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GLOBAL FINANCIAL INTEGRITY

African Countries Lose Billions through Misinvoiced Trade

Fraudulent Trade Transactions Channeled at Least US$60.8 Billion Illegally in or out of 5 African Countries from 2002-2011

Tax Loss from Trade Misinvoicing Potentially at 12.7% of Uganda's Total Government Revenue, followed by Ghana (11.0%), Mozambique (10.4%), Kenya (8.3%), & Tanzania (7.4%)

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COPENHAGEN, Denmark / WASHINGTON, DC – The fraudulent misinvoicing of trade is hampering economic growth and potentially resulting in billions of U.S. dollars in lost tax revenue in Ghana, Kenya, Mozambique, Tanzania, and Uganda, according to a new report to be published Monday by Global Financial Integrity (GFI), a Washington DC-based research and advocacy organization. The study—funded by the Ministry of Foreign Affairs of Denmark—finds that the over- and under-invoicing of trade transactions facilitated at least US$60.8 billion in illicit financial flows into or out of the five African countries between 2002 and 2011.

"It is deeply disconcerting that illicit financial flows are taking such a serious toll on the economies of Ghana, Kenya, Mozambique, Tanzania, and Uganda," noted Mogens Jensen, Danish Minister for Trade and Development Cooperation. "Denmark has for several years supported Ghana, Kenya, Mozambique, Tanzania, and Uganda in fighting poverty and promoting economic growth and job creation. These efforts are clearly at risk of being undermined by fraudulent trade transactions which rob the people of these countries of funds that could otherwise have been used for investments in infrastructure, schools, hospitals, and other much needed public services. I hope that the study can help the governments in their efforts to curb illicit financial flows."

"Trade misinvoicing is stymieing economic growth and likely decimating government revenues in these countries," said GFI President Raymond Baker, a longtime authority on financial crime. "The consequences are simply devastating. The capital drained from trade misinvoicing means that local businesses in Uganda and Tanzania have less money to grow their companies and hire more workers. The potential revenue loss from trade misinvoicing means that Ghana has less money to spend on healthcare, Kenya has less money to devote to education, and Mozambique has less money to invest in infrastructure. Trade misinvoicing is perhaps the most serious economic issue plaguing these countries."

Titled "*Hiding in Plain Sight*: *Trade Misinvoicing and the Impact of Revenue Loss in Ghana, Kenya, Mozambique, Tanzania, and Uganda: 2002-2011*," the study estimates that, collectively, trade misinvoicing may have cost the taxpayers of these five African nations US$14.39 billion in lost revenue over the decade. The potential average annual tax loss from trade misinvoicing amounted to roughly 12.7% of Uganda's total government revenue over the years 2002-2011, followed by Ghana (11.0%), Mozambique (10.4%), Kenya (8.3%), and Tanzania (7.4%).[1]

Authored by a team of GFI experts, the analysis reviews the components and drivers of trade misinvoicing in Ghana, Kenya, Mozambique, Tanzania, and Uganda, it estimates the potential impact on tax revenue for each government, it analyzes the policy environment in each country, and it provides general policy recommendations as well as specific suggestions tailored to the circumstances in each nation.

Policy Recommendations

Based around two themes—greater transparency in domestic and international financial transactions, and greater cooperation between developed and developing country governments to shut down the channels through which illicit money flows—the report recommends a number of steps that can be taken by these five countries to ameliorate the problem of illicit flows of money into and out of the country. Among other steps, GFI recommends that:

- Governments should significantly boost their customs enforcement, by equipping and training officers to better detect intentional misinvoicing of trade transactions;
- Trade transactions involving tax haven jurisdictions should be treated with the highest level of scrutiny by customs, tax, and law enforcement officials;
- Government authorities should create central, public registries of meaningful beneficial ownership information for all companies formed in their country to combat the abuse of anonymous shell companies;
- Financial regulators should require that all banks in their country know the true beneficial owner of any account opened in their financial institution;
- Ghana, Kenya, Mozambique, Tanzania, and Uganda should actively participate in the worldwide movement towards the automatic exchange of tax information as endorsed by the G20 and the OECD;
- Kenya and Uganda should follow the lead of Ghana, Mozambique, and Tanzania in joining and complying with the Extractives Industry Transparency Initiative (EITI); and
- Government authorities should adopt and fully implement all of the Financial Action Task Force's anti-money laundering recommendations.

"It is our view that this is just the beginning of the conversation surrounding trade misinvoicing and illicit flows in these countries," added Mr. Baker, GFI's president. "Our analysis makes it clear that more research can and should be done to further identify areas for improvement. It's our desire to work constructively with the governments of Ghana, Kenya, Mozambique, Tanzania, and Uganda to meaningfully curtail the scourge of illicit financial flows."

Methodology

GFI Chief Economist Dev Kar and GFI Junior Economist Brian LeBlanc developed robust economic models that highlight the drivers and dynamics of illicit flows in both directions for each of the five countries analyzed. Nevertheless, GFI cautioned that their methodology is very conservative and that there are likely to be more illicit flows into and out of these countries that are not captured by the models.

"The estimates provided by our methodology are likely to be extremely conservative as they do not include trade misinvoicing in services or intangibles, same-invoice trade misinvoicing, hawala transactions, and dealings conducted in bulk cash," explained Mr. Baker.

Key Findings of the Report

Ghana

Over the decade:

- US$7.32 billion flowed illegally out of the country due to trade misinvoicing;
- US$7.07 billion flowed illegally into the country due to trade misinvoicing;
- US$14.39 billion in illicit capital flowed either into or out of the country due to trade misinvoicing;
- Gross illicit flows were pegged at 6.6% of the country's GDP;
- Gross illicit flows roughly equaled ODA provided to the nation;
- The under-invoicing of exports amounted to US$5.1 billion;
- The under-invoicing of exports was the primary method for shifting money illicitly out of the country;
- The under-invoicing of imports amounted to US$4.6 billion;
- The under-invoicing of imports was the primary method for illegally smuggling capital into the country;
- Tax revenue loss from trade misinvoicing potentially totaled US$3.86 billion, averaged US$386 million per year; [1]
- Tax revenue loss from trade misinvoicing roughly equaled 11.0% of total government revenue. [1]

Kenya

From 2002-2010:

- US$9.64 billion flowed illegally out of the country due to trade misinvoicing;
- US$3.94 billion flowed illegally into the country due to trade misinvoicing;
- US$13.58 billion in illicit capital flowed either into or out of the country due to trade misinvoicing;
- Gross illicit flows were pegged at 7.8% of the country's GDP;
- Gross illicit flows were twice the ODA provided to the nation;
- The under-invoicing of exports amounted to US$9.26 billion;
- The under-invoicing of exports was the primary method for shifting money illicitly out of the country;
- The under-invoicing of imports amounted to US$3.94 billion;
- The under-invoicing of imports was the only method for illegally smuggling capital into the country;
- Tax revenue loss from trade misinvoicing potentially totaled US$3.92 billion, averaged US$435 million per year; [1]
- Tax revenue loss from trade misinvoicing roughly equaled 8.3% of total government revenue. [1]

Mozambique

From 2002-2010:

- US$2.33 billion flowed illegally out of the country due to trade misinvoicing;
- US$2.93 billion flowed illegally into the country due to trade misinvoicing;
- US$5.27 billion in illicit capital flowed either into or out of the country due to trade misinvoicing;
- Gross illicit flows were pegged at 9.0% of the country's GDP;
- Gross illicit flows amounted to 32.6% of ODA provided to the nation;
- Export under-invoicing amounted to US$1.26 billion;
- Import over-invoicing amounted to US$1.08 billion;
- Both export under-invoicing and import over-invoicing were common for shifting money illicitly out of the country;

1100 17th Street, NW, Suite 505 | Washington, DC | 20036 | USA
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- Import under-invoicing amounted to US$2.22 billion;
- Import under-invoicing was the primary method for illegally smuggling capital into the country;
- Tax revenue loss from trade misinvoicing potentially totaled US$1.68 billion, averaged US$187 million per year; [1]
- Tax revenue loss from trade misinvoicing roughly equaled 10.4% of total government revenue. [1]

Tanzania

Over the decade:

- US$8.28 billion flowed illegally out of the country due to trade misinvoicing;
- US$10.44 billion flowed illegally into the country due to trade misinvoicing;
- US$18.73 billion in illicit capital flowed either into or out of the country due to trade misinvoicing;
- Gross illicit flows were pegged at 9.4% of the country's GDP;
- Gross illicit flows amounted to 77.6% of ODA provided to the nation;
- Import over-invoicing amounted to US$8.28 billion;
- Import over-invoicing was the only method for shifting money illicitly out of the country;
- Export over-invoicing amounted to US$10.34 billion;
- Export over-invoicing was the primary method for illegally smuggling capital into the country;
- Tax revenue loss from trade misinvoicing potentially totaled US$2.48 billion, averaged US$248 million per year; [1]
- Tax revenue loss from trade misinvoicing roughly equaled 7.4% of total government revenue. [1]

Uganda

Over the decade:

- US$8.39 billion flowed illegally out of the country due to trade misinvoicing;
- US$457 million flowed illegally into the country due to trade misinvoicing;
- US$8.84 billion in illicit capital flowed either into or out of the country due to trade misinvoicing;
- Gross illicit flows were pegged at 7.1% of the country's GDP;
- Gross illicit flows amounted to 58.9% of ODA provided to the nation;
- Import over-invoicing amounted to US$8.13 billion;
- Import over-invoicing was the primary method for shifting money illicitly out of the country;
- Export over-invoicing amounted to US$457 million;
- Export over-invoicing was the only method for illegally smuggling capital into the country;
- Tax revenue loss from trade misinvoicing potentially totaled US$2.43 billion, averaged US$243 million per year;[1]
- Tax revenue loss from trade misinvoicing roughly equaled 12.7% of total government revenue. [1]

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Footnote:

1. GFI notes that—due to data issues, varying customs rates by commodity and sector, and various other factors—it is difficult to assess the true tax revenue loss stemming from trade misinvoicing in a particular country. The tax loss figures presented in this study are rough estimates of the possible impact that trade misinvoicing could have on government revenues in Ghana, Kenya, Mozambique, Tanzania, and Uganda.

1100 17th Street, NW, Suite 505 | Washington, DC | 20036 | USA
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Notes to Editors:

- To schedule an interview with the authors of the report, contact Clark Gascoigne at +1 202 293 0740 x222 (Office) / +1 202-815-4029 (Mobile) / cgascoigne@gfintegrity.org. On-camera spokespersons are available in Washington, DC and in Copenhagen.
- Click here to read an HTML version of this press release on GFI's website. Click here to download a PDF version of this press release.
- More information about the GFI report—including .zip files of the report's data—is available on the GFI website here. A PDF of the full report can be downloaded here [PDF | 2.9 MB].
- The report will be presented by representatives from GFI and the Danish Ministry of Foreign Affairs at the Danish Institute for International Studies **in Copenhagen, Denmark on Monday, 12 May 2014 at 15:00 local time** (Copenhagen). Additional launch events are planned in Tanzania, Ghana, and, Mozambique in the coming weeks.
- All monetary values in the report and in this release are expressed in US dollars (USD).
- Click here to read an article from the May 3, 2014 edition of The Economist discussing trade misinvoicing.
- Click here to read an article in Think Africa Press by GFI Junior Economist Brian LeBlanc published May 6, 2014, explaining how trade misinvoicing occurs.

Journalist Contacts:

In Washington, DC:

Clark Gascoigne
Global Financial Integrity
cgascoigne@gfintegrity.org
+1 202 293 0740 x222 (Office)
+1 202-815-4029 (Mobile)

EJ Fagan
Global Financial Integrity
efagan@gfintegrity.org
+1 202 293 0740 x227

In Copenhagen:

Poul Kjar
Ministry of Foreign Affairs of Denmark
poukja@um.dk
+45 418 65975

Global Financial Integrity (GFI) is a Washington, DC-based research and advocacy organization, which promotes transparency in the international financial system as a means to global development.

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