Tip Sheet: Illicit Financial Flows from Developing Countries: 2003-2012: *GFI's 2014 global illicit financial flows report is first to provide estimates of illegal capital flight from the developing world for the year 2012*

Report Background: In December 2008, Global Financial Integrity (GFI) released "*Illicit Financial Flows from Developing Countries: 2002-2006*," its groundbreaking report estimating for the first time the quantity and patterns of illicit financial outflows from developing and emerging economies. GFI now updates this global study each December, with previous updates published in 2010, 2011, 2012, and 2013. The most recent previous study from December 2013, "*Illicit Financial Flows from Developing Countries: 2002-2011*," included illicit financial flow data over the decade from 2002 through 2011.

GFI's 2014 Global Illicit Financial Flows Report: GFI is now releasing illicit financial flows data for the year 2012 and updating existing figures based on new data. The report is authored by GFI Chief Economist Dev Kar and GFI Junior Economist Joseph Spanjers.

Methodology: GFI's experts analyze discrepancies in balance of payments data and direction of trade statistics (DOTS), as reported to the IMF, in order to detect flows of capital that are illegally earned, transferred, and/or utilized. This methodology is regarded as highly conservative, as it does not pick up movements of bulk cash, the mispricing of services, same-invoice trade misinvoicing, hawala transactions, or many other types of money laundering. This means that many forms of abusive tax avoidance by multinational companies as well as much of the proceeds of drug trafficking, human smuggling, and other criminal activities—which are often settled in cash—are not included in these estimates. Click here for more on analytical methodologies utilized by GFI.

Report Findings Include:

- **Developing countries lost US$991.2 billion in illicit outflows in 2012**. The 2012 outflows are the highest on record.
- Cumulatively, **developing economies lost US$6.6 trillion to illicit financial flows from 2003 to 2012**. Annually, developing countries lost an average of US$658.7 billion through illicit outflows over the decade.
- Adjusted for inflation, ***illicit financial flows grew by an annual rate of 9.4%***. Illicit outflows have increased in every region of the developing world. Adjusted for inflation, annual illicit financial flows growth by region over the decade was:
  - Middle East and North Africa (MENA) 24.2%
  - Sub-Saharan Africa 13.2%
  - Developing Europe 9.8%
  - Asia 9.5%
  - Western Hemisphere 3.5%
- ***Illicit outflows averaged 3.9% of GDP*** per year from all developing and emerging economies over the decade. **As a share of GDP, Sub-Saharan Africa had the biggest issue.** Illicit financial flows to GDP by region over the decade were:
  - Sub-Saharan Africa 5.5%
  - Developing Europe 4.4%
  - Asia 3.7%
  - MENA 3.7%
  - Western Hemisphere 3.3%
- **Asia accounted for 40.3% of total illicit flows** from the developing world followed by developing Europe (21.0%), the Western Hemisphere (19.9%), the Middle East and North Africa (10.8%), and Sub-Saharan Africa (8.0%).
- **Trade misinvoicing** was found to account for an average of **77.8% of illicit flows** from developing countries over the period 2003-2012. It remains the **major channel for the transfer of illicit capital from all regions except MENA, where it accounted for 24.7% of total outflows over the decade.**

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- China continued to lead the world in illicit outflows over the decade—losing US$1.25 trillion from 2003-2012. Likewise, China was the leading exporter of illicit capital in 2012, with US$249.57 billion in illicit outflows that year.
- **Top 20 countries** with the highest measured average annual illicit financial outflows between 2003 and 2012 were:

1. China.... US$125.24bn average (US$1.25tr cumulative)
2. Russia .... US$97.39bn avg. (US$973.86bn cum.)
3. Mexico............. US$51.43bn avg. (US$514.26bn cum.)
4. India .... US$43.96bn avg. (US$439.59bn cum.)
5. Malaysia........... US$39.49bn avg. (US$394.87bn cum.)
6. Saudi Arabia..... US$30.86bn avg. (US$308.62bn cum.)
7. Brazil .... US$21.71bn avg. (US$217.10bn cum.)
8. Indonesia .... US$18.78bn avg. (US$187.84bn cum.)
9. Thailand .... US$17.17bn avg. (US$171.68bn cum.)
10. Nigeria............. US$15.75bn avg. (US$157.46bn cum.)
11. U.A.E. .... US$13.53bn avg. (US$135.30bn cum.)
12. South Africa ... US$12.21bn avg. (US$122.14bn cum.)
13. Iraq.................. US$11.14bn avg. (US$89.10bn cum.)
14. Costa Rica .... US$9.40bn avg. (US$94.03bn cum.)
15. Philippines .... US$9.35bn avg. (US$93.49bn cum.)
16. Belarus.............. US$8.45bn avg. (US$84.53bn cum.)
17. Poland............... US$5.31bn avg. (US$53.12bn cum.)
18. Panama .... US$4.85bn avg. (US$48.48bn cum.)
19. Serbia .... US$4.57bn avg. (US$45.66bn cum.)
20. Chile.................. US$4.56bn avg. (US$45.64bn cum.)

Please refer to Appendix Table 2 (pg.28) of the report for full rankings of countries by average annual outflows. Full illicit outflow data is available each year for each country alphabetically in Appendix Table 3 (pg.30).

Global Development Implications:

The 2012 illicit outflows of US$991.2 billion are greater than the combined total of foreign direct investment (FDI) and net official development assistance (ODA), which these economies received that year**.** Illicit outflows were roughly 1.3 times the US$789.4 billion in total FDI, and they were 11.1 times the US$89.7 billion in ODA that these economies received in 2012. This illustrates the uphill development challenge facing these countries due to illicit financial flows.

Policy Solutions:

GFI recommends that world leaders focus on curbing the opacity in the global financial system, which facilitates these outflows. Specifically, GFI maintains that:

- 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.

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