Global Financial Integrity (GFI) is pleased to present here its analysis of **Illicit Financial Flows from Developing Countries: 2002-2011.**

We estimate that illicit financial outflows from the developing world totaled a staggering US$946.7 billion in 2011, with cumulative illicit financial outflows over the decade between 2002 and 2011 of US$5.9 trillion. This gives further evidence to the notion that illicit financial flows are the most devastating economic issue impacting the global South.

Large as these numbers are, perhaps the most distressing take-away from the study is just how fast illicit financial flows are growing. Adjusted for inflation, illicit financial flows out of developing countries increased by an average of more than 10 percent per year over the decade. Left unabated, one can only expect these numbers to continue an upward trend. We hope that this report will serve as a wake-up call to world leaders on the urgency with which illicit financial flows must be addressed.

Each year we strive to present the most accurate estimates of the amount of money passing illicitly out of poor countries due to crime, corruption, and tax evasion. In last year's study, we introduced the Hot Money Narrow model—in place of the World Bank Residual model which we had utilized in previous studies—as a more precise method for measuring strictly illicit flows.

Our team of economists led by Dr. Dev Kar continues to make advances in honing our estimates. This year we add improvements to our research methodology centered around trade misinvoicing. Previously, by utilizing aggregated bilateral trade data rather than disaggregated bilateral trade data, our methodology had a tendency to significantly understate the trade component of illicit financial outflows by inadvertently netting illicit inflows from illicit outflows between many countries. As such, this is the first GFI study to utilize disaggregated bilateral trade data for 17 of 151 countries in the study which report in the necessary detail.

Moreover, our earlier estimates had the potential to overstate illicit financial flows when trade was misinvoiced between two developing countries. To adjust appropriately, this study is the first of GFI's to look at misinvoicing between developing countries and advanced economies, and then scale those findings up to account for the percent of trade conducted between developing economies.

Finally, by previously omitting data from Hong Kong as a trade intermediary, our estimates had the potential to overstate illicit outflows from many Asian nations. For the first time we are able to incorporate trade data from the Hong Kong Customs and Excise Department into our trade misinvoicing estimates, providing a more accurate estimate of this major component of illicit flows.

GFI's data, however constructed, remain extremely conservative, as we still do not capture the misinvoicing of trade in services (rather than the trade in goods), same-invoice trade mispricing (such as transfer mispricing), hawala transactions, and dealings conducted in bulk cash. 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. It also means that much of abusive transfer pricing conducted between arms of the same multinational corporation are not captured in our figures.

While progress has been made by world leaders over the past year in agreeing to some improvements in measures to achieve greater global financial transparency, much of the conversation has been focused on curtailing abuses within the developed world. As this report highlights, it is urgent that developing nations be brought fully into the discussion.

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Raymond W. Baker
President
Global Financial Integrity
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