TWP COMMUNITY OF PRACTICE

# Beyond 'Illicit Finance Matters for Development': Reflections From 15 Years' Experience

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## Beyond 'Illicit finance matters for development': Reflections from 15 years' experience

*By Josie Stewart and Catherine Masterman*

UK Foreign Secretary David Lammy's personal campaign against 'dirty money' is a recent high point in political commitment to address illicit finance. In 2024, Lammy's statement's suggested a level of ambition not seen since the 2016 Anti-Corruption Summit that then-Prime Minster David Cameron convened in London. However, 2025 so far has proven much more challenging than any of us could have foreseen, not only for the fight to tackle dirty money but for development issues more broadly. The United States Government has rolled back commitments on corporate transparency while it has closed down the United States Agency for International Development (USAID) and dramatically curtailed international development assistance. On this side of the Atlantic, several countries, including not only the UK but also the Netherlands, among others, have also announced sharp cuts to their ODA. Resources to act on Lammy's priority are going to be thin on the ground. This raises a critical question: how can we make best use of the development resources that remain? We offer some thoughts below.

Over the past 15 years, most high-level communiqués related to development have included language on illicit finance, particularly after Sustainable Development Goal (SDG) 16 on Peace, Justice and Strong Institutions was agreed. The standard text usually acknowledges the damaging impact of illicit finance on economic and political systems, while Western governments also highlight its role in undermining national security and facilitating organised crime. Meanwhile, the Financial Action Task Force (FATF), the inter-governmental body established in 1989 to curb money laundering, terrorist financing, and other financial crimes, has become increasingly dominant as the framework for financial systems around the world. ODA has financed technical assistance to support compliance, presumably on the assumption that implementing FATF recommendations per se if good for development. However, while financed by bilateral ODA contributions (often channelled through specific mechanisms within international financial institutions, or IFIs), the implementation of FATF action plans remains detached from wider development strategies and approaches. Given the fundamental impact of illicit finance across all aspects of political, economy and social governance, this disconnect presents a problem. It is also a missed opportunity: the FATF process – through its mutual evaluation process and the threat of 'greylisting' countries that do not fully meet FATF's best practices on anti-money laundering and terrorist financing – plays a major role in incentivising political commitment to tackling illicit finance, even if only superficially.

Based on decades of learning about how change happens within complex economic and political systems, it seems unlikely that a cross-cutting issue like illicit finance could be substantively addressed through a single set of standards that can be applied everywhere. It is difficult to think of another area of ODA programming that still upholds such a deliberate strategy of imposing one detailed, technocratic model devised by major economies in the West on all countries across the board, irrespective of contextual realities and political economy considerations. It is a deliberate attempt at 'isomorphic mimicry', or the process whereby organisations, institutions, or systems imitate the form or appearance of successful counterparts without actually adopting their function or effectiveness.

There is no suggestion that illicit finance will go away as a problem for any country any time soon. Assessing the scale of the problem is a constant challenge. However, the extent of the problem is not just connected to the volume of flows. The true cost comes through 'state capture', through the enmeshment of structures and actors enabling illicit finance into the core economic and political systems (see research and analysis from the FCDO-funded ACE programmes and GI-TOC). As ODA volumes implode, financial flows into developing countries will be further outstripped by outflows of illicit finance in absolute terms. Moreover, the stakes are even higher for ensuring that the development processes that do remain are better equipped to address the contextual realities of illicit finance.

We make four suggestions:

1. **Financial centre reform:** The most significant actions that ODA providers can take against illicit finance remain internal policy reforms directed at their own financial centres and the regulation of their international financial and commercial transactions. The rapid about-turn in US policy raises the stakes on the rest of the OECD to sustain and increase political commitment to driving out dirty money at home. As the UK has shown, ODA can play a role in innovative approaches.
2. **Illicit finance and wider political economy approaches:** The idea of 'development bargains', which former Chief Economist at the UK Department for International Development Stefan Dercon helped popularise in his book *Gambling on Development: Why Some Countries Win and Others Lose*, has at its heart choices between elites pursuing their own narrow enrichment or opting to foster broad-based growth. In most places, some element of illicit finance will have a significant role in the incentives

informing those choices. Ensuring that illicit finance is not looked at in isolation but incorporated into political economy or systems analysis focused on broader development challenges at a regional, national or sectoral level, may reveal particular entry points for strategically targeted ODA -financed interventions.

3. **Macroeconomic analysis and interventions:** Illicit finance acts as a wrecking ball through any assumptions on how policies and programmes could enable broad-based growth, if those assumptions are only based on the formal economy. The difficulty in understanding the structures and scale of illicit finance in any particular context does not mean it can be excluded from scope. ODA reductions mean that it is even more important that IFI lending addresses rather than entrenches state capture. Initiatives are underway include illicit finance in diagnostics and assessments, but these are unlikely to have strong traction unless there is sustained political level demand by Board members. Given the macroeconomic impacts in terms of lost tax revenue and skewing incentives for broad based growth, a stronger, shared IFI approach to hardwiring illicit finance into the core of major macroeconomic processes could be a significant legacy of current Ministerial interest.
4. **FATF and OECD:** In 2024, the FATF amended their approach to Least Developed Countries, so that they would not automatically go through the enhanced monitoring process of the 'greylist'. Whilst there is a risk that this decision encourages both governments and ODA providers to ignore the issue, it also offers an opportunity for governments to take a longer-term perspective on a strategy for addressing illicit finance. Discussions between the FATF and the OECD Development Assistance Committee have started in the context of ODA support for de-risking and, along with the FATF plans to update guidance for assessors in poorer countries, could prompt closer alignment between FATF processes and wider development priorities.

The case for addressing illicit finance as a development issue has been made and perhaps even won. Yet, the current response remains too narrow, too technocratic, and too ineffective. The disconnect with wider development approaches is to the detriment both of action to tackle illicit finance and action to support development outcomes. Based on our combined 15 years of working at the intersection of illicit finance and development, these reflections are intended to offer a constructive input into some of the debates and challenges faced by every international development institution in 2025 and likely beyond.

## About the Authors

**Josie Stewart** is currently an independent consultant working on UK and international illicit finance policy and research projects. She is an Associate Fellow with the Centre for Finance and Security at the Royal United Services Institute (RUSI) and Board member at Spotlight on Corruption.  Josie is the former Head of Illicit Finance at the Foreign, Commonwealth and Development Office (FCDO). Prior to that, she was Senior Governance Adviser at the Department of International Development (DFI), where she spearheaded and led a team that focused on illicit finance as a development issue.

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