GLOBAL FINANCIAL INTEGRITY

We are pleased to present here our analysis of **Illicit Financial Flows from Developing Countries Over the Decade Ending 2009.**

Last year's report, analyzing flows through 2008, produced a figure for that year of $1.26 trillion. We anticipated that the figure for 2009 might be even larger. However, the global financial crisis and slowdown in world trade combined to reduce illicit flows for the last year of the decade to a range of US$775 billion to US$903 billion. These are still staggering drainages from the poorer countries of the world. The average across the three last years of the decade remains above US$1 trillion annually. We continue to regard these estimates as very conservative, since they do not include smuggling, the mispricing of cross-border services, or the mispricing of merchandise trade that occurs within the same invoice exchanged between exporters and importers.

China continues to lead the world, with most of the illicit outflows occurring through trade mispricing. Following are a number of oil exporting countries, with illicit outflows evidenced primarily through balance of payments accounts. For them this indicates considerable weaknesses in handling mineral revenues and underlines the importance of the Extractive Industries Transparency Initiative and the Publish What You Pay movement, seeking to improve accountability among mineral producers and their host countries. These insights and further examination of the makeup of illicit outflows by region arise in part from an addition we have made to this year's report—Principle Components Analysis. With this statistical technique we can see the predominant reason or two explaining the majority of observed outflows and compare them across various parts of the world.

It would be encouraging to find that the 2009 reduction in illicit outflows occurred because of stronger governance within countries and more transparent financial dealings between countries. There is little indication that this is yet the case. The need for combined global effort to curtail illicit financial flows is more urgent than ever. We are pleased to note that the G20, OECD, World Bank, and others are beginning to take this issue much more seriously.

Global Financial Integrity thanks Dev Kar and Sarah Freitas for their excellent work in producing this analysis. Besides these global annual updates, we are also especially gratified with the impact of our individual country analyses, and more will be forthcoming in the future.

Raymond W. Baker
Director, Global Financial Integrity

December 12, 2011