Tip Sheet: Illicit Financial Flows from Developing Countries: 2002-2011: *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, December 2011, and December 2012, GFI updated its 2008 study with new global reports. The most recent previous study from December 2012, "Illicit Financial Flows from Developing Countries: 2001-2010," included illicit financial flow data over the decade from 2001 through 2010.

December 2013 Illicit Financial Flows Report Update: Updating its 2008, January 2011, December 2011, and December 2012 reports, GFI is now releasing illicit financial flows data for the year 2011, updating existing figures based on new data, and introducing a few methodological tweaks—improving the accuracy of our measurements. The report is authored by GFI Chief Economist Dev Kar and GFI Junior Economist Brian LeBlanc.

Methodology: While compiling the 2013 report, Dr. Kar and Mr. LeBlanc determined that by omitting data from the use of Hong Kong as a trade intermediary, the previous methodology had the potential to overstate illicit outflows from many Asian countries. At the same time, it became clear that by utilizing aggregated—instead of disaggregated—bilateral trade data, the previous methodology had the potential to understate illicit financial outflows from many countries. By adjusting for these two problems, this new study provides the most authoritative estimates of illicit financial outflows to date.

Report Findings Include:

- **Developing countries lost US$946.7 billion in illicit outflows in 2011**, an increase of 13.7% over the US$832.4 billion that flowed out of developing countries in 2010. The 2011 outflows are the highest on record over the decade.
- **Developing countries lost US$590.0 billion per annum on average through illicit outflows over the decade ending 2011.** Cumulatively, developing countries lost US$5.9 trillion to illicit outflows between 2002 and 2011.
- Adjusted for inflation, **illicit financial flows grew by an annual rate of 10.2%**. Outflows grew every year studied, slowing only briefly at the onset of the global financial crisis toward the end of the decade.

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

  - Middle East and North Africa (MENA) 31.5%
  - Sub-Saharan Africa (Africa) 20.2%
  - Developing Europe 13.6%
  - Asia 7.5%
  - Western Hemisphere 3.1%

- **Asia accounted for 39.6% of total illicit flows** from the developing world followed by developing Europe (21.5%), the Western Hemisphere (19.6%), the Middle East and North Africa (11.2%), and Sub-Saharan Africa (7.7%).
- Illicit outflows averaged roughly 4.0% of GDP per year from all developing countries over the decade. **As a percent of GDP, Sub-Saharan Africa had the biggest problem—with average annual illicit outflows totaling 5.7% of GDP**—followed by developing Europe (4.5%), Asia (4.1%), MENA (3.5%), and the Western Hemisphere (3.5%).

Journalist Contact:
Clark Gascoigne, cgascoigne@gfintegrity.org
+1 202 293 0740 ext. 222 / +1 202 815 4029

- **Top 20 countries** with the highest measured average annual illicit financial outflows between 2002 and 2011 were:

1. China ..... US$107.56bn average (US$1.08tr cumulative)
2. Russia................US$88.10bn avg. (US$880.96bn cum.)
3. Mexico ....US$46.19bn avg. (US$461.86bn cum.)
4. Malaysia............US$37.04bn avg. (US$370.38bn cum.)
5. India ....US$34.39bn avg. (US$343.93bn cum.)
6. Saudi Arabia ......US$26.64bn avg. (US$266.43bn cum.)
7. Brazil.................US$19.27bn avg. (US$192.69bn cum.)
8. Indonesia ....US$18.18bn avg. (US$181.83bn cum.)
9. Iraq.......................US$15.76bn avg. (US$78.79bn cum.)
10. Nigeria ....US$14.23bn avg. (US$142.27bn cum.)
11. Thailand ....US$14.09bn avg. (US$140.88bn cum.)
12. U.A.E. ....US$11.46bn avg. (US$114.64bn cum.)
13. South Africa ... US$10.07bn avg. (US$100.73bn cum.)
14. Philippines .... US$8.89bn avg. (US$88.87bn cum.)
15. Costa Rica .... US$8.06bn avg. (US$80.65bn cum.)
16. Belarus.............. US$7.51bn avg. (US$75.09bn cum.)
17. Qatar................. US$6.28bn avg. (US$62.82bn cum.)
18. Poland............... US$4.94bn avg. (US$49.39bn cum.)
19. Serbia .... US$4.94bn avg. (US$49.37bn cum.)
20. Chile.................. US$4.52bn avg. (US$45.20bn cum.)

Please refer to Table 2 (pg.24) in the Appendix for full rankings of countries by average annual outflows. Full illicit outflow data is available for each country alphabetically in Table 4 (pg.30) of the Appendix.

Illicit Outflow Drivers, Trends:

- **Trade misinvoicing** was found to account for an average of **79.7% of illicit flows** from developing countries over the period 2002-2011, down from its high of 91.2% in 2004. It remains the **major channel for the transfer of illicit capital from all regions except MENA, where it accounted for 27% of total outflows over the decade.**
- China continued to lead the world in illicit outflows over the decade—losing US$1.08 trillion from 2002-2011—while Russia leads the world in 2011 with US$191.1 billion in illegal capital flight.
- **Illicit transfers of the proceeds of corruption, bribery, theft, and kickbacks (measured by the HMN method),** accounting on average for 20.3% of total illicit outflows over the decade, are on the rise as a percentage of total illicit financial outflows.

Implications for Economic Development Policy: The 2011 illicit outflows of US$946.7 billion are approximately 10 times the US$93.8 billion of net official development assistance (ODA) that went into these specific 150 developing countries in 2011**. This means that for every US$1 in economic development assistance going into a developing country, US$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 misinvoicing;
- 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.

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