

Executive Summary

This report, the latest in a series of annual reports by Global Financial Integrity (GFI), provides estimates of the illicit flow of money out of the developing world—hereafter referred to as illicit financial flows (IFFs) or illicit outflows—from 2004 to 2013, the most recent ten years for which data are available.

The study finds that during this ten-year period, the developing world as a whole lost US\$7.8 trillion (see Table X1). In real terms, **these flows increased at 6.5 percent per annum** (see Chart 2). After a slowdown during the global financial crisis, illicit outflows have been rising, topping US\$1 trillion since 2011 and reaching a new peak of **US\$1.1 trillion in 2013** (see Table X1).

Table X1. Illicit Financial Flows from Developing Countries, by Region, 2004-2013
(in billions of U.S. dollars, nominal)

Region	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Cumulative	Average Share
Sub-Saharan Africa	32.5	51.9	56.4	77.0	78.6	85.0	78.0	74.3	66.7	74.6	675.0	8.6%
Asia	174.6	191.9	209.1	236.5	277.5	277.1	381.7	361.1	456.7	482.0	3,048.3	38.8%
Developing Europe	107.3	118.4	133.8	190.6	233.8	204.9	221.8	295.5	242.5	250.4	1,998.9	25.5%
MENA+AP	29.9	31.0	33.3	57.4	80.3	51.9	53.0	81.1	68.2	70.3	556.5	7.1%
Western Hemisphere	120.9	131.4	111.0	137.7	157.8	128.1	172.0	195.8	201.8	212.8	1,569.3	20.0%
All Developing Countries	465.3	524.6	543.5	699.1	828.0	747.0	906.6	1,007.7	1,035.9	1,090.1	7,847.9	.

GFI measures illicit financial outflows using two sources: 1) deliberate trade misinvoicing (gross excluding reversals or GER) and 2) leakages in the balance of payments (hot money narrow or HMN). **Trade misinvoicing is the primary measurable means for shifting funds out of developing countries illicitly.** Over the ten-year time period of this study, an **average of 83.4 percent of illicit financial outflows were due to the fraudulent misinvoicing of trade** (see Table X2, Chart 7).

This report nearly triples the number of countries—from 19 to 56—for which a more precise trade misinvoicing calculation is used by comparing those countries’ trade to that of individual advanced economies, rather than to advanced economies as a group or to the world as a whole. Data on trade between individual developing and advanced countries are preferable to trade data showing flows between the former and an aggregate of the latter. This is because traders do not misinvoice exports or imports vis-à-vis a group. They always misinvoice their transactions relative to a specific country. So an “advanced country” group is nothing but a statistical artifact—no such group exists in the minds of traders.

This expansion revises the aggregate illicit flows figures upwards compared to GFI’s two most recent annual reports; for example, the total IFF figure for 2012 has risen 4.5 percent since our

most recent publication (see Table A). Aside from the expanded coverage, no other methodological changes were introduced in this report relative to GFI's two most recent annual updates. Changes in the IFF estimates presented herein are otherwise due to regular revisions of the underlying data by country statistical agencies and the IMF.

Table X2: Illicit Financial Flows from Developing Countries, by Component, 2004-2013
(in billions of U.S. dollars, nominal)

Component	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Trade Misinvoicing Outflows (GER)	433.0	449.2	482.0	602.8	698.8	587.6	708.2	867.5	839.6	878.2
Hot Money Narrow Outflows (HMN)	32.3	75.4	61.6	96.3	129.2	159.5	198.5	140.2	196.3	212.0
Total IFFs	465.3	524.6	543.5	699.1	828.0	747.0	906.6	1,007.7	1,035.9	1,090.1

Asia remains the region of the developing world with the most significant volume of IFFs, comprising some 38.8 percent of the developing world total over the ten years of this study. Asia is followed by the Developing Europe region (25.5 percent), the Western Hemisphere (20.0 percent), Sub-Saharan Africa (8.6 percent), and the MENA+AP (Middle East, North Africa, Afghanistan, and Pakistan) region at 7.1 percent (see Chart 3).

Similarly, Asia saw the fastest growth rate in IFFs from 2004 to 2013, registering an average annual increase of 8.6 percent over that period. Developing Europe and the MENA+AP regions followed (each increasing at an average annual rate of 7.0 percent) and were in turn followed by the Western Hemisphere (3.4 percent) and Sub-Saharan Africa (3.0 percent; see Chart 2).

Sub-Saharan Africa tops the list when IFFs are scaled as a percentage of gross domestic product (GDP), with illicit financial outflows averaging 6.1 percent of the region's GDP.

Developing Europe follows at 5.9 percent of GDP, Asia at 3.8 percent, the Western Hemisphere at 3.6 percent, and MENA+AP at 2.3 percent (see Table E).

The report also compares IFFs to official development assistance (ODA) and foreign direct investment (FDI). **IFFs have exceeded those measures—combined—for seven of the ten years of this study.** Despite these substantial recorded inflows, the continued growth of unrecorded, illicit outflows has a pernicious impact on development aspirations in many countries. For example: for every dollar of ODA that entered the developing world in 2012, ten dollars flowed out illicitly.

Given the particularly high level of illicit flows due to trade misinvoicing, this report includes a special section that examines the phenomenon in the context of trade based money laundering (TBML) in drug-producing and/or drug-trafficking states. By comparing trade misinvoicing figures to total trade in drug-producing and drug-trafficking states, there are indications that **drug traffickers may be using trade misinvoicing to shift ill-gotten gains.**

This year, IFFs became part of development orthodoxy in the UN's Sustainable Development Goals and at the Financing for Development Conference in Addis Ababa. World leaders still have much to do to curb the opacity in the global financial system that facilitates these outflows. GFI recommends a number of steps that governments and other international regulators can take to develop greater financial transparency and curtail illicit outflows.

Beneficial Ownership

- Governments should establish public registries of verified beneficial ownership information on all legal entities, and all banks should know the true beneficial owner(s) of any account opened in their financial institution.

Anti-Money Laundering

- Government authorities should adopt and fully implement all of the Financial Action Task Force's anti-money laundering recommendations; laws already in place should be strongly enforced.

Country-by-Country Reporting

- Policymakers should require multinational companies to publicly disclose their revenues, profits, losses, sales, taxes paid, subsidiaries, and staff levels on a country-by-country basis.

Tax Information Exchange

- All countries should actively participate in the worldwide movement towards the automatic exchange of tax information as endorsed by the OECD and the G20.

Trade Misinvoicing

- Customs agencies should treat trade transactions involving a tax haven with the highest level of scrutiny.
- Governments should significantly boost their customs enforcement by equipping and training officers to better detect intentional misinvoicing of trade transactions, particularly through access to real-time world market pricing information at a detailed commodity level.

Sustainable Development

- The indicator for SDG goal 16.4 should be country-level estimates of illicit outflows related to misinvoiced trade and other sources based on currently available data, and the International Monetary Fund or another qualified international institution should conduct and publish the analysis annually.
- Governments should sign on to the Addis Tax Initiative to further support efforts to curb IFFs as a key component of the development agenda.

The massive outflows of illicit capital shown in this study are likely to adversely impact domestic resource mobilization and hamper sustainable economic growth. As such, it is necessary to consider the role of illicit outflows in any discussion of the development equation. We should not only look at the volume of resources flowing into developing countries but also the illicit leakages of capital from the balance of payments and trade misinvoicing. Governments and international organizations must strengthen policy and increase cooperation to combat this scourge.