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–as a whole, by region, and by individual country–from 2003-2012, the most recent ten years of data availability.

The study finds that between 2003 and 2012, the developing world lost US$6.6 trillion in illicit outflows [See See Table X1; or Appendix Table 3]. In real terms, **these flows increased at 9.4 percent per annum** [Table C]. After a brief slowdown during the financial crisis, illicit outflows are once again on the rise, hitting a new peak of **US$991.2 billion in 2012** [See Table X1; or Appendix Table 3].

Table X1: Illicit Financial Flows from Developing Countries, by Region, 2003-2012
(in billions of nominal U.S. dollars)

Region	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Cumulative
Sub-Saharan Africa	12.1	20.3	38.2	51.1	67.0	73.4	75.0	58.0	65.2	68.6	528.9
Asia	131.2	167.1	184.7	201.3	227.3	263.4	267.3	368.1	371.4	473.9	2,655.6
Developing Europe	68.1	73.9	85.9	95.9	131.7	168.1	175.1	170.3	250.9	166.5	1,386.4
MENA	6.0	22.7	57.8	51.1	42.6	131.8	118.6	74.2	109.2	113.4	727.4
Western Hemisphere	80.0	96.9	122.3	103.3	124.9	156.7	112.3	151.4	172.0	168.8	1,288.8
All Developing Countries	**297.4**	**380.8**	**489.0**	**502.8**	**593.5**	**793.4**	**748.3**	**821.9**	**968.7**	**991.2**	**6,587.1**

To put this in perspective, the cumulative total of official development assistance (ODA) to the developing countries in this report from 2003 to 2012 was just US$809 billion [See Appendix Table 7A]. In 2012, the last year in this study, ODA to these countries stood at US$89.7 billion, according to OECD data sourced from the World Bank [See Appendix Table 7B]. That means that for every single one of those US$89.7 billion in development aid that entered these developing countries in 2012, over US$10 in illicit financial flows (IFFs) came out. If the problem of illicit financial flows is allowed to grow unchecked, development aid will continue to fight an uphill battle.

This report also compares illicit outflows to foreign direct investment (FDI) in the developing countries that are found in this report from 2003 to 2012 [See Chart 5]. Though FDI was significantly larger than ODA at US$5.7 trillion over the 10-year period, it was still less than illicit outflows. **Even FDI and ODA combined come in at slightly less than illicit outflows, at US$6.5 trillion.** [See Appendix Table 7A]

GFI measures illicit financial outflows using two sources: 1) outflows due to deliberate trade misinvoicing (GER) and 2) outflows due to leakages in the balance of payments, also known as illicit hot money narrow outflows (HMN). The vast majority of illicit financial flows – 77.8 percent in the 10-year period covered in this report – are due to trade misinvoicing [See Chart 9].

Table X2: Illicit Financial Flows from Developing Countries, by Component, 2003-2012
(in billions of nominal U.S. dollars)

All Developing Countries	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Cumulative
Trade Misinvoicing Outflows (GER)	257.5	347.1	369.2	412.4	495.5	594.1	514.5	594.3	786.7	729.9	5,101.1
Illicit Hot Money Outflows (HMN)	39.9	33.8	119.8	90.4	98.0	199.3	233.8	227.6	182.0	261.4	1,486.0
Total	**297.4**	**380.8**	**489.0**	**502.8**	**593.5**	**793.4**	**748.3**	**821.9**	**968.7**	**991.2**	**6,587.1**

Asia continues to be the region of the developing world with the greatest volume of illicit financial flows, comprising 40.3 percent of the world total over the ten years of this study. It is followed by Developing Europe at 21.0 percent, the Western Hemisphere at 19.9 percent, MENA (the Middle East and North Africa) at 10.8 percent, and Sub-Saharan Africa at 8.0 percent [See Table D].

MENA saw the largest percent increase in illicit outflows from 2003 to 2012, at 24.2 percent per annum. Sub-Saharan Africa followed at 13.2 percent with Developing Europe at 9.8 percent, Asia at 9.5 percent, and the Western Hemisphere at 3.5 percent [See Table D].

Asia's regional total is driven by the People's Republic of China, the leading source of illicit financial flows from developing countries for nine of the ten years of this study. Similarly, Developing Europe's large share of global IFFs is primarily due to the Russian Federation, the number two country for nine of the ten years of the study, which briefly surpassed China in 2011 to become the world's top exporter of illicit capital before ceding this place back to China in 2012 [See Section III, ¶8].

The top five exporters of illicit capital over the past ten years on average are: China, Russia, Mexico, India, and Malaysia [See Appendix Table 2]. Compared to GFI's estimates in *Illicit Financial Flows from Developing Countries: 2002-2011*, hereafter referred to as the *2013 IFF Update*, these rankings have changed only slightly—India and Malaysia switched ranks in this report, with India moving up to the number four slot.[1] This is due to a continuation of India's upward trend, which began in 2009, and Malaysia's downward trend that began in 2010 [See Appendix Table 3]. China registered a particularly large increase from 2011 (US$162.8 billion) to 2012 (US$249.6 billion) [See Appendix Table 3]. This is due primarily to its return to a trend of large and increasing HMN outflows that began in 2009 but dropped off precipitously in 2011 [See Appendix Table 5].

This report also contains a special section on areas for future research on potential regulatory, fiscal, and governance drivers of trade misinvoicing. Restrictive export proceeds requirements, such as surrender and repatriation requirements, may drive export under-invoicing. Similarly, import over-invoicing may be incentivized by foreign exchange regulations. There also appear to be links between governance, the size of the underground economy, and the volume of illicit flows.

[1] Dev Kar and Brian LeBlanc, *Illicit Financial Flows from Developing Countries: 2002-2011* (Washington, DC: Global Financial Integrity, 2013).

This study's rigorous methodology does not contain any methodological changes from the *2013 IFF Update*, though we no longer report our GER Normalized figure–an overly conservative estimate–for reasons described in the methodology section [See Section II, ¶3]. The results of this report are consistent with the *2013 IFF Update*. Changes in our estimates are due to revisions in the statistics by the country of interest's statistical agency [See Section II, ¶8; and Table A].

GFI recommends that world leaders focus on curbing the opacity in the global financial system—comprising, among other things, tax haven secrecy, anonymous companies, and money laundering techniques—which facilitates these outflows. Specifically, GFI maintains that [See Section V]:

- Governments should establish public registries of meaningful beneficial ownership information on all legal entities;
- Financial regulators should require that all banks in their country know the true beneficial owner(s) of any account opened in their financial institution;
- Government authorities should adopt and fully implement all of the Financial Action Task Force's (FATF) anti-money laundering recommendations;
- Regulators and law enforcement authorities should ensure that all of the anti-money laundering regulations, which are already on the books, are strongly enforced;
- 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;
- 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 transactions involving tax haven jurisdictions should be treated with the highest level of scrutiny by customs, tax, and law enforcement officials;
- Governments should significantly boost their customs enforcement by equipping and training officers to better detect intentional misinvoicing of trade transactions; and
- The United Nations should adopt a clear and concise Sustainable Development Goal (SDG) to halve trade-related illicit financial flows by 2030 and similar language should be included in the outcome document of the Financing for Development Conference in July 2015.

As individual States and the international community make progress implementing these recommendations and generating greater financial transparency, future IFF updates will reflect this progress, hopefully, with decreasing rates of illicit outflows.