Executive Summary

The present study is an update to the 2008 GFI report *Illicit Financial Flows from Developing Countries: 2002-2006* which found that developing countries lost US$859 billion to US$1.06 trillion in 2006. These figures correspond respectively to a conservative (normalized) and a larger, more robust (non-normalized) estimate. On the same basis, this report finds that illicit outflows have increased to a range of US$1.26 trillion to US$1.44 trillion in 2008 and that, on average, developing countries lost between US$725 billion to US$810 billion per year over the nine-year period 2000-2008.

Illicit flows increased in current dollar terms by 18.0 percent per annum from US$369.3 billion at the start of the decade to US$1.26 trillion in 2008. When adjusted for inflation, the real growth of such outflows was 12.7 percent. Real growth of illicit flows by regions over the nine years is as follows: Middle East and North Africa (MENA) (24.3 percent), developing Europe (23.1 percent), Africa (21.9 percent), Asia (7.85), and Western Hemisphere (5.18 percent). (See Table 2)

Asia accounted for 44.4 percent of total illicit flows from the developing world followed by MENA (17.9 percent), developing Europe (17.8 percent), Western Hemisphere (15.4 percent), and Africa (4.5 percent). (See Table 1). The ten countries with the largest transfer of illicit capital are spread across these regions.

The largest ten countries' cumulative illicit outflows during 2000-2008 in declining order of magnitude are China ($2.18 trillion), Russia ($427 billion), Mexico ($416 billon), Saudi Arabia ($302 billion), Malaysia ($291 billion), United Arab Emirates ($276 billion), Kuwait ($242 billion), Venezuela ($157 billion), Qatar ($138 billion), and Nigeria ($130 billion) (See Table 4). On average, these ten countries account for 70 percent of the illicit outflows from all developing countries over the period 2000-2008.

There are significant variations in how individual country shares of illicit financial flows move over time. For instance, China continues to be the largest exporter of illicit capital by far. However, China's role diminished considerably with its share of all-developing-world outflows falling from 46 percent in 2000 to 27 percent in 2008. In contrast, Russia, the United Arab Emirates, Kuwait, and Nigeria–all oil exporters–are now becoming more important as sources of illicit capital. (See Table 3)

The methodology for estimating illicit financial flows used in this study is based on the World Bank Residual model (using the change in external debt or CED) adjusted for trade mispricing (using the Gross Excluding Reversals method or GER). Unrecorded capital leakages through the balance of payments (CED component) capture illicit transfers of the proceeds of bribery, theft, kickbacks, and tax evasion. The GER method captures the outflow of unrecorded transfers due to trade mispricing. Apart from differences in the extent to which major exporters of illicit capital drive such flows from

developing countries, the methods for the transfer of these funds also vary. For instance, while trade mispricing is the major channel for the transfer of illicit capital from China, the balance of payments (captured by the CED) is the major conduit for the unrecorded transfer of capital from the major exporters of oil such as Kuwait, Nigeria, Qatar, Russia, Saudi Arabia, the United Arab Emirates, and Venezuela. Mexico is the only oil exporter where trade mispricing is the preferred method of transferring illicit capital abroad while Malaysia is the only country in this group where both channels, CED and GER, are used in roughly comparable portions to transfer such capital.

Trade mispricing accounts for an average of 54.7 percent of cumulative illicit flows from developing countries over the period 2000-2008. The GER share has been falling since 2004 when it was 60.6 percent. Unrecorded leakages through the balance of payments (CED component) have been increasing relative to trade mispricing–on average they accounted for 45.3 percent of cumulative transfers of illicit capital during the nine-year period. (See Table 1)

GFI projects that in 2009, illicit flows from developing countries will grow by just 2.9 percent to US$1.30 trillion from US$1.26 trillion the year before (See Table 1). This represents a significant slowdown from the 18.0 percent rate of growth over the period 2000-2008 based on the slope of the logarithmic trend line. This projected slowdown of illicit financial outflows is expected mainly due to a decline in trade mispricing resulting from a slowdown in world trade in the wake of the global financial crisis. The implication is that, ceteris paribus, lower imports and exports of goods generate fewer opportunities to misprice merchandise trade.

Although illicit flows from Asia are projected to increase by a little over 23 percent in 2009, a sharper decline in outflows from developing Europe (27.6 percent) and smaller declines from Africa and MENA (7.5 percent and 2.1 percent respectively) are responsible for the leveling off of illicit outflows from developing countries as a whole. (See Table 1)

Huge outflows of illicit capital from China account for Asia's dominance in illicit transfers. According to the conservative (normalized) estimates, illicit flows from Asia increased from US$200.1 billion in 2000 to US$495.1 billion in 2008, a rate of 12.9 percent per annum (See Tables 1 and 3). Over time, the preferred method of making illicit transfers of capital out of Asia seems to be unrecorded flows from trade mispricing (GER) rather than from the balance of payments (CED). This is concomitant with growing Asian trade volumes, particularly those of China.

The five Asian countries with the largest total illegal capital flight during 2000-2008 are: China ($ 2.18 trillion), Malaysia ($291 billion), Philippines ($109 billion), Indonesia ($104 billion), and India ($104 billion). On average these five countries account for 96.5 percent of total illicit flows from Asia and 44.9 percent of flows out of all developing countries. These (Asia region compared to total developing world) shares have been declining; the top five Asian countries transferred 36.9 percent of illicit flows from all developing countries in 2008, down from 53.3 percent in 2000.