> using a combination of the World Bank residual model method and trade misinvoicing approach, calculated estimates of the total amount of capital flight<sup>4</sup> from Algeria, Egypt, Morocco and Tunisia (for which adequate data was available, hence, Libya could not be included due to a lack of data) from 1970 to 2010. Their previous work focused on capital flight from 33 sub-Saharan African countries. Their results found that the four countries together lost more than US\$450 billion (in constant 2010 US\$) through capital flight during the time, with Algeria (\$267 billion) losing the largest amount, followed by Morocco (US\$88 billion), Egypt (US\$60 billion) and Tunisia (US\$39 billion). Their "time-series evidence shows that capital flight is not a new phenomenon, but has been a systematic problem through the successive regimes that ruled these countries" (Ndikumana & Boyce, 2012, p. 2). In contrast, they highlight that for Tunisia, the Ben Ali regime (1987-2010) accounts for over 87% of the Tunisia's cumulative capital flight over the whole period.

Ndikumana and Boyce (2018) provided an updated estimate in 2018, revising the methodology and defining it as "a residual of the Balance of Payments consisting of discrepancies between recorded foreign exchange inflows and recorded uses of these inflows" (Ndikumana & Boyce, 2018, p. 2, see for more details of methodological revisions). In particular, the revised methodology no longer includes workers' remittances due to lack of data and adds portfolio flows (that is, where the owner holds less than 10% of a company's shares) (Goldsmith, 2019). They looked at capital flight in 30 countries in Africa, including Algeria, Egypt, Morocco and Tunisia, from 1970 to 2015. Their estimates changed significantly between their 2012 results and 2018,

<sup>3</sup> Full datasets and published articles list can be found here: <https://www.peri.umass.edu/capital-flight-from-africa> [accessed 24/06/2019]

<sup>4</sup> Defined as representing "outflows of financial resources from a country in a given period that are not recorded in official government statistics" (Ndikumana & Boyce, 2018, p. 2).

emphasising the difference that changes to data and methodologies and definitions can have on IFFs estimates. Of the four North African countries during the time period, Algeria lost the largest amount through capital flight (US\$141.5 billion in constant 2015 US\$), followed by Morocco (US\$115.9 billion), Egypt (US\$31.3 billion) and Tunisia (US\$27.7 billion).

## **Risk of money laundering in North Africa**

There are a number of international measurements, which highlight or rank countries at risk of money laundering or terrorist financing activities. This section provides information from some of the key indices. Exact figures or estimations for money laundering in the five North African countries could not be found during this review. Although money laundering is not always an IFF (in that it is not always international or across borders), information on the risk of money laundering in a country are useful as they can provide further insights into that country's financial systems and sources of IFFs. In particular, information from the US's annual International Narcotics Control Strategy Report provides insights into the key routes and sources of money laundering in the five North Africa countries (see section below).

### **FATF monitored jurisdictions**

The Financial Action Task Force (FATF), an inter-governmental body established in 1989, monitors and reviews the progress of its members in implementing necessary measures to combat money laundering and terrorist financing. The FATF identifies jurisdictions with weak measures to combat money laundering and terrorist financing (AML/CFT) in two FATF public documents that are issued three times a year. As of February 2019, the FATF has reviewed over 80 countries and publicly identified 69 of them. Of these 69, 55 have since made the necessary reforms to address their AML/CFT weaknesses. Tunisia is currently identified in this process as having strategic AML/CFT deficiencies for which they have developed an action plan with the FATF, and progress is being reviewed (FATF, 2019).

### **The Basel Anti-Money Laundering Index**

The Basel Anti-Money Laundering Index is an independent annual ranking that assesses money laundering and terrorist financing (ML/TF) country risk (Basel Institute on Governance, 2018, p. 2), and provides another indication of the scale of money laundering across the world. It is a composite index drawn from various reliable, publicly available source, such as the FATF Mutual Evaluation Reports, plus a range of individually weighted indicators of corruption, transparency and the rule of law (Basel Institute on Governance, 2018, p. 2). Only countries with sufficient data to calculate a reliable ML/TF risk score are included in the Public Edition of the Basel AML Index, hence, scores included here are only for Algeria, Egypt and Morocco. There was not sufficient information to produce a score for Libya, and Tunisia's information was not publically available. The ranking is out of 129 countries, with 1<sup>st</sup> having the highest ML/TF country risk and 129<sup>th</sup> having the lowest ML/TF country risk. The risk score runs between 0.0 and 10.0, with a risk score of 5.0 or above loosely classified as having a significant risk of money laundering and terrorist financing (Basel Institute on Governance, 2018, p. 5). In the 2018 index, no country was rated as having zero risk of ML/TF. See Table 3 below for the rankings and scores for Algeria, Egypt and Morocco, the 1<sup>st</sup> and 129<sup>th</sup> ranking countries have also been included for comparison.

See: Table 3: Scores and rankings from the Public Edition of the Basel AML Index on ML/TF country risk, Source: Basel Institute on Governance (2018, pp. 3-5), [https://www.baselgovernance.org/sites/default/files/2019-02/basel\\_aml\\_index\\_10\\_09\\_2018.pdf](https://www.baselgovernance.org/sites/default/files/2019-02/basel_aml_index_10_09_2018.pdf)

## Sources and routes of IFFs in North Africa

Reuter (2016, p. 6) highlights how the publication of “Raymond Baker’s *Capitalism’s Achilles Heel* in 2005 is the starting point for IFFs. Since then the original research on the topic has almost exclusively been on estimating its scale.” Baker’s original estimate attributed only about 5% of IFFs to corruption; about one third accounted for by criminal earnings; and the majority of flows coming from “commercial activities” (Reuter, 2016, p. 6). Consistent with this are the conclusions of The High Level Panel on Illicit Financial Flows from Africa (UNECA, 2015), “which asserted that only 5% of African IFFs came from corruption and that most came from corporate activities; unfortunately it offered no empirical support for those contentions” (Reuter, 2016, p. 6). Overall, little attention has been given to IFF composition/the relative importance of component sources, the channels that are used to move funds or the factors affecting variation across countries and over time (Reuter, 2016, pp. 6, 26).

## Corruption Perception Index

Transparency International define corruption as “The abuse of entrusted power for private gain. Corruption can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs” (Transparency International, n.d.1). Transparency International’s Corruption Perceptions Index 2018 ranks 180 countries and territories by their perceived levels of public sector corruption according to experts and business people, using a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean. Ranks and scores for the five North African countries can be seen in Table 4, alongside the rankings for the highest and lowest ranking countries in the results. The index makes clear that it does not capture or reflect the whole and varied picture of corruption.

Table 4: Corruption Perceptions Index 2018 rankings and scores for North African countries

Country	2018 Rank*	2018 Score**
Algeria	105	35
Egypt	105	35
Libya	170	17
Morocco	73	43
Tunisia	73	43
Denmark	1	88
Somalia	180	10

\* Out of 180 countries and territories; \*\* From 0 (highly corrupt) to 100 (very clean).

Source: Transparency International (2019, pp. 2-3). Reproduced under [CC BY-ND 4.0 license](#).

### Stolen assets by regimes in North Africa

Transparency International (2014), in a report on findings and lessons learnt from asset recovery activities in Egypt, Libya, Tunisia and Yemen, highlight the difficulties involved in estimating the total amount of assets stolen by public officials, due to a number of issues (p. 6):

- *International vs. domestic assets.* When calculating the scope of corruption in the former regime and the recovery of assets, it is necessary to define whether the focus is on assets channelled abroad or assets that still remain in the country. Recovering these two different types of assets presents different challenges that are often conflated.
- *Public vs. private assets.* As in the especially prominent Libya case, figures regarding the stolen assets by the Gaddafi regime are often confused with assets held in government accounts abroad or in public investment companies, such as the Libyan Investment Authorities. These types of assets do not constitute stolen assets, as the regime change also leads to a change in the control of these assets from the previous regime to the new government.
- *Corrupt vs. legitimate income.* The heads of the former regimes received some amount of income from illegal or corrupt activities, but they also had some level of legitimate income, which can be difficult to separate from the illegitimate sources.
- *Former regime vs. broader circle of persons of interest.* Lastly, it is important to define whether the assets being sought are only associated with the former regime heads (and their families) or whether the investigations also include broader circles of friends and business associates who may have benefitted from their relationships with the former regime.

These differences in terminology also lead to great variation in the estimations of the allegedly stolen assets. However, the key challenge to estimating the amount of stolen assets is the difficulty in identifying and tracing the stolen assets. The report estimates the average value of the assets stolen from each country studied; the estimates for this review's focus countries can be seen in Table 5 below. The consultancy contracted for the report estimated these averages by

collating all figures approximated by public officials and non-governmental organisations, and through interviews with national chapters of Transparency International. There is great variation between estimations, demonstrating some of the issues mentioned above, and the general difficulties in estimating IFFs and being able to corroborate these estimates.

See: Table 5: Estimations of stolen assets by the former regimes in Egypt, Libya and Tunisia, Source: Transparency International (2014, p. 7),

[https://www.transparency.org/whatwedo/publication/lost\\_billions\\_recovering\\_public\\_money\\_in\\_egypt\\_libya\\_tunisia\\_and\\_yemen](https://www.transparency.org/whatwedo/publication/lost_billions_recovering_public_money_in_egypt_libya_tunisia_and_yemen)

The latest Middle East and North Africa edition of the Global Corruption Barometer by Transparency International (2016), surveyed eight countries, including Algeria, Egypt, Morocco and Tunisia, and shows that corruption remains a major challenge for the region. Out of the eight countries surveyed, Egypt, Jordan and Tunisia got the highest number of positive ratings by their own citizens, but importantly, Egypt had one of the highest rates for the region in the area of public sector bribery. Whereas, Tunisia seems to manage its bribery risks fairly well. Algeria, Morocco, Sudan and Palestine all fall in the middle compared to their neighbours, but there were strongly negative views on the part of citizens about their government's handling of the corruption problem, and bribery remains an issue in public service delivery. Of these countries, bribery is particularly rampant in Morocco and Sudan. Lebanon and Yemen had the most negative ratings by citizens in the region (Transparency International, 2016).

### **Principal routes and methods of money laundering identified in the annual International Narcotics Control Strategy Report**

Algeria and Morocco are highlighted as of major concern for money laundering in 2018 by the US Bureau of International Narcotics and Law Enforcement Affairs' annual International Narcotics Control Strategy Report (INCSR)<sup>5</sup> for 2019 (US Department of State, 2019). Egypt, Libya and Tunisia were not identified by the 2019 INCSR as being of primary concern for money laundering in 2018. Of interest is that Egypt was included in the INCSR annual reports of 2018 (CY2017) and 2017 (CY2016) as a country of primary concern, i.e. as a major money laundering country (information on routes from 2018 INCSR are included below).<sup>6</sup> Furthermore, Algeria, Egypt and Morocco were not in the INCSR's countries of primary concern list until 2017's report, before this residing in the "Jurisdictions of Concern" list<sup>7</sup>, i.e. a country where the actual money-laundering problem is not as acute but efforts to develop or enhance their anti-money laundering regimes

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<sup>5</sup> The 2019 International Narcotics Control Strategy Report (INCSR) is an annual report by the US Department of State to Congress. It describes the efforts of key countries to attack all aspects of the international drug trade in Calendar Year 2018. Volume II covers money laundering and financial crimes (US Department of State, 2019). The INCSR is mandated to identify "major money laundering countries" defined as one "whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking" (US Department of State, 2019, p. 14). The determination is derived from the list of countries included in INCSR Volume I (which focuses on narcotics) and other countries proposed by US government experts. However, the INCSR is not a "black list" of jurisdictions.

<sup>6</sup> Information from the INCSRs for 2019-1999 explored using the Narcotics Control Reports database and archived database. See <https://www.state.gov/international-narcotics-control-strategy-reports/> and <https://2009-2017.state.gov/j/inl/rls/nrcrpt/index.htm> [accessed 21/06/2019].

<sup>7</sup> Note Algeria moved from the "Other" category to the "Concern" category in the INCSR 2006 (CY2005). See <https://2009-2017.state.gov/j/inl/rls/nrcrpt/2006/vol2/html/62140.htm> [accessed 21/06/2019]. Egypt moved from the "Other" category to the "Concern" category in the INCSR 2003 (issued 2004). See <https://2009-2017.state.gov/j/inl/rls/nrcrpt/2003/vol2/html/29919.htm> [accessed 21/06/2019].

are still needed. Libya and Tunisia have always remained on INCSR's list of "Other Jurisdictions Monitored" (i.e. a country that does not pose an immediate concern but is important to monitor its money laundering situation), but have never moved from this category into either the Jurisdictions of Primary Concern or the Jurisdictions of Concern categories.<sup>8</sup> Information on money laundering for Libya and Tunisia from the US Department of State is taken from the Money Laundering and Financial Crimes Country Database from June 2016.

## **Algeria**

According to the US Department of State's INCSR for 2019, money laundering through Algeria's formal financial sector is only minor due to its stringent exchange control regulations and antiquated banking sector. Due to the restricted convertibility of the Algerian dinar, the Central Bank is able to monitor all international financial operations carried out by public and private banking institutions. Most money laundering hence occurs primarily through the country's informal economies through, for example, abuse of real estate transactions and commercial invoice fraud (US Department of State, 2019). Therefore, Algeria's real estate market is particularly vulnerable to money laundering. Furthermore, according to this report, "Algerian authorities are increasingly concerned by cases of customs fraud, use of offshore havens for tax evasion or to hide stolen assets, and incidences of [trade-based money laundering]" (US Department of State, 2019, p. 39). Al-Qaida in the Islamic Maghreb, which operates in parts of Algeria, is also "known to raise money through drug trafficking as well as extortion and taxes imposed on smugglers" (p. 39). The predominant crimes in Algeria include theft, extortion, embezzlement, and trafficking, particularly of drugs, stolen vehicle, arms and cigarettes. Public corruption also continues to be an issue (US Department of State, 2019). The 2019 INCSR emphasises that Algeria continues to make progress in its efforts to combat money laundering and financial crimes.

## **Egypt**

According to the 2018 INCSR (CY2017), Egypt is not considered a regional financial centre or a major hub for money laundering. The Government of Egypt has shown increased willingness to tackle money laundering, but Egypt remains vulnerable by virtue of its large informal, cash-based economy. For example, the informal economy is estimated to account for approximately 40% of the GDP. Consequently, extensive use of cash is common. In February 2017, the president issued a decree establishing the National Council for Payments (NCP), tasked with limiting the use of cash, promoting the use of electronic payment mechanisms, and integrating citizens and enterprises into the banking system. Investigations of public figures and entities on several corruption charges continue (US Department of State, 2018, p. 99). Sources of illegal proceeds reportedly include smuggling of antiquities and trafficking in narcotics and/or arms. However, some organisations also have turned to funding sources based on new technologies and social media. Authorities also note increased interception of illicit cross-border fund transfers by customs agents in recent years (US Department of State, 2018, p. 100).

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<sup>8</sup> Note Libya first appeared in the "Other" category in the INCSR 2009 (CY2008). See <https://2009-2017.state.gov/j/inl/rls/nrcrpt/2009/vol2/116550.htm> [accessed 21/06/2019].

## **Libya**

The following information is from the Money Laundering and Financial Crimes Country Database from June 2016 (US Department of State, 2016, p. 272). Since the fall of the Gaddafi regime in 2011, there has been little information or reliable data on the scope of Libya's anti-money laundering regime. The lack of control by the Libyan government over Libya's territory and institutions has created increased opportunities for criminals to operate in Libya.

According to the US Department of State (2016, p. 272), "armed militias, former revolutionaries, and tribes within Libya engage in criminal activity for profit, including theft, weapons trafficking, and extortion". Libya remains heavily dependent on the hydrocarbons sector for government income. Markets remain primarily cash-based, and informal value transfer networks are present. Libya's geographic location, porous borders, and limited law enforcement capacity make it an attractive source, destination and transit point for narcotics and smuggled goods, and as a transit and destination country for migrants from sub-Saharan Africa. Corruption remains a serious problem. It is illegal to transfer funds outside of Libya without the approval of the Central Bank of Libya, and it is estimated up to 10% of foreign transfers are made through illegal means (i.e., not through the Central Bank) (US Department of State, 2016, p. 274). A shortage of foreign currency led to a growth in the black market for currency trading, and the currency control regime and lack of access to foreign currency have increased money laundering in Libya. There are reports of money laundering through fraudulently invoiced foreign trade transactions (US Department of State, 2016, p. 272).

## **Morocco**

According to the 2019 INCSR, vulnerabilities to money laundering in Morocco stem from: "a large informal sector, the prevalence of cash-based transactions, a high volume of remittances, and international trafficking networks" (US Department of State, 2019, p. 139). The report further highlights that "Morocco is an integration point for illicit drug money into the legitimate economy, with hundreds of millions of euros laundered through Morocco yearly" (p. 139), a large percentage of which is believed to be linked to the hashish trade. Money transfer services present a money laundering vulnerability due to their volume, with the majority of transfers to Morocco originating in Europe.

Smuggling, human trafficking, and illegal migration are rife in Morocco due to its geographical location close to Europe. Unlawful trade in Moroccan-grown cannabis and, increasingly, the trafficking of cocaine from Latin America to Europe via Morocco also generate illicit profits. Investments in real estate, and to a lesser extent jewellery and vehicles, are mechanisms to launder drug proceeds. International casinos are another vehicle through which money enters and exits Morocco without currency control restrictions; the extent to which this transfer method is used to launder illicit drug proceeds is unknown (US Department of State, 2019, p. 140).

## **Tunisia**

The following information is from the Money Laundering and Financial Crimes Country Database from June 2016 (US Department of State, 2016). The report highlights that "Tunisia has strict currency exchange controls, which authorities believe mitigate the risk of international money laundering" (US Department of State, 2016, p. 457). There is generally a low level of organised crime in Tunisia, with clandestine immigration, trafficking in stolen vehicles, and narcotics being

the main domestic criminal activities related to money laundering. Reports of corruption and financial crimes have been increasing since the 2011 revolution. The smuggling of weapons and contraband through Tunisia is used to support terrorist groups (US Department of State, 2016). Of concern to money-laundering are: informal economic activities involving smuggled goods, underground remittance systems such as hawala due to Tunisia's strict currency controls, and trade-based money laundering. The report highlights that "Throughout the region, invoice manipulation and customs fraud are often involved in hawala counter-valuation" (US Department of State, 2016, p. 457).

### **Trafficking and smuggling routes**

A recent study by the OECD (2018) into criminal economies operating in West Africa and the different means through which IFFs are being moved also provides some insights into the neighbouring North African region.

- **Migrant smuggling:** A greater diversity of nationalities have become involved in migrant smuggling, indicating a growth in smuggling networks, and reports suggest a growth in the number of smugglers from North African countries – Egypt, Morocco and Libya (OECD, 2018, p. 74).
- **Drug trafficking – cocaine:** A small proportion of the cocaine flow in West Africa transits by land, moving northwards from the West African coastal states through Mali or Niger, across the Sahara to Libya and other North African states (OECD, 2018, p. 64).
- **Illicit trade in "normally legal" goods:** North Africa is a source of smuggled subsidised goods. The Sahel smuggling routes have also helped West Africa function as a thoroughfare for certain imported goods, although low state capacity for regulation or control in post-revolutionary Libya has increased the likelihood of shipments entering directly through North African ports, making the Sahel land routes less attractive (OECD, 2018, p. 78).
- **Firearms:** The West African region is awash in illicit weapons from different sources, with Libya being a major external source (OECD, 2018, p. 84).

Yahia (2018) highlights how increased cocaine trafficking to Morocco seems to target the same routes and consumers as cannabis flows. Recently, drug organisations in Latin America have started to exploit the established cannabis routes in Morocco for trafficking cocaine to Europe.

A recent report by Interpol through the EU-funded ENACT programme into transnational organised crime in North Africa, highlighted these key findings (Interpol/ENACT, 2018, p. 5):

- The region is increasingly connected to global illicit markets via various international criminal organisations, and this involvement is suspected to be on the rise.
- North Africa is a consumption, production and transit hub for various illicit drugs, including cannabis, cocaine and heroin.
- North African countries constitute, mainly, source countries and transit hubs for migrants smuggled towards Europe. Local crime syndicates play a key role in this.
- The conflict situation in Libya and some countries bordering the region has increased the availability, circulation and trafficking of weapons in North Africa and the West African region.



- The illicit traffic in cultural heritage items and artefacts affects most of the North African countries, with major destinations of these goods being Europe, North America, and the Gulf States.
- The region is an origin (production), transit and destination point for counterfeit products. North African crime syndicates play a major role in the importation, production and distribution of these products.
- The trafficking of various types of illicit goods constitutes a source of financing for terrorist and insurgent groups present in the region, which collaborate with crime syndicates.

## 4. Gaps and further research

Much of the literature argues the need for more in-depth research that goes beyond the “top-down” big numbers or aggregates of flows, which looks at the nuances and drivers behind illicit flows. In particular, the following was highlighted in the literature:

- A more thorough analysis of IFFs at the sector level that incorporates the destination of IFFs from Africa is critical to help identify specific niches (UNECA, 2015). Forstater (2018a) calls for recognition of the limitations of aggregate measurements of IFFs, and the need to put more focus on disaggregate analysis.
- Forstater (2018a) argues that debates on IFFs need to move beyond arguments over definitions and measurement, and should focus on the “information that measurement provides and on how best to prioritize interventions and support” (p. 12). In particular, there is a need for research to gain a better understanding of the political and economic factors driving IFFs, the effects of IFFs and the particular channels used.
- A more bottom-up understanding and analysis of what are the crimes, risks and vulnerabilities of countries becoming sources, conduits and stores of IFFs.
- Reuter (2016) argues that more needs to be known about the relative importance of component sources of IFFs or of the channels that are used to move the funds illicitly, in different countries and how these have varied over time.
- Lain et al (2017) in their study of IFFs in eight Asian countries, recommend the need for further research at a national level, involving both the public and private sectors. Their paper demonstrates the need to carefully consider the individual criminal infrastructure within a country that facilitates IFFs.
- Lain et al. (2017) further recommends a better understanding of the role that the private sector plays in IFFs; to update knowledge on informal money transfer systems; and increase research into emerging technologies that facilitate payments, such as bitcoin.
- Need for more micro evidence about procedures using misinvoiced trade transactions to move capital unrecorded out of a country. This may provide insights on the overall relevance of trade misinvoicing to IFFs estimates (Nitsch, 2016, p. 13).
- Fontana (2010) recommends improving the quality of statistical information in developing countries, to improve the estimates from IFFs measurements.

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