



GLOBAL FINANCIAL INTEGRITY

FOR IMMEDIATE RELEASE

New Study Reveals Crime, Corruption, Tax Evasion Drained US\$946.7 Billion from Developing Countries in 2011

Illicit Financial Outflows from Developing World Up 13.7% from 2010

Nearly \$6 Trillion Stolen from Developing Countries in Decade between 2002 and 2011

China, Russia, Mexico, Malaysia, India—in Declining Order—are Biggest Exporters of Illicit Capital over Decade; Sub-Saharan Africa Suffers Biggest Illicit Outflows as Percent of GDP

Study Is First GFI Analysis to Incorporate Re-Exporting Data from Hong Kong and First GFI Report to Utilize Disaggregated Trade Data in Methodology

December 11, 2013

WASHINGTON, DC – Crime, corruption, and tax evasion drained US\$946.7 billion from the developing world in 2011, up more than 13.7 percent from 2010—when illicit financial outflows totaled US\$832.4 billion. The findings—which peg cumulative illicit financial outflows from developing countries at US\$5.9 trillion between 2002 and 2011—are part of a new study published today by Global Financial Integrity (GFI), a Washington, DC-based research and advocacy organization.

The report, *“Illicit Financial Flows from Developing Countries: 2002-2011,”* [[PDF](#) | [HTML](#)] is GFI’s 2013 annual update on the amount of money flowing out of developing economies as a result of crime, corruption and tax evasion, and it is the first of GFI’s reports to include data for the year 2011.

“As the world economy sputters along in the wake of the global financial crisis, the illicit underworld is thriving—siphoning more and more money from developing countries each year,” said GFI President [Raymond Baker](#). “Anonymous shell companies, tax haven secrecy, and trade-based money laundering techniques drained nearly a trillion dollars from the world’s poorest in 2011, at a time when rich and poor nations alike are struggling to spur economic growth. While global momentum has been building over the past year to curtail this problem, more must be done. This study should serve as a wake-up call to world leaders: the time to act is now.”

Methodology

Authored by GFI Chief Economist [Dev Kar](#) and GFI Junior Economist [Brian LeBlanc](#), the study is the first by GFI to incorporate trade data on re-exports from Hong Kong and the first to integrate bilateral trade data for those countries which report it—making this report the most accurate analysis of illicit financial outflows produced by GFI to date.

“We’re constantly striving to improve the accuracy of our estimates,” said Dr. Kar, the principal author of the study. “We determined that by omitting data from the use of Hong Kong as a trade intermediary, the previous methodology—which was accepted by most economists studying trade misinvoicing—had the potential to *overstate* illicit outflows from many Asian countries. At the same time, it became clear that by utilizing aggregated—instead of

1100 17th Street, NW, Suite 505 | Washington, DC | 20036 | USA
Tel. +1 (202) 293-0740 | Fax. +1 (202) 293-1720 | www.gfintegrity.org

President: Raymond Baker

Managing Director: Tom Cardamone

Board: Lord Daniel Brennan (Chair), Dr. Rafael Espada (Vice Chair), Dr. Lester A. Myers (Secretary-Treasurer), Thomas Pogge, Raymond Baker

disaggregated—bilateral trade data, the previous methodology had the potential to *understate* illicit financial outflows from other countries. By adjusting for these two problems, we can confidently say that these are the most authoritative estimates of illicit financial outflows produced to date.”

“The estimates provided by our new methodology are still likely to be extremely conservative as they do not include trade misinvoicing in services, same-invoice trade misinvoicing, hawala transactions, and dealings conducted in bulk cash,” explained Dr. Kar, who served as a Senior Economist at the International Monetary Fund before joining GFI in January 2008. “This means that 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.”

Findings

The US\$946.7 billion of illicit outflows lost in 2011 is a 13.7 percent uptick from 2010—which saw developing countries hemorrhage US\$832.4 billion—and a dramatic increase from 2002, when illicit outflows totaled just US\$270.3 billion. The study estimates the developing world lost a total of US\$5.9 trillion over the decade spanning 2002 through 2011.

“It’s extremely troubling to note just how fast illicit flows are growing,” stated Dr. Kar. “Over the past decade, illicit outflows from developing countries increased by 10.2 percent each year in real terms—significantly outpacing GDP growth. This underscores the urgency with which policymakers should address illicit financial flows.”

Moreover, the US\$946.7 billion that flowed illicitly out of developing countries in 2011 was approximately 10 times [the US\\$93.8 billion](#) [XLS | 49 KB] of net official development assistance (ODA) that went into these specific 150 developing countries that year. This means that for every US\$1 in economic development assistance going into a developing country, roughly US\$10 of capital are lost via illicit outflows.

“Illicit financial flows have major consequences for developing economies,” explained Mr. LeBlanc, the co-author of the report. “Poor countries hemorrhaged nearly a trillion dollars from their economies in 2011 that could have been invested in local businesses, healthcare, education, or infrastructure. This is nearly a trillion dollars that could have been used to help pull people out of poverty and save lives. Without concrete action, the drain on the developing world is only going to grow larger.”

Dr. Kar and Mr. LeBlanc’s research tracks the amount of illegal capital flowing out of 150 different developing countries over the 10-year period from 2002 through 2011, and it ranks the countries by the volume of illicit outflows. According to the report, the 25 biggest exporters of illicit financial flows over the decade are:

1. China US\$107.56 billion average (\$1.08 trillion cumulative)
2. Russia..... US\$88.10 billion avg. (\$880.96 billion cum.)
3. Mexico US\$46.19 billion avg. (\$461.86 billion cum.)
4. Malaysia US\$37.04 billion avg. (\$370.38 billion cum.)
5. India US\$34.39 billion avg. (\$343.93 billion cum.)
6. Saudi Arabia US\$26.64 billion avg. (\$266.43 billion cum.)
7. Brazil US\$19.27 billion avg. (\$192.69 billion cum.)
8. Indonesia US\$18.18 billion avg. (\$181.83 billion cum.)
9. Iraq US\$15.76 billion avg. (\$78.79 billion cum.)¹
10. Nigeria US\$14.23 billion avg. (\$142.27 billion cum.)
11. Thailand US\$14.09 billion avg. (\$140.88 billion cum.)
12. United Arab Emirates US\$11.46 billion avg. (\$114.64 billion cum.)²
13. South Africa US\$10.07 billion avg. (\$100.73 billion cum.)
14. Philippines US\$8.89 billion avg. (\$88.87 billion cum.)

GLOBAL FINANCIAL INTEGRITY

15. Costa Rica	US\$8.06 billion avg. (\$80.65 billion cum.)
16. Belarus	US\$7.51 billion avg. (\$75.09 billion cum.)
17. Qatar	US\$6.28 billion avg. (\$62.82 billion cum.) ²
18. Poland	US\$4.94 billion avg. (\$49.39 billion cum.)
19. Serbia	US\$4.94 billion avg. (\$49.37 billion cum.)
20. Chile	US\$4.52 billion avg. (\$45.20 billion cum.)
21. Paraguay	US\$4.01 billion avg. (\$40.12 billion cum.)
22. Venezuela	US\$3.90 billion avg. (\$38.97 billion cum.)
23. Brunei	US\$3.84 billion avg. (\$38.37 billion cum.) ²
24. Panama	US\$3.81 billion avg. (\$38.09 billion cum.)
25. Turkey	US\$3.73 billion avg. (\$37.28 billion cum.)

For a complete ranking of average annual illicit financial outflows by country, please refer to Table 2 of the report's appendix on page 24. The rankings can also be [downloaded here](#) [XLS | 36 KB].

GFI also found that the top exporters of illegal capital in 2011 were:

1. Russia.....	US\$191.14 billion
2. China	US\$151.35 billion
3. India.....	US\$84.93 billion
4. Malaysia	US\$54.18 billion
5. Saudi Arabia	US\$53.63 billion
6. Mexico	US\$38.09 billion
7. Brazil.....	US\$34.10 billion
8. Thailand.....	US\$29.11 billion
9. South Africa	US\$23.73 billion
10. Costa Rica	US\$21.11 billion
11. Indonesia.....	US\$19.60 billion
12. Iraq	US\$15.03 billion
13. Belarus.....	US\$14.09 billion
14. Nigeria	US\$12.89 billion
15. Philippines	US\$12.19 billion
16. United Arab Emirates.....	US\$11.70 billion ²
17. Turkey.....	US\$10.20 billion
18. Qatar.....	US\$9.31 billion ²
19. Poland.....	US\$9.14 billion
20. Kazakhstan.....	US\$8.22 billion
21. Paraguay	US\$7.99 billion
22. Trinidad and Tobago.....	US\$7.64 billion
23. Sudan	US\$6.83 billion
24. Egypt.....	US\$6.41 billion
25. Syrian Arab Republic	US\$5.66 billion

An alphabetical listing of illicit financial outflows is available for each country in Table 4 of the appendix on pg. 30 of the report, or it can be [downloaded here](#) [XLS | 61 KB].

Sub-Saharan Africa Suffers Biggest Relative Problem

GLOBAL FINANCIAL INTEGRITY

1100 17th Street, NW, Suite 505 | Washington, DC | 20036 | USA
Tel. +1(202) 293-0740 | Fax. +1(202) 293-1720 | www.gfintegrity.org

The new report is also the first GFI study to examine illicit financial outflows on a regional basis as a percent of GDP, determining that Sub-Saharan Africa—whose illicit outflows averaged 5.7 percent of GDP each year—suffers the most due to such outflows. Globally, annual illicit financial outflows averaged 4.0 percent of GDP.

Connections to Previous GFI Reports

The findings from this report—that Sub-Saharan Africa suffers the biggest outflows of illicit capital in relation to GDP—build on a [joint study by GFI and the African Development Bank](#) from May 2013, which found that the continent of Africa was a net creditor to the rest of the world after net recorded transfers of capital—such as imports, exports, FDI, foreign aid, etc.—were adjusted for illicit financial outflows.

“The evidence continues to mount – illicit financial flows have a devastating impact on economic development and stability in Africa,” noted Dr. Kar. “Curtailling these outflows should be paramount to policymakers in Africa and in the West because they drive and are, in turn, driven by a poor business climate and poor overall governance, both of which hamper economic growth. Efforts by the African Union and UN Economic Commission for Africa—which formed a High Level Panel on Illicit Financial Flows from Africa, chaired by former South African President Thabo Mbeki—are vital for the long-term prosperity of the continent. Still, more must be done by Western powers and African nations themselves to truly address the issue.”

Russia—the second biggest exporter of illicit capital over the decade, with US\$880.96 billion in illicit outflows—was the topic of a [February 2013 GFI report](#) by Dr. Kar and former GFI Economist Sarah Freitas, which—at that time—estimated that the Russian economy lost at least US\$211.5 billion in illegal capital flight between 1994 to 2011. In conducting the new study, it was found that the previous methodology, which utilized aggregated—rather than disaggregated—bilateral trade data, significantly understated illicit outflows of capital from Russia.

China—the largest cumulative exporter of illegal capital flight, with outflows totaling \$1.08 trillion over the decade—was the topic of an October 2012 country case study by GFI’s Kar and Freitas. Using an older methodology, “[Illicit Financial Flows from China and the Role of Trade Misinvoicing](#),” found that the Chinese economy suffered \$3.79 trillion in illicit financial outflows between 2000 and 2011. While researching the 2013 study, Dr. Kar and Mr. LeBlanc determined that China’s illicit financial outflows had been significantly overstated in previous GFI reports due to the use of Hong Kong as a trade intermediary. By incorporating re-exporting data from the Hong Kong Customs and Excise Department, Dr. Kar and Mr. LeBlanc were able to correct for this problem, producing a more accurate estimate of illegal capital outflows from China.

Possible Policy Solutions

Global Financial Integrity advocates that world leaders implement policies to increase the transparency in the international financial system as a means to curtail the illicit flow of money highlighted by Dr. Kar and Mr. LeBlanc’s research. Policies advocated by GFI 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, if not to the public;
- 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

GLOBAL FINANCIAL INTEGRITY

- Ensuring that the anti-money laundering regulations already on the books are [strongly enforced](#).

“Significant progress has been made on automatic exchange of tax information over the past year, with the G20 economies [agreeing](#) to exchange tax information between themselves by the end of 2015,” commented Mr. Baker, GFI’s president. “That said, this study underscores how important it is to quickly extend automatic tax information exchange to non-G20 developing countries. The G20 should include developing countries in the committee tasked with drafting the automatic exchange implementation treaty, ensuring that its terms are both beneficial to and implementable by developing countries. This commitment can ill afford to wait until the next finance ministers’ meeting in February.”

“Much progress has also been made in targeting anonymous shell companies over the past year, with the United Kingdom [announcing in October](#) that they would be creating the world’s first central public registry of corporate beneficial ownership information,” explained Mr. Baker. “David Cameron should be commended for his courage, but the rest of the world must now move to follow suit—making public registries of beneficial ownership information the global standard.”

Funding

Funding for the new report, “Illicit Financial Flows from Developing Countries: 2002-2011,” was generously provided by the [Ford Foundation](#) and the [Financial Transparency Coalition](#).

To schedule an interview with Mr. Baker, Dr. Kar, Mr. LeBlanc or other GFI spokespersons on this report, contact Clark Gascoigne at +1 202 293 0740, ext. 222 (Office) / +1 202 815 4029 (Mobile) or cgascoigne@gfintegrity.org. On-camera spokespersons are available in Washington, DC.

###

Footnotes:

1. Data for Iraq was not available in 2002-2006, thus the average illicit outflows of US\$15.76 billion reflect only the years 2007-2011. Likewise, the cumulative outflows of US\$78.79 billion for Iraq are cumulative outflows for 2007 through 2011 only.
2. Illicit financial outflow estimates from the oil exporting nations of Brunei, Qatar, and the United Arab Emirates should be viewed with caution as they could be inflated due to opaque transactions with their nation’s sovereign wealth funds. GFI has flagged these countries in particular as their Net Errors and Omissions are greater than 50% of their Financial Account. For more information, consult Table 15 of the Appendix on page 77 of GFI’s December 2012 study, [“Illicit Financial Flows from Developing Countries: 2001-2010.”](#)

Notes to Editors:

- [Click here](#) to read an HTML version of this press release on our website. A PDF of this press release can also be [downloaded here](#) [240 KB].
- More information about the GFI report is available on the [GFI website here](#). A PDF of the full report can be [downloaded here](#) [PDF | 2.9 MB]. An “Explore” page, complete with an interactive heat-map, and .zip files of the report’s data is [available here](#).
- A tip-sheet for journalists can be [downloaded here](#) [PDF | 180 KB].

GLOBAL FINANCIAL INTEGRITY

1100 17th Street, NW, Suite 505 | Washington, DC | 20036 | USA
Tel. +1 (202) 293-0740 | Fax. +1 (202) 293-1720 | www.gfintegrity.org

- An Excel spreadsheet with full country rankings by average annual illicit financial outflows is [available here](#) [XLS | 36 KB]. The spreadsheet is also available as a PDF for [download here](#) [PDF | 64 KB].
- An alphabetical listing of total illicit financial flows data for each country and each year is [available here](#) [XLS | 61 KB]. The spreadsheet is also available as a PDF for [download here](#) [PDF | 144 KB].
- All monetary values are expressed in US dollars (USD).

Contact:

Clark Gascoigne
cgascoigne@gfintegrity.org
+1 202 293 0740, ext. 222 (Office)
+1 202 815 4029 (Mobile)

E.J. Fagan
efagan@gfintegrity.org
+1 202 293 0740, ext. 227

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

For additional information please visit www.gfintegrity.org.

Follow us on: [Twitter](#) | [Facebook](#) | [YouTube](#)

GLOBAL FINANCIAL INTEGRITY

1100 17th Street, NW, Suite 505 | Washington, DC | 20036 | USA
Tel. +1 (202) 293-0740 | Fax. +1 (202) 293-1720 | www.gfintegrity.org