The "Illicit Financial Flows from Developing Countries: 2001-2010" report from Global Financial Integrity is EMBARGOED until Monday, December 17th, 2012 at 18:59 EST (23:59 GMT). Contact Clark Gascoigne (cgascoigne@gfintegrity.org, +1 202 293 0740 x222) to request advance copy of the report.

Tip Sheet: Illicit Financial Flows from Developing Countries: 2001-2010: *New report updates annual Global Financial Integrity analysis of illegal capital flight out of developing countries*

Report Background: In December 2008, Global Financial Integrity (GFI) released "Illicit Financial Flows from Developing Countries: 2002-2006," a groundbreaking report which used World Bank and IMF data to estimate the quantity and patterns of illicit financial flows coming out of developing countries. In January 2011 and December 2011, GFI updated its 2008 study with new global reports. The most recent previous study from December 2011, "Illicit Financial Flows from Developing Countries over the Decade Ending 2009," included illicit financial flow data over the time period 2000-2009.

December 2012 Illicit Financial Flows Report Update: Updating its 2008, January 2011, and December 2011 reports, GFI is now releasing illicit financial flows data for the year 2010, updating existing figures based on new data, and introducing a new, more conservative methodology—complicating comparisons with estimates from previous reports.

Methodology: As developing countries begin to loosen capital controls, the possibility exists that the methodology utilized in previous GFI reports—known as the World Bank Residual Plus Trade Mispricing method (CED+GER)—could increasingly pick-up some licit capital flows. The methodology introduced in this report—the Hot Money Narrow Plus Trade Mispricing method (HMN+GER)—ensures that all flow estimates are strictly illicit moving forward, but may omit some illicit financial flows detected in the previous methodology. The estimates provided by either methodology are still likely to be extremely conservative as they do not include trade mispricing in services, same-invoice trade mispricing, hawala transactions, and dealings conducted in bulk cash. The numbers referenced in this tip-sheet utilize the HMN+GER method.

Report Findings include:

- **Developing countries lost US$858.8 billion in illicit outflows in 2010**, an increase of 11% over the US$776.0 billion that left developing countries in 2009. The outflows are near the historic high of US$871.3 billion set in 2008.
- **Developing countries lost US$585.9 billion per annum on average through illicit flows over the decade ending 2010.** Cumulatively, developing countries lost US$5.86 trillion to illicit outflows between 2001 and 2010.
- Despite the onset of the global financial crisis toward the end of the decade, **illicit flows increased in current dollar terms by 13.28% per annum** from US$330.5 billion at the start of the decade to US$858.8 billion in 2010. Adjusted for inflation, **illicit financial flows still grew by an annual rate of 8.62%**.

  Illicit financial flows have increased in every region of developing countries. Adjusted for inflation, annual illicit financial flow growth by region over the decade was:

  - Middle East and North Africa (MENA) 26.32%
  - Sub-Saharan Africa (Africa) 23.83%
  - Asia 7.81%
  - Developing Europe 3.59%
  - Western Hemisphere 2.65%

- **Asia accounted for 60.91 percent of total illicit flows** from the developing world followed by the Western Hemisphere (15.31 percent), the Middle East and North Africa (10.28 percent), developing Europe (6.93 percent), and Sub-Saharan Africa (6.57 percent).

- **Top 20 countries** with the highest measured average annual illicit financial outflows between 2001 and 2010 were:

1. China.............$274bn average ($2.74tr cumulative)
2. Mexico........................ $47.6bn avg. ($476bn cum.)
3. Malaysia .... $28.5bn avg. ($285bn cum.)
4. Saudi Arabia .... $21.0bn avg. ($210bn cum.)
5. Russia .... $15.2bn avg. ($152bn cum.)
6. Philippines .... $13.8bn avg. ($138bn cum.)
7. Nigeria .... $12.9bn avg. ($129bn cum.)
8. India............................ $12.3bn avg. ($123bn cum.)
9. Indonesia .... $10.9bn avg. ($109bn cum.)
10. United Arab Emirates .. $10.7bn avg. ($107bn cum.)
11. Iraq .... $10.6bn avg. ($63.6bn cum.)
12. South Africa ... $8.39bn avg. ($83.9bn cum.)
13. Thailand .... $6.43bn avg. ($64.3bn cum.)
14. Costa Rica ...... $6.37bn avg. ($63.7bn cum.)
15. Qatar............. $5.61bn avg. ($56.1bn cum.)
16. Serbia............ $5.14bn avg. ($51.4bn cum.)
17. Poland........... $4.08bn avg. ($40.8bn cum.)
18. Panama.......... $3.99bn avg. ($39.9bn cum.)
19. Venezuela ...... $3.79bn avg. ($37.9bn cum.)
20. Brunei .... $3.70bn avg. ($37.0bn cum.)

Please refer to Table 2 (pg.36) in the Appendix for full rankings of countries by average annual outflows.

Illicit Outflow Drivers, Trends:

- **Trade mispricing** was found to account for an average of **80.1% of cumulative illicit flows** from developing countries over the period 2001-2010, down from its high in 2004 when it accounted for 86.1%. It remains the **major channel for the transfer of illicit capital from all regions except MENA, where it accounted for 37% of total outflows over the decade.**
- China continued to lead the world in illicit outflows, losing $420.4 billion in 2010.
- **Illicit transfers of the proceeds of corruption, bribery, theft, and kickbacks,** accounting on average for 19.9% of illicit outflows over the decade, are on the rise as a percentage of total illicit financial outflows.
- Qatar, Kuwait, Venezuela, and Poland were all displaced from the top-10 illicit financial flow ranking, and were replaced by countries with higher rates of poverty, the Philippines, India, Indonesia, and Nigeria.

Implications for Economic Development Policy: The illicit outflows measured in this report are approximately 10 times the US$88 billion of net official development assistance (ODA) that went into these developing countries in 2010**. This means that for every $1 in economic development assistance going into a developing country, $10 are lost via these illicit outflows.**

Solutions: Increasing transparency in the global financial system is critical to reducing the outflow of illicit money from developing countries.

Recommendations for achieving greater transparency include:

- Addressing the problems posed by anonymous shell companies, foundations, and trusts by requiring confirmation of beneficial ownership in all banking and securities accounts, and demanding that information on the true, human owner of all corporations, trusts, and foundations be disclosed upon formation and be available to law enforcement;
- Reforming customs and trade protocols to detect and curtail trade mispricing;
- Requiring the country-by-country reporting of sales, profits and taxes paid by multinational corporations;
- Requiring the automatic cross-border exchange of tax information on personal and business accounts;
- Harmonizing predicate offenses under anti-money laundering laws across all Financial Action Task Force cooperating countries; and
- Ensuring that the anti-money laundering regulations already on the books are strongly enforced.