The "Illicit Financial Flows from Developing Countries: 2000-2009" report from Global Financial Integrity is EMBARGOED until Tuesday, January 18th at 00:01 EST.
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Tip Sheet: Illicit Financial Flows from Developing Countries 2000 – 2009: *New report updates 2008 Global Financial Integrity analysis of illicit capital flight out of developing countries, examines Asia region*

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. **The report found that illicit financial flows out of developing countries were approximately $1.06 trillion in 2006.**

Illicit Financial Flows Report Update: Updating its 2008 report, GFI has expanded the range of years analyzed, updated existing figures based on new data, and included a focus on Asia.

Report Findings include:

- **Illicit outflows increased from $1.06 trillion in 2006 to approximately $1.26 trillion in 2008**, with average annual illicit outflows from developing countries averaging $725 billion to $810 billion, per year, over the 2000-2008 time period measured.

- Illicit flows **increased in current dollar terms by 18.0 percent per annum** from $369.3 billion at the start of the decade to $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.

- **Asia accounted for 44.4 percent of total illicit flows** from the developing world followed by Middle East and North Africa (17.9 percent), developing Europe (17.8 percent), Western Hemisphere (15.4 percent), and Africa (4.5 percent).

- **Top 10 countries** with the highest measured cumulative illicit financial outflows between 2000 and 2008 were:

    1. China $2.18 trillion
    2. Russia $427 billion
    3. Mexico $416 billon
    4. Saudi Arabia $302 billion
    5. Malaysia $291 billion
    6. United Arab Emirates $276 billion
    7. Kuwait $242 billion
    8. Venezuela $157 billion
    9. Qatar $138 billion
    10. Nigeria $130 billion

Illicit Outflow Drivers, Trends:

- Trade mispricing was found to account for an average of 54.7 percent of cumulative illicit flows from developing countries over the period 2000-2008 and is the major channel for the transfer of illicit capital from China.
- Bribery, theft, kickbacks, and tax evasion were the greatest conduit for the illicit financial flows from the major exporters of oil such as Kuwait, Nigeria, Qatar, Russia, Saudi Arabia, the United Arab Emirates, and Venezuela.
- Oil exporting countries, like Russia, the United Arab Emirates, Kuwait, and Nigeria, are becoming more important as sources of illicit capital.
- Mexico is the only oil exporter where trade mispricing was the preferred method of transferring illicit capital abroad.
- With half a trillion in illicit outflows in 2008 alone, Asia accounted for the largest portion of illicit financial flows from the developing world. Over the nine-year period examined, 89.3 percent, on average, of total illicit flows from Asia were transferred abroad through trade mispricing.
- Financial flows from Malaysia have more than tripled from $22.2 billion in 2000 to $68.2 billion in 2008. This growth rate, seen in few Asian countries, may be a result of significant governance issues affecting both public and private sectors.
- In real terms, illicit outflows through trade mispricing grew faster in the case of Africa (28.8 percent per annum) than anywhere else, possibly due to weaker customs monitoring and enforcement regimes.
- GFI projects that in 2009 illicit flows from developing countries will total $1.30 trillion. This represents a significant slowdown from the 18.0 percent rate of growth over the period 2000-2008. This projected slowdown of illicit financial outflows is mainly due to a decline in trade mispricing resulting from a slowdown in world trade in the wake of the global financial crisis.

Implications for Economic Development Policy: The illicit outflows measured in this report are approximately 10 times the amount of official development assistance (ODA) going into developing countries. The ratio of illicit financial flows coming out of developing countries compared to ODA is 10-1, meaning that for every $1 in economic development assistance which goes into a developing country, $10 is 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:

- curtail trade mispricing,
- require country-by-country reporting of sales, profits and taxes paid by multinational corporations,
- require confirmation of beneficial ownership in all banking and securities accounts,
- require automatic cross-border exchange of tax information on personal and business accounts, and
- harmonize predicate offenses under anti-money laundering laws across all Financial Action Task Force cooperating countries.