Global Financial Integrity

Illicit Financial Flows and Development Indices: 2008–2012

Joseph Spanjers and Håkon Frede Foss

June 2015

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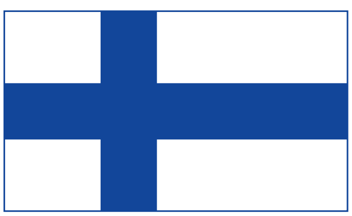
Global Financial Integrity wishes to thank the Government of Finland for supporting this project.



We are pleased to present our report, **Illicit Financial Flows and Development Indices: 2008–2012**. This study provides a new way to examine the impact illicit financial flows (IFFs) have on developing country economies. While stating the total volume of illicit outflows can provide an indication of the severity of the problem in a particular country, it is a blunt instrument. That is, focusing just on high IFF volume levels can give the impression that any illicit flow amount below a certain figure is somehow a lesser challenge. This report demonstrates that that is not the case.

Countries with high volumes of IFFs tend to grab the headlines. China and Russia are usually at the top of the illicit flows list and are often highlighted as poster children for the IFF phenomenon. But the corrosive nature of the illicit flows challenge is often hidden by those same headlines. To shine more light on this issue, our report focuses on illicit flows in the poorest of the developing countries—those that appear on lists such as 'Least Developed Countries' and 'Highly Indebted Poor Countries,' among others. We then created ratios by comparing illicit flows volumes for each country (82 in all) against common development indicators such as GDP, total trade volume, foreign direct investment, and total tax revenues, to name a few. The findings are, in a word, alarming.

For instance, Ethiopia has never appeared on a top 10 list of illicit flows countries (or a top 20 list for that matter) given that its annual average outflow from 2008–2012 was US$3.55 billion. However, during that same period, **Ethiopia's** illicit outflows were **1,355 percent of the foreign direct investment** flowing into the country. Likewise, during those same years, IFFs from **Nicaragua** were equal to **20.4 percent of the country's GDP** while its average annual volume was just US$1.9 billion. Similarly, IFFs siphoned from **Zambia** were **equal to 24.1 percent of its total trade** during that period, but the volume of the outflows was just US$3.1 billion on average. And in **Rwanda, illicit outflows were 51.7 percent of the government's total tax revenues** over the time span, but its annual outflows were seemingly innocuous at US$402 million. The countervailing force of IFFs on these economies is clear.

In the second half of the report, we use scatter charts to examine correlations between IFFs for all developing countries (rather than for just the poorest) and various development indices—such as the efficiency of customs departments, income inequality, and national poverty levels. Unsurprisingly, the data indicate that, **in countries where inequality and poverty levels are high, IFFs are also high.** Conversely, there is an inverse relationship between customs department efficiency and IFFs: **where efficiency is high, illicit flows are low.** This indicates that good governance (i.e. low corruption) in customs departments may be a way to curtail illicit outflows.

This study highlights that illicit financial flows are pervasive and pernicious in the developing world and that focusing only on the total volume of IFFs distorts the corrosive nature of the problem. Over the past few years, the international community has come to comprehend the severity of the IFF crisis based primarily on volume alone. It is hoped that presenting these ratios will further that understanding to the extent that government action will replace rhetoric.

Tom Cardamone
Managing Director
Global Financial Integrity
June 2015

Table of Contents

Charts and Tables in the Report

Tables in the Appendix

Executive Summary

This report, the latest in a series by Global Financial Integrity (GFI), provides a comparison of illicit financial flows from some of the world's poorest nations and compares those values to some traditional indicators of development including: GDP, total trade, Official Development Assistance plus foreign direct investment, public expenditures on education and health services, and total tax revenue, among others. The data used covers the period 2008–2012.

The study finds that, for close to one-quarter of the 82 countries studied, the **ratio of IFFs to GDP [see p. 6] is 10 percent or greater—for example, Honduras (21.7 percent), Zambia (18.1 percent), and Ethiopia (11.2 percent).** It would not be overstating the point to note that, if any other economic factor had such a double-digit impact on GDP, it would be front-page news. Unfortunately, this is often not the case when illicit flows are concerned.

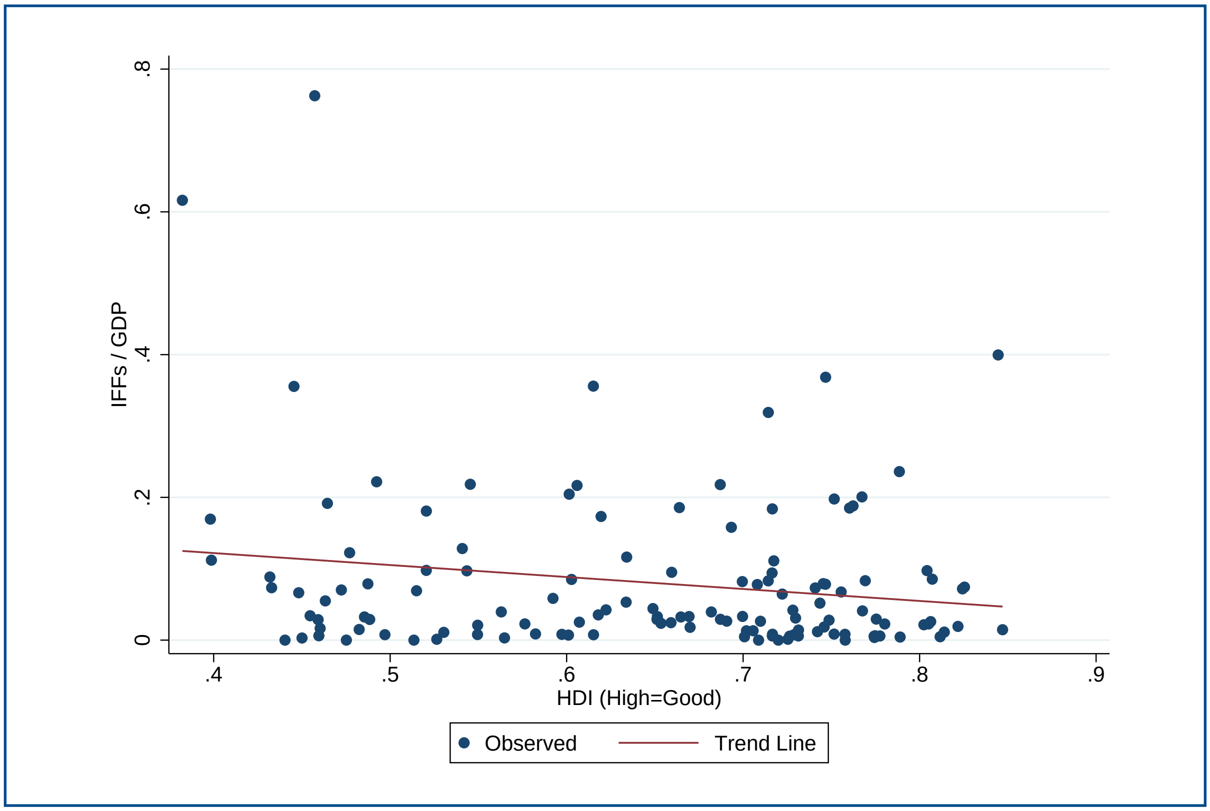
Additionally, we find that 40 percent of the countries examined had **illicit flows that were at least 10 percent of the country's total trade value [see pp. 30-33].** These include the notable cases of **Nicaragua (28.9 percent), Malawi (24.6 percent) and Nigeria (16.3 percent) [see p. 7].** This finding may be a reflection of the fact that, over the last 10 years, approximately 80 percent of all illicit outflows use trade misinvoicing (i.e. trade fraud) as the method to move funds offshore.

Most tellingly, we find that 20 of the nations analyzed had **illicit flows amounting to more than the combined total of Official Development Assistance (i.e. foreign aid) and foreign direct investment [see p. 10].** These include **Indonesia (184.5 percent), Chad (151.8 percent), and Cote d'Ivoire (109.9 percent).** There can be no clearer indication that a nation is suffering the ill-effects of a severe countervailing economic force than when two of the largest sources of foreign funds are swamped by illicit outflows. Similarly, the ratio of IFFs to a country's tax base demonstrates the opportunity cost of this phenomenon. While illicit capital outflows are not themselves directly analogous to lost government revenue, it is startling to note that **Liberia's levels of IFFs are 257.4 percent of its total tax revenue; in Nepal, it is 56.9 percent; and in Burkina Faso, it is 42.9 percent [see p. 13].**

Domestic spending on fundamental social needs, such as education and health, are often overwhelmed by the amount of illicit money flowing out of the economy, and, with it, domestic resources that could be mobilized to address basic human needs. Forty percent of the 82 countries had illicit outflows that exceeded spending on education. A similar percentage had IFFs that surpassed health expenditures. **In Paraguay, IFFs were equal to 361.0 percent of education spending during the period, and in Rwanda they were 147.1 percent [see p. 11]. In the Republic of Congo, illicit flows were almost five times (483.5 percent) what the government spent on the country's health system; in Malawi it was 200.1 percent [see p. 12].**

Our study also produces several **scatter plots** in which we compare illicit flows values for all developing and emerging market nations to key trade indicators [see pp. 15-18] and various development indices, such as human development, inequality, and poverty [see pp. 18-22], to determine if correlations exist between the two. Among our findings, we reveal **that there is a robust relationship between high tariff rates and high levels of IFFs [see p. 16].** One reason for this may be that high tariffs could spur importers and exporters to resort to trade fraud to avoid the tariff. **There is also a strong link between the efficiency of a country's customs department and the volume of its illicit outflows [see p. 17].** This may indicate that higher levels of performance (i.e. better enforcement of trade rules) will quell the urge to misinvoice trade.

Chart X1. Illicit Financial Outflows and the Human Development Index[a]



In the area of human development, there is an inverse relationship between IFFs and a country's ranking on the UN's annual Human Development Index [see Chart X1 or p. 18]. **When illicit flows are high, a country's development score tends to be low.** This negative relationship might be caused by a significant loss of domestic resources (i.e. tax that could have been collected by the government, or capital that could have been retained by the economy) if trade misinvoicing had not taken place. Last, there appears to be **a strong connection between high levels of IFFs and the poverty gap.** A plotting of illicit outflows against the number of people living on US$1.25 per day

a. "Human Development Reports," [Online Database], *United Nations Development Programme*, (n.d.), http://hdr.undp.org/en.

[see p. 21] and those living on US$2 per day [see p. 22] shows that, when IFFs are high, poverty rates are high at both poverty levels.

That illicit flows have an adverse impact on developing country economies is no longer a secret. Most international institutions focused on development have said as much.[b] The value of **this study** is that it **goes beyond "the big number"** of cumulative global illicit outflows and focuses instead on the impact of IFFs in the poorest of places. We find that, in many countries, the factors that are usually associated with budding economies—such as trade, foreign investment and development assistance, and tax revenue—are often times undermined by illicit flows. Concerted action is needed by the international community to assist not only nations that have high dollar levels of illicit flows, but also to help those countries that that have such huge percentages of their economic foundation eroded by IFFs.

As such, GFI recommends that world leaders focus on addressing trade misinvoicing, which accounts for the vast majority of measurable illicit outflows, as well as on curbing the opacity in the global financial system—comprising, among other things, tax haven secrecy, anonymous companies, and money laundering techniques—which facilitates these outflows. Specifically, GFI maintains that [see pp. 23-25]:

- The United Nations should adopt a clear and concise Sustainable Development Goal (SDG) to halve trade-related illicit financial flows by 2030 and similar language should be included in the outcome document of the Financing for Development Conference in July 2015;
- Governments—with assistance, as needed, from donors—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;
- Governments should establish public registries of meaningful beneficial ownership information on all legal entities;
- Financial regulators should require that all banks in their country know the true beneficial owner(s) of any account opened in their financial institution;
- Government authorities should adopt and fully implement all of the Financial Action Task Force's (FATF) anti-money laundering recommendations;
- Regulators and law enforcement authorities should ensure that all of the anti-money laundering regulations, which are already on the books, are strongly enforced;

b. The World Bank Group, Financing for Development: Post 2015 (Washington, DC: The World Bank, October 2013), http://www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/WB-PREM%20financing-for-development-pub-10-11-13web.pdf; UNTT Working Group on Sustainable Development Financing, *The Variety of National, Regional and International Public Sources for Development Finance* (New York: United Nations, October 2013), https://sustainabledevelopment.un.org/content/documents/2101Chapter%202-variety%20of%20public%20sources%20for%20development%20finance.pdf.

- Policymakers should require multinational companies to publicly disclose their revenues, profits, losses, sales, taxes paid, subsidiaries, and staff levels on a country-by-country basis; and
- All countries should actively participate in the worldwide movement towards the automatic exchange of tax information as endorsed by the OECD and the G20.

I. Introduction

This report pursues dual but complementary objectives: to find a new way of determining the severity of illicit financial flows (IFFs) from individual developing countries other than simply gross volume, and to highlight those environments in which illicit outflow activity thrives. Though the countries that experience huge outflows of capital (e.g. China, Russia, Mexico, India, and Malaysia)[1] certainly deserve our interest and attention, just as important are those countries that experience large capital outflows relative to the size and strength of their economy. To expand the discussion surrounding illicit outflows, this report seeks to highlight this latter set of countries.

In Section III, we rank a subset of developing countries relative to nine different variables of economic development: GDP, trade, population, foreign direct investment, official development assistance in combination with foreign direct investment, education spending, health spending, tax revenues, and capital stock (a proxy for domestic investment or resource mobilization). These ranks are created using ratios.[2] For example, a high value for *[Illicit Financial Outflows]/[Public Spending on Education]* for a particular country would lead to a high rank in the Education category. This method is not without its problems, however: a hypothetical country that primarily funds education privately would come out with a very high (i.e. problematic) rank in this category, despite the fact that it does not have an education funding issue. Regardless, this method does allow for some useful insights into which countries are most negatively affected by IFFs in relation to these nine variables.

Section IV of the report highlights the types of environments that appear to be correlated with high levels of illicit financial outflows, relative to either trade or GDP. Eight scatter plots are created, each comparing illicit flows (on the y axis) to a development index (on the x axis), with each point representing a country. All developing countries, not just the subset presented in Section III, are used in creating these plots when data is available. A simple trend line is added to show how the data points are arranged.

It cannot be emphasized enough that Section IV does not claim to unveil causal effects of illicit financial flows, nor determinants for this phenomenon. Rather, it aims to provide a framework for further discussions on the relationship between illicit financial flows and developmental issues, and it will hopefully inspire a more sophisticated modeling of IFFs[3] in the future. It simply presents the data as it appears and offers some possibilities about what the data might mean.

1. Dev Kar and Joseph Spanjers, *Illicit Financial Flows from Developing Countries: 2003-2012* (Washington, DC: Global Financial Integrity, 2014), 13, http://www.gfintegrity.org/wp-content/uploads/2014/12/Illicit-Financial-Flows-from-Developing-Countries-2003-2012.pdf.
2. It is important to note that though ratios are used, we do not imply that IFFs are directly comparable to these nine variables of economic development.
3. In this report, the term IFFs only refers to illicit financial outflows from developing and emerging economies, or illicit “outflows.”

Despite that caveat, we do see a number of interesting correlations in the subsections on trade and income inequality. In the trade subsection, we note that trade-friendly countries with efficient, low-tariff customs regimes are the least likely to see high levels of illicit outflows. Additionally, countries with high levels of income inequality are mostly likely to experience significant IFFs, potentially leading to a vicious cycle exacerbating that inequality.

The report is organized as follows. A brief section on the methodology used in this report can be found in Section II. The top 25 rankings for a selected group of countries is presented in Section III. In Section IV, we examine whether there are correlations between high levels of illicit financial outflows from all developing countries (as a percentage of trade or GDP) and various development indices. Section V briefly presents policy recommendations. Section VI provides a conclusion of the findings of this report.

II. Methodology

The goal of this report is to determine those countries that might be inordinately impacted by illicit financial flows. It does this by comparing estimates of illicit flows to a variety of other macroeconomic and development measures. It also seeks to determine whether there are certain global correlations between illicit flows (as a percentage of GDP or total trade) and development indices.

The estimates of illicit outflows used to construct these indices are the average illicit financial flow figures from 2008 to 2012, using numbers published in GFI's latest annual global update on illicit outflows from developing and emerging economies, *Illicit Financial Flows from Developing Countries: 2003–2012.*[4] We narrowed the time period to just 2008–2012, rather than 2003–2012, in order to keep the rankings presented here as up-to-date as possible.[5]

In Section III, we divide these average illicit financial outflows by a corresponding variable: GDP, total trade, foreign direct investment, official development assistance in combination with foreign direct investment, public spending on education, public spending on health, total government tax revenues, and capital stock. The higher this ratio is, the higher the rank of the country in that measure. A higher rank implies that IFFs are especially large in relation to the variable in question.

The average ratios are constructed as follows. If a country has data available in a given year for both the variable of comparison (e.g. GDP) and illicit financial outflows,[6] a ratio is created with the variable of comparison in the denominator. For example, if there are only illicit financial outflow data available for 2009 and 2011, ratios will only be created for those years, even though we might have GDP data available for the whole 2008–2012 period. These ratios are then averaged to create the final percentage. This method of creating averages allows us to deal with the possibility of missing data from year to year. Each method of creating averages presents its own unique challenges; we found this method to be the least problematic for our needs.

In Section IV, we begin with the IFFs to GDP and IFFs to total trade ratios generated in Section III for all developing and emerging countries (i.e. not on only the specific subset of countries presented in Section III), as defined by the IMF [See Appendix Table A]. All developing countries are used in this section to better demonstrate general trends. We then plot these values with a number of different development indices (when data for both IFFs and the index for that country are available) to see if there are any simple correlations between them. These correlations are not subject to any rigorous econometric testing; they are basic lines of best fit or trend lines. No causation is implied.

4. Kar and Spanjers, Illicit Financial Flows from Developing Countries: 2003–2012, 34–37.
5. All figures are in real (inflation-adjusted) 2010 U.S. dollars.
6. Zeros (indicating no illicit outflows) are used in the calculation of the average ratios, but years with missing data (indicated as a "." in Kar & Spanjers) are not included in the averages.

Nonetheless, these charts provide some indication of the types of environments in which illicit financial outflows tend to thrive. Additionally, they present potential future areas of economic and policy research on illicit financial flows.

The indices in Section IV were selected from a much larger initial set. We were particularly interested in indicators of the quality of public institutions and the rule of law at the outset, however, very few correlations were found. These indicators included the Fragile State Index,[7] Strength of Legal Rights Index,[8] CPIA Public Sector Management and Institutions[9] rankings, and the Corruption Perceptions Index,[10] to name a few. However, these indicators were not clearly associated with the level of illicit outflows. This suggests that illicit financial flows are not merely a "failed state phenomenon." Explanations for this could be manifold. However, one implication is that relatively well-functioning developing and emerging countries with sophisticated bureaucracies need to be just as worried about the consequences of illicit financial flows as other developing economies.

Also considered were indicators on the strength of the formal and informal economy: CPIA Fiscal Policy Rating,[11] CPIA Financial Sector Rating,[12] borrowers and depositors with commercial banks,[13] and the size of the shadow economy.[14] Though we did find these indices to have at least a weak relationship with specifically trade misinvoicing, there did not appear to be any strong correlations between total IFFs and these indices. This was not entirely surprising; GFI's case studies have very rarely found direct links between pure illicit flows (i.e. not broad capital flight, a mix of licit and illicit flows) and financial/macroeconomic indicators. However, we did expect to find a stronger correlation between illicit flows and the shadow economy, as many of GFI's case studies have indicated that illicit flows both drive and are driven by the underground economy.[15]

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7. "Fragile States Index," [Online Database], *Fund for Peace,* (n.d.), http://ffp.statesindex.org/.
8. World Bank, "World Development Indicators," [Online Database], accessed March 25, 2015, http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators.
9. "Country Policy and Institutional Assessment," [Online Database], *The World Bank*, (n.d.), http://data.worldbank.org/data-catalog/CPIA.
10. Transparency International, "2012 Corruption Perceptions Index," accessed March 25, 2015, http://www.transparency.org/cpi2012/results.
11. "CPIA Database."
12. Ibid.
13. World Bank, "World Development Indicators."
14. Friedrich Schneider, Andreas Buehn, and Claudio E. Montenegro, *Shadow Economies All over the World: New Estimates for 162 Countries from 1999 to 2007*, Policy Research Working Paper No. 5356 (Washington, DC: Development Research Group's Poverty and Inequality Team and the Europe and Central Asia Region's Human Development Economics Unit, World Bank, 2010).
15. Dev Kar, *Mexico: Illicit Financial Flows, Macroeconomic Imbalances, and the Underground Economy* (Washington, DC: Global Financial Integrity, 2012), 36; Dev Kar, *Brazil: Capital Flight, Illicit Flows, and Macroeconomic Crises, 1960-2012* (Washington, DC: Global Financial Integrity, 2014), 22; Dev Kar and Brian LeBlanc, *Illicit Financial Flows to and from the Philippines: A Study in Dynamic Simulation, 1960-2011* (Washington, DC: Global Financial Integrity, 2014), 22; Dev Kar and Sarah Freitas, *Russia: Illicit Financial Flows and the Underground Economy* (Washington, DC: Global Financial Integrity, 2013), 28; Dev Kar, *The Drivers and Dynamics of Illicit Financial Flows from India: 1948-2008* (Washington, DC: Global Financial Integrity, 2010), 29.

III. Rankings of Selected Developing Countries

In this section, we present rankings of selected developing countries. These rankings are created by comparing illicit outflow figures to nine different measures: gross domestic product (GDP), total trade (exports + imports vis-à-vis the world), population, foreign direct investment (FDI), official development assistance combined with foreign direct investment (ODA+FDI), public spending on education, public spending on health, total tax revenues, and capital stock (a proxy for domestic investment). A country with an unusually large amount of illicit outflows relative to the variable of comparison receives a high rank.

These variables were chosen for their direct relationships to economic development. The GDP rank shows how large illicit outflows are relative to the overall size of the country's economy. Ranking by trade shows those countries whose trade is particularly corrupted by IFFs. The population measure tends to highlight small countries with high levels of IFFs. Rankings on foreign direct investment and foreign direct investment in combination with official development assistance show those countries that lose a large amount of money to illicit outflows in relation to their official inflows. Countries with high ranks in the ratio of IFFs to public spending on education and/or health are possibly those who could most benefit from stemming illicit outflows and applying the resulting increase in taxation receipts to those sectors of the public budget. Rankings with regard to total tax revenues show those countries that are losing large amounts of money to illicit outflows relative to their tax-based revenue. Finally, the capital stock ranking indicates countries whose illicit outflows are particularly large relative to domestic investment.

Four different sets of developing countries were combined to create a unified list of developing countries in particularly difficult development situations. These country groups are as follows: heavily indebted poor countries,[16] low-income developing countries,[17] least developed countries,[18] and lower-middle-income economies.[19] The groups were chosen to highlight those countries most in need of development financing and/or domestic resource mobilization. The 82 countries that compose this list are regionally distributed as follows: 42 in Sub-Saharan Africa (51 percent), 20 in Asia (24 percent), eight in the Western Hemisphere (10 percent), eight in Developing Europe (10 percent), and four in the Middle East and North Africa (5 percent [See Appendix Table A]). In this section, we present the lists of the top 25 countries in relation to each variable and discuss those regions that are disproportionately represented in them. Full rankings of all 82 countries for each variable can be found in the appendix [See Appendix Table B].

16. "Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative," *International Monetary Fund*, September 30, 2014, https://www.imf.org/external/np/exr/facts/hipc.htm.
17. "Proposed New Grouping in WEO Country Classifications: Low-Income Developing Countries" (International Monetary Fund, June 2014), http://www.imf.org/external/np/pp/eng/2014/060314.pdf.
18. "List of Least Developed Countries" (United Nations), accessed March 1, 2015, http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_list.pdf.
19. "Country and Lending Groups," *The World Bank*, accessed March 1, 2015, http://data.worldbank.org/about/country-and-lending-groups.

It is important to consider all of the countries in theses top 25 rankings, not just those at the top, as even those countries lower down the list are inordinately affected by high levels of illicit outflows.

Table 1. Illicit Financial Outflows to GDP[20]
(from highest average 2008–2012 [IFFs]/[GDP] to lowest)

Rank	Country	Ratio
1	Togo	76.3%
2	Liberia	61.6%
3	Vanuatu	35.6%
4	Djibouti	35.5%
5	Solomon Islands	22.2%
6	Equatorial Guinea	21.8%
7	Samoa	21.8%
8	Honduras	21.7%
9	Nicaragua	20.4%
10	Lesotho	19.2%
11	Paraguay	18.6%
12	Zambia	18.1%
13	Guyana	17.3%
14	Malawi	16.9%
15	Sao Tome and Principe	12.8%
16	Comoros	12.2%
17	Chad	11.2%
18	Ethiopia	11.2%
19	Armenia, Republic of	11.1%
20	Congo, Republic of	11.1%
21	Swaziland	9.8%
22	Lao People's Democratic Republic	9.7%
23	Gambia, The	8.8%
24	Nigeria	7.9%
25	Cote d'Ivoire	7.3%

Sub-Saharan African countries are disproportionally represented in the top 25 of this list, taking 64 percent of the spots (compared to 51 percent in the 82-country list as a whole). Western Hemisphere countries are also especially prone to high ranks, with 16 percent of the spots in the top 25, though they are just 10 percent of the full list. Asia, Developing Europe, and MENA countries are underrepresented in this top ranking.

20. World Bank, "World Development Indicators."

Table 2. Illicit Financial Outflows to Total Trade[21]
(from highest average 2008–2012 [IFFs]/[Trade] to lowest)

Rank	Country	Ratio
1	Togo	105.0%
2	Liberia	80.6%
3	Djibouti	71.3%
4	Vanuatu	67.6%
5	Samoa	45.3%
6	Ethiopia	31.7%
7	Honduras	31.2%
8	Nicaragua	28.9%
9	Comoros	26.1%
10	Solomon Islands	25.6%
11	Malawi	24.6%
12	Zambia	24.1%
13	Syrian Arab Republic	23.7%
14	Paraguay	23.3%
15	Gambia, The	22.5%
16	Armenia, Republic of	21.6%
17	Sao Tome and Principe	21.1%
18	Rwanda	21.1%
19	Chad	20.2%
20	Lao People's Democratic Republic	19.8%
21	Nepal	17.8%
22	Guyana	16.4%
23	Nigeria	16.3%
24	Guinea-Bissau	16.2%
25	Equatorial Guinea	16.1%

Once again, Sub-Saharan Africa and the Western Hemisphere are disproportionately represented in the top 25 ranking of IFFs to total trade. They command 56 percent and 16 percent of the top spots, respectively. Asia and MENA appear at approximately their typical rate, and Developing European countries are underrepresented.

The first two charts indicate that we have detected a uniquely high level of IFFs in Togo. This is likely due to its role as one of West Africa's main trade entrepôts. Though most goods in transit in Togo are declared for Burkina Faso, it is generally thought that the majority are destined for Nigeria via smuggling channels.[22] This illicit trade is highly sophisticated and efficient, often more so than public trade,[23] and it severely distorts official trade statistics.[24]

21. International Monetary Fund, "International Financial Statistics (IFS)," [Online Database], accessed March 24, 2015, http://elibrary-data.imf.org/FindDataReports.aspx?d=33061&e=169393; World Bank, "World Development Indicators."
22. Stephen S. Golub, *Entrepôt Trade and Smuggling in West Africa: Benin, Togo, and Nigeria,* The World Economy (Oxford, UK: Blackwell Publishing Ltd., 2012), 8.
23. Ibid., 9.
24. Togo's ratios are also large due to the use of 2008–2012 statistics, as it experienced unusually high IFFs in 2008 and 2009.

Table 3. Illicit Financial Outflows to Population[25]

(from highest average 2008–2012 [IFFs]/[Population] to lowest)[26]

Rank	Country	IFFs/Capita	GDP/Capita
1	Equatorial Guinea	$3,978.19	$18,982.29
2	Vanuatu	$996.65	$2,862.42
3	Samoa	$670.00	$3,086.90
4	Paraguay	$574.24	$3,108.22
5	Guyana	$495.13	$2,865.75
6	Djibouti	$486.20	$1,379.45
7	Honduras	$442.22	$2,045.98
8	Togo	$401.43	$527.96
9	Armenia, Republic of	$359.21	$3,252.57
10	Congo, Republic of	$323.55	$2,897.13
11	Nicaragua	$317.35	$1,543.53
12	Solomon Islands	$302.61	$1,371.60
13	Swaziland	$280.39	$2,964.56
14	Zambia	$220.92	$1,213.64
15	Liberia	$187.85	$319.90
16	Syrian Arab Republic	$183.21	.
17	Lesotho	$180.41	$993.85
18	Sao Tome and Principe	$151.06	$1,185.37
19	Nigeria	$124.60	$1,925.40
20	Cabo Verde	$124.41	$3,503.40
21	El Salvador	$113.85	$3,452.53
22	Papua New Guinea	$110.53	$1,490.90
23	Lao People's Democratic Republic	$104.22	$1,086.96
24	Chad	$102.40	$912.76
25	Comoros	$96.32	$801.87

In this ranking, just Western Hemisphere countries appear at a higher-than-normal rate; they take 20 percent of the top 25 spots, double their rate of appearance in the list as a whole. The MENA, Asia, and Sub-Saharan Africa regions appeared at approximately their typical rate. Once again, Developing European countries are underrepresented.

The ratios are presented here as illicit outflows per capita, rather than as percentages. GDP per capita is also included for comparison.

25. World Bank, “World Development Indicators.”
26. Rather than percentages, the values presented here are average illicit outflows per capita, in real 2010 U.S. dollars.

Table 4. Illicit Financial Outflows to Foreign Direct Investment[27]
(from highest average 2008–2012 [IFFs]/[FDI] to lowest)

Rank	Country	Ratio
1	Nepal	18568.1%
2	Burundi	12732.6%
3	Togo	4122.7%
4	Samoa	3044.2%
5	Paraguay	2064.4%
6	Tajikistan	1819.7%
7	Cameroon	1634.9%
8	Ethiopia	1354.9%
9	Malawi	835.9%
10	Burkina Faso	724.3%
11	Guinea-Bissau	711.4%
12	Comoros	625.9%
13	Vanuatu	614.2%
14	Djibouti	566.2%
15	Philippines	518.7%
16	Cote d'Ivoire	471.5%
17	Honduras	464.6%
18	Rwanda	460.5%
19	Swaziland	398.2%
20	Chad	371.2%
21	Liberia	306.1%
22	Zambia	293.3%
23	Nicaragua	289.6%
24	Nigeria	257.3%
25	Lao People's Democratic Republic	242.9%

Only Sub-Saharan African countries appear at a rate greater than their total group rate in this chart, taking 64 percent of the spots in the top 25. This is an extremely troubling index for African countries to dominate, as foreign direct investment is particularly helpful to private sector growth. Asia and Western Hemisphere regions appeared at approximately their typical rate, with Developing Europe and MENA primarily falling below the top 25 rankings.

27. World Bank, "World Development Indicators."

Table 5. Illicit Financial Outflows to Official Development Assistance and Foreign Direct Investment[28]
(from highest average 2008–2012 [IFFs]/[ODA+FDI] to lowest)

Rank	Country	Ratio
1	Paraguay	957.6%
2	Togo	513.1%
3	Philippines	460.0%
4	Honduras	255.1%
5	Nigeria	209.4%
6	Swaziland	209.3%
7	Papua New Guinea	201.1%
8	India	199.6%
9	El Salvador	190.9%
10	Indonesia	184.5%
11	Djibouti	179.4%
12	Vanuatu	175.5%
13	Chad	151.8%
14	Zambia	143.5%
15	Nicaragua	142.6%
16	Samoa	117.7%
17	Nepal	116.5%
18	Armenia, Republic of	111.8%
19	Cote d'Ivoire	109.9%
20	Guyana	108.4%
21	Lesotho	99.7%
22	Comoros	98.1%
23	Lao People's Democratic Republic	97.1%
24	Cameroon	96.5%
25	Syrian Arab Republic	96.2%

This is the only ranking in which Asian countries appear at a rate that is higher than their group rate, taking 32 percent of the spots, though they comprise just 24 percent of the 82-country list. This is likely due to the relatively lower amount of official development assistance received by Asian economies. Western Hemisphere countries also appeared in the top 25 at twice their typical appearance rate, at 20 percent. MENA countries appeared at their typical rate; Developing Europe and Sub-Saharan Africa are underrepresented.

28. Ibid.

Table 6. Illicit Financial Outflows to Public Spending on Education[29]
(from highest average 2008–2012 [IFFs]/[Education Spending] to lowest)

Rank	Country	Ratio
1	Togo	2435.9%
2	Liberia	1649.3%
3	Zambia	1314.3%
4	Vanuatu	842.4%
5	Chad	555.9%
6	Guyana	511.5%
7	Samoa	471.6%
8	Nicaragua	423.1%
9	Paraguay	361.0%
10	Lao People's Democratic Republic	359.8%
11	Armenia, Republic of	335.9%
12	Malawi	315.3%
13	Solomon Islands	254.0%
14	Ethiopia	245.0%
15	Congo, Republic of	235.2%
16	Gambia, The	230.4%
17	Nepal	228.8%
18	Cote d'Ivoire	224.8%
19	Lesotho	204.1%
20	Mali	177.9%
21	Sao Tome and Principe	172.5%
22	Uganda	170.9%
23	Philippines	170.6%
24	Guinea	153.1%
25	Rwanda	147.1%

Only Sub-Saharan African countries appear in this top 25 ranking at a rate significantly higher than their overall appearance rate in the group; they comprise 60 percent of countries in the top ranking of IFFs to public spending on education. Asia and the Western Hemisphere appeared at their typical rate, with Developing Europe and MENA making a very limited showing.

29. Ibid.

Table 7. Illicit Financial Outflows to Public Spending on Health[30]
(from highest average 2008–2012 [IFFs]/[Health Spending] to lowest)

Rank	Country	Ratio
1	Togo	1088.7%
2	Vanuatu	931.4%
3	Congo, Republic of	483.5%
4	Equatorial Guinea	478.1%
5	Liberia	455.7%
6	Djibouti	417.1%
7	Samoa	361.0%
8	Chad	329.6%
9	Solomon Islands	315.5%
10	Lao People's Democratic Republic	304.2%
11	Comoros	302.5%
12	Zambia	284.0%
13	Nicaragua	265.2%
14	Armenia, Republic of	264.6%
15	Guyana	264.0%
16	Ethiopia	259.5%
17	Honduras	251.6%
18	Paraguay	242.7%
19	Malawi	200.1%
20	Gambia, The	192.2%
21	Lesotho	190.7%
22	Sao Tome and Principe	180.3%
23	Papua New Guinea	160.5%
24	Nigeria	124.4%
25	Swaziland	116.7%

Sub-Saharan African and Western Hemisphere countries are overrepresented in the top ranks of IFFs to public spending on health. Asia comes in at its standard rate, with Developing Europe and MENA primarily appearing beyond the top 25 spots.

30. Ibid.

Table 8. Illicit Financial Outflows to Total Tax Revenues[31]

(from highest average 2008–2012 [IFFs]/[Tax] to lowest)

Rank	Country	Ratio
1	Samoa	98551.8%
2	Togo	497.6%
3	Congo, Republic of	373.7%
4	Liberia	257.4%
5	Nigeria	229.4%
6	Paraguay	156.7%
7	Ethiopia	152.5%
8	Nicaragua	147.0%
9	Honduras	146.0%
10	Vanuatu	142.0%
11	Equatorial Guinea	138.7%
12	Zambia	124.8%
13	Sao Tome and Principe	83.9%
14	Lao People's Democratic Republic	73.9%
15	Armenia, Republic of	64.0%
16	Nepal	56.9%
17	Cote d'Ivoire	52.4%
18	Rwanda	51.7%
19	Mali	46.1%
20	Lesotho	45.1%
21	Uganda	44.2%
22	Burkina Faso	42.9%
23	India	39.6%
24	Indonesia	37.2%
25	Gambia, The	37.0%

In this ranking based on total tax revenues, only Sub-Saharan Africa appears in the top 25 at a rate higher than it appears in the overall group. Asia and the Western Hemisphere appear at their typical rate, while Developing Europe and MENA are more significantly represented beyond the top 25 ranking.

31. Ibid.

Table 9. Illicit Financial Outflows to Capital Stock[32]
(from highest average 2008–2012 [IFFs]/[Capital Stock] to lowest)

Rank	Country	Ratio
1	Togo	24.6%
2	Liberia	23.4%
3	Equatorial Guinea	19.3%
4	El Salvador	7.2%
5	Nigeria	6.6%
6	Congo, Republic of	6.5%
7	Chad	6.4%
8	Honduras	6.4%
9	Zambia	6.0%
10	Djibouti	5.7%
11	Paraguay	5.3%
12	Cote d'Ivoire	4.1%
13	Mali	3.6%
14	Sao Tome and Principe	3.2%
15	Sudan	2.8%
16	Lesotho	2.7%
17	Armenia, Republic of	2.7%
18	Ethiopia	2.5%
19	Rwanda	2.3%
20	Malawi	2.2%
21	Gambia, The	1.8%
22	Uganda	1.8%
23	Comoros	1.7%
24	Swaziland	1.3%
25	Lao People's Democratic Republic	1.3%

Sub-Saharan Africa dominates this top 25, taking a dramatic 80 percent of the spots. This speaks to a serious lack of domestic resource mobilization in those African countries that experience large illicit financial outflows. The Western Hemisphere appears at its standard rate, with Asia, Developing Europe, and MENA all coming in primarily beyond the top 25.

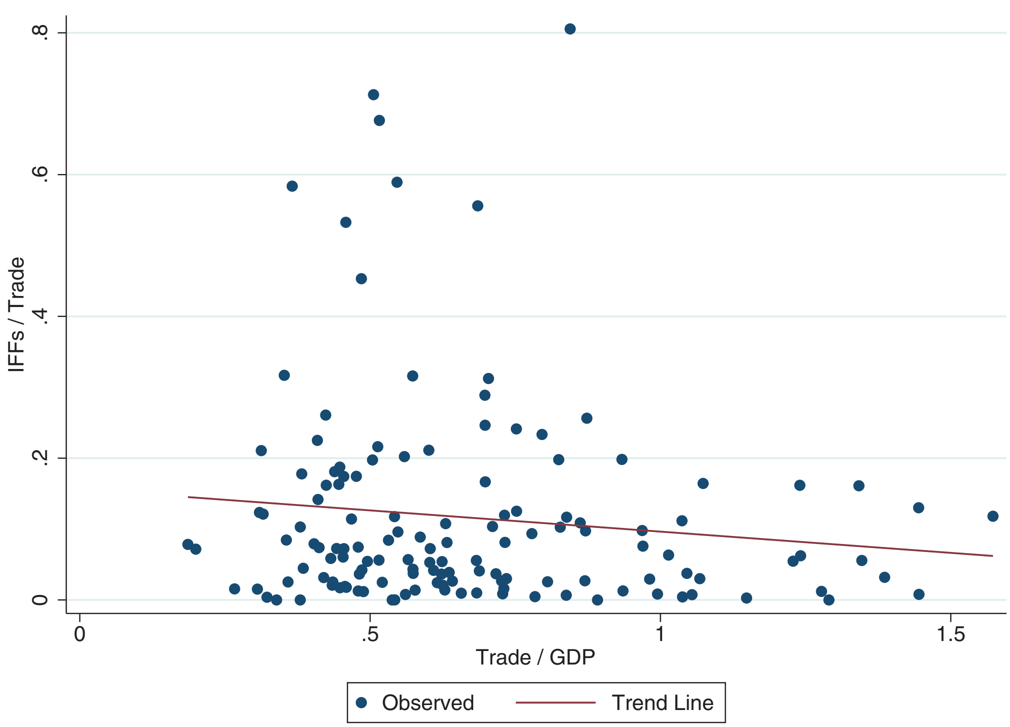
32. "Penn World Table," [Online Database], *Center for International Comparisons at the University of Pennsylvania*, accessed March 8, 2015, https://pwt.sas.upenn.edu/.

IV. Correlations between Illicit Financial Outflows and Development Indices

A. Trade

Given that nearly 80 percent of measurable illicit financial outflows are conducted through official trade channels, via trade misinvoicing,[33] it is important to see how IFFs compare to certain trade indices. Though trade is generally understood to be important to development, it is the vehicle by which vast amounts of capital illicitly flow out of the developing world. As such, we take illicit financial outflows as a percentage of total trade[34] (imports + exports vis-à-vis the world) and compare it to three telling indices: trade openness, average tariff rates, and the efficiency of the customs clearance process.

Chart 1. Illicit Financial Outflows and Trade Openness[35, 36]

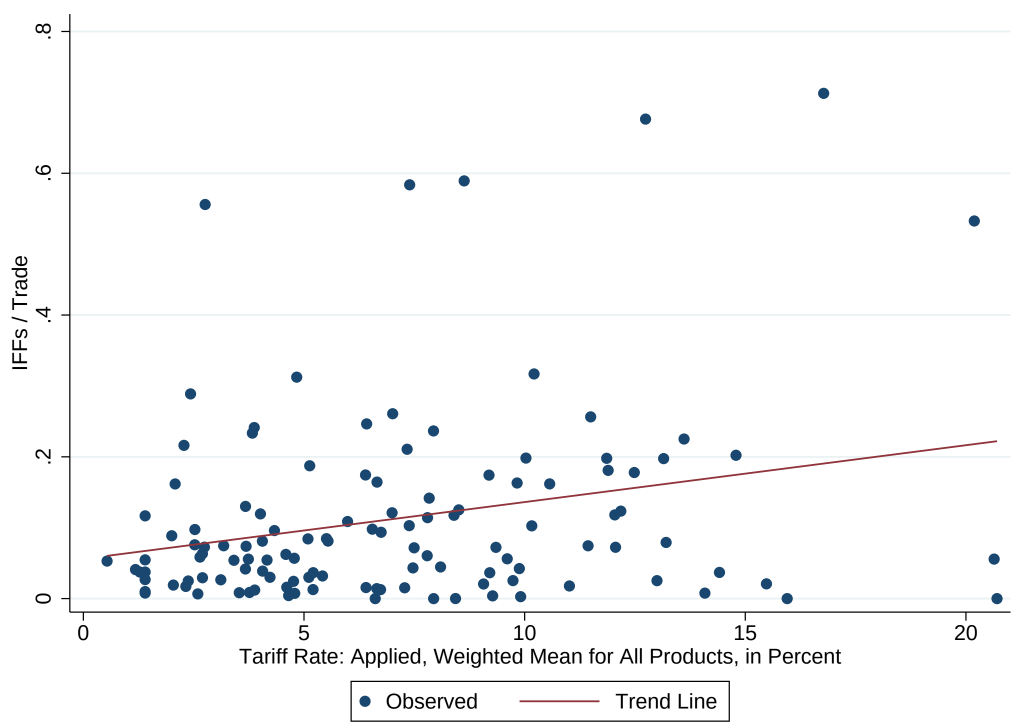


33. Kar and Spanjers, *Illicit Financial Flows from Developing Countries: 2003–2012*, 15.
34. Aruba and Togo are excluded from the scatter plots in subsection A as outliers.
35. International Monetary Fund, "International Financial Statistics"; World Bank, "World Development Indicators."
36. Trade Openness is defined as Total Trade (i.e. Exports to the world + Imports from the World) divided by GDP.

In Chart 1, we see that there is an inverse relationship between high levels of trade (relative to GDP) and high levels of IFFs (relative to trade). This indicates that countries that are more open to trade tend to have a smaller amount of their trade corrupted by misinvoicing and/or smaller leakages from the balance of payments. This chart is particularly telling, as it emphasizes that trade itself is not the culprit—in fact, it is quite the opposite. This chart may indicate that countries that are especially reliant on international trade have stronger incentives to develop robust trade infrastructure and customs enforcement, thus stemming illicit outflows. It could also indicate that the incentives for illicitly moving money out of the country are stronger in relatively closed economies.

This correlation contrasts with GFI's report on Mexico, which found a positive and significant relationship between broad capital flight and trade openness when governance is weak.[37] Though this finding was the result of econometric testing, it only represents the situation in one developing country where governance was also a factor. Additionally, the broad capital flight measure used in that paper differs from illicit financial flows, in that it includes both licit and illicit financial flows.

Chart 2. Illicit Financial Outflows and Tariff Rates[38]



37. Kar, *Mexico: Illicit Financial Flows*, 36.
38. World Bank, "World Development Indicators."

Chart 2 shows that there is a strong, positive relationship between high tariff rates and high levels of illicit financial outflows (relative to trade). One possible reason for this correlation is that high tariff rates may incentivize trade fraud. On a more micro level, Bhagwati[39] found that specific commodities with unusually high tariff rates were under-invoiced by Turkish importers. This chart seems to show a similar trend on a global level.

The tariff rates used here are a weighted mean of the applied tariff rate on all products. Products are classified using the Harmonized System of trade classification at the six- or eight-digit level, a reasonable degree of accuracy. These tariff rates are World Bank staff estimates, calculated using data from UN Comtrade and the World Trade Organization.[40]

Chart 3. Illicit Financial Outflows and Efficiency of Customs[41]

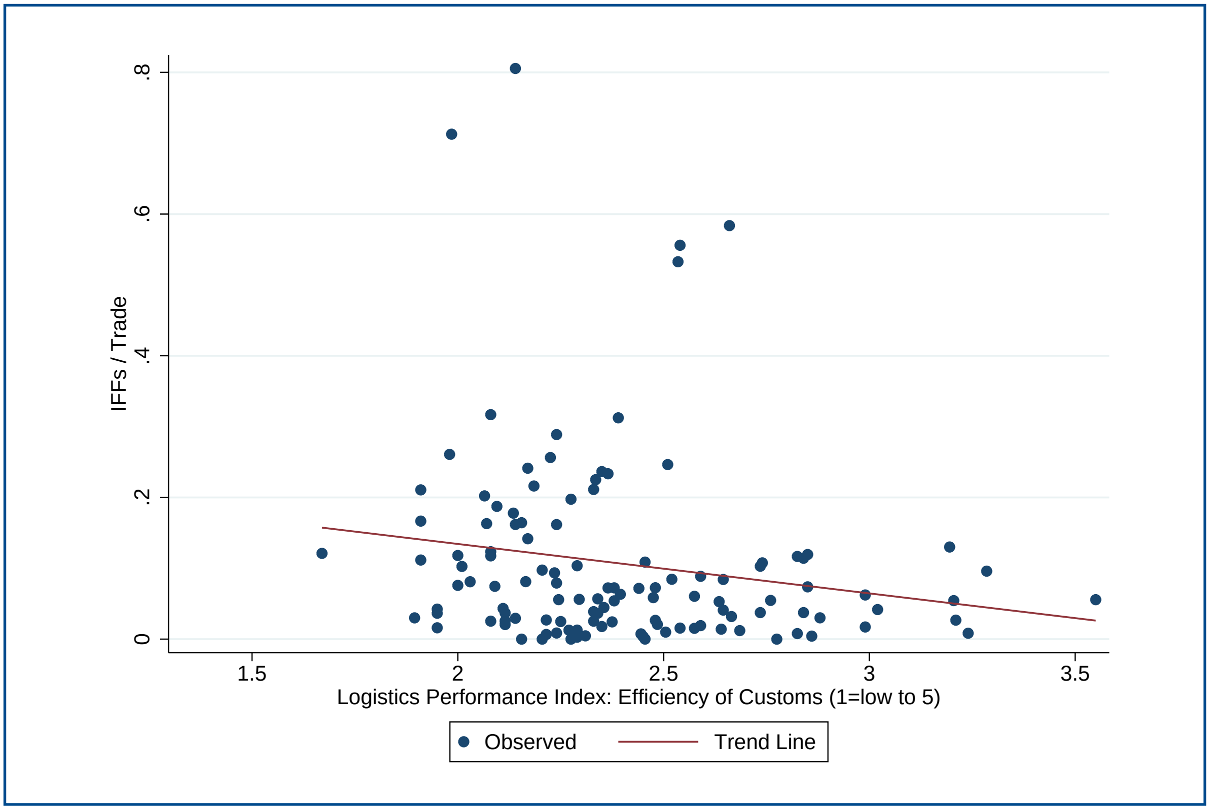


Chart 3 demonstrates an inverse relationship between the efficiency of the customs clearance process[42] and illicit outflows (relative to trade). In other words, the more efficient a country's customs agency, the less likely it is to see high levels of IFFs. This may indicate that customs agencies that are efficient in logistics are also efficient in enforcement, which makes intuitive

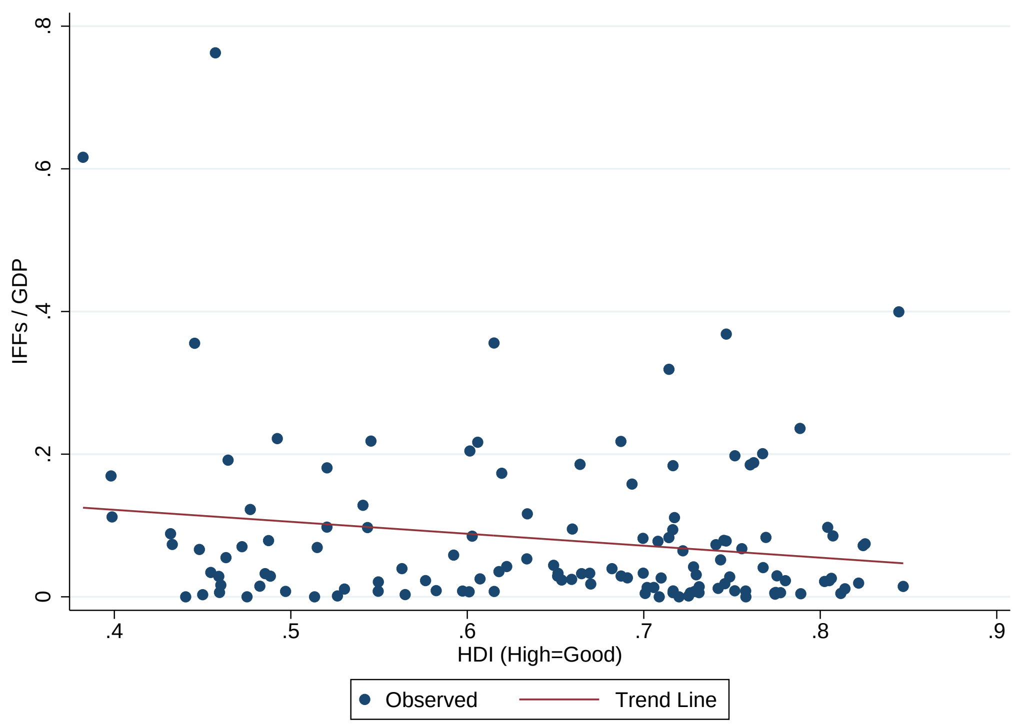
39. "On the Underinvoicing of Imports," in *Illegal Transactions in International Trade*, ed. Jagdish N. Bhagwati (Amsterdam: North-Holland Publishing Company, 1974), 147.
40. World Bank, "World Development Indicators."
41. Ibid.
42. This index is sourced from the Logistics Performance Index, a survey-based data set compiled by the World Bank in collaboration with various international and academic institutions, private companies, and individuals in the international logistics field.

sense—efficient enforcement lowers incentives to misinvoice trade, as there is a greater chance that those who misinvoice will get caught. The outliers on this chart could be explained by a different line of argument: in some countries, shifting resources to logistical efficiency may come at the cost of regulatory functions.

B. Income Inequality and Poverty

Many policymakers have been growing increasingly interested in the issue of income inequality, in both the developed and developing world. This topic, along with poverty alleviation, is relatively central to GFI's work on illicit flows: Gini coefficients[43] and unemployment[44] have been included in several of our case-study models. As such, we have dedicated a section of this report to indices on income inequality and poverty. Given that we are looking at the whole economy in this section, illicit outflows are adjusted by GDP rather than trade.[45]

Chart 4. Illicit Financial Outflows and the Human Development Index[46]

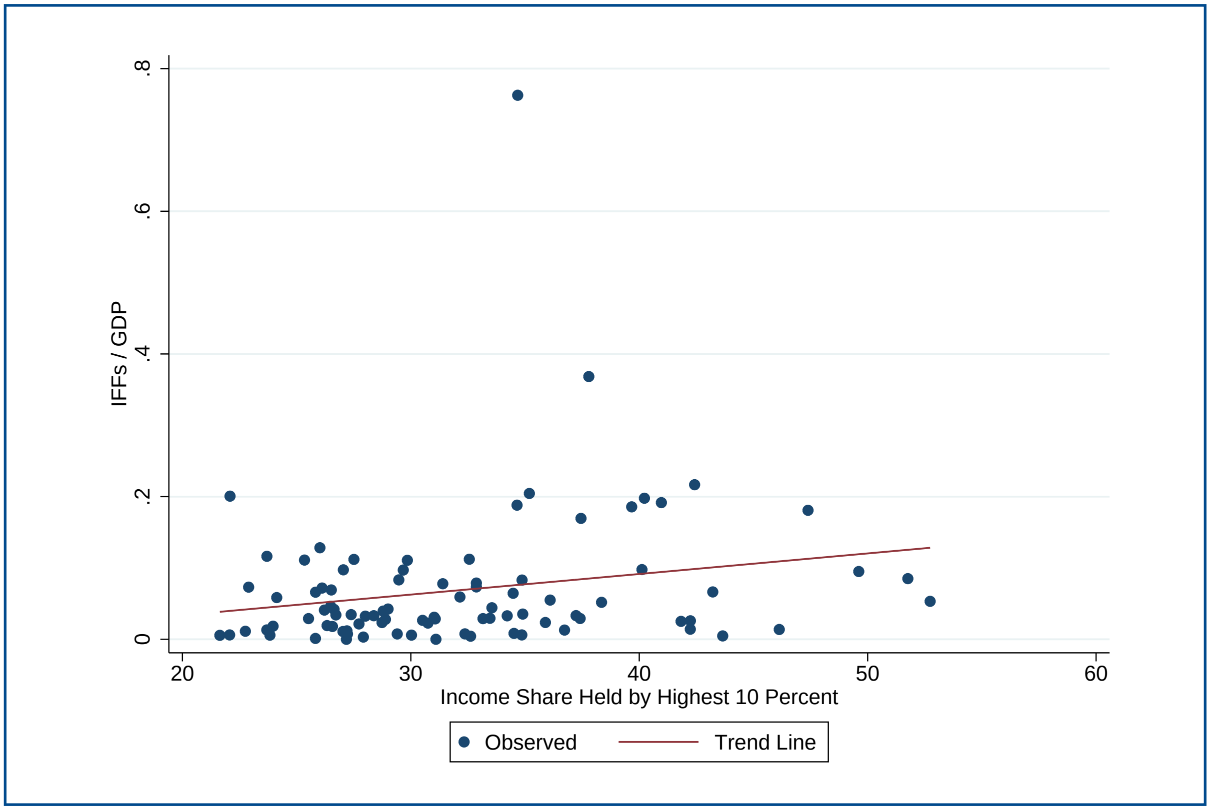


In Chart 4, we see that there is a negative correlation between human development and illicit outflows. That is, countries with higher levels of IFFs (relative to GDP) tend to have a lower score

43. Kar, IFFs from India; Kar, *Mexico: Illicit Financial Flows.*
44. Kar and Freitas, *Russia: Illicit Financial Flows.*
45. Aruba is excluded from the scatter plots in subsection B as an outlier.
46. "Human Development Reports," [Online Database], United Nations Development Programme, (n.d.), http://hdr.undp.org/en.

on the human development index. The Human Development Index, compiled by the United Nations Development Programme, measures not just economic well-being, but human well-being. As such, this is a particularly telling chart. We see here that higher levels of illicit flows are correlated with lower levels of human development, which the United Nations describes as "a long and healthy life, being knowledgeable and having a decent standard of living."[47]

Chart 5A. Illicit Financial Outflows and Income Inequality (Top 10% Income Share)[48]



Charts 5A and 5B present different but complementary measures of income inequality in developing countries. Both show a similar picture: higher income inequality is positively correlated with higher levels of illicit outflows (relative to GDP). It is primarily the wealthiest that have the ability to send funds abroad illicitly; as such, income inequality and illicit flows may actually exacerbate each other, leading to a vicious cycle. However, this is merely an untested hypothesis based on what we see in Charts 5A and 5B, and an area for future study. Unfortunately, we cannot empirically

47. "Human Development Index," *United Nations Development Programme: Human Development Reports*, n.d., http://hdr.undp.org/en/content/human-development-index-hdi.
48. "Human Development Reports."

test it at present due to a relative lack of multi-country data sets on income inequality, despite increased scholarship on this topic.[49]

Chart 5A is based on the share of income that accrues to the top ten percent of earners in each country. Though this only looks at one decile of the population, it is nonetheless a revealing, and widely used, proxy for income inequality.

Chart 5B. Illicit Financial Outflows and Income Inequality (Gini Coefficient)[50]

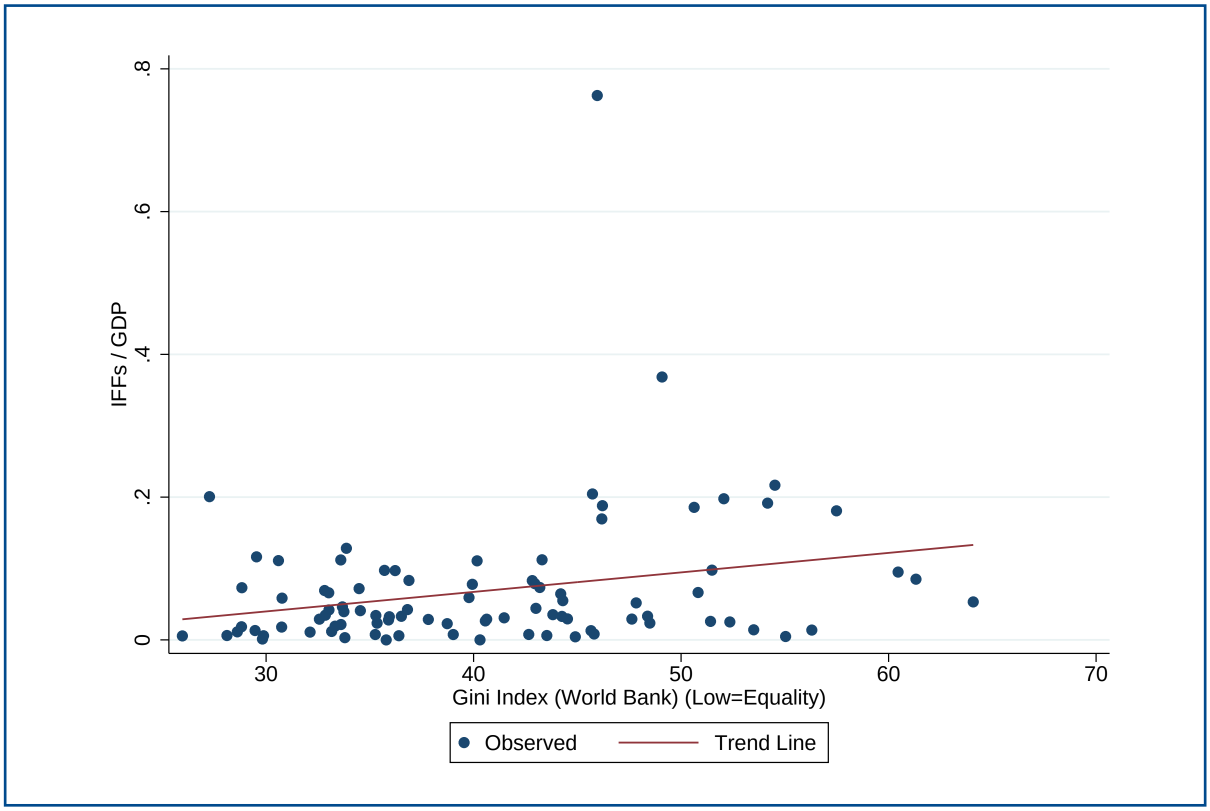
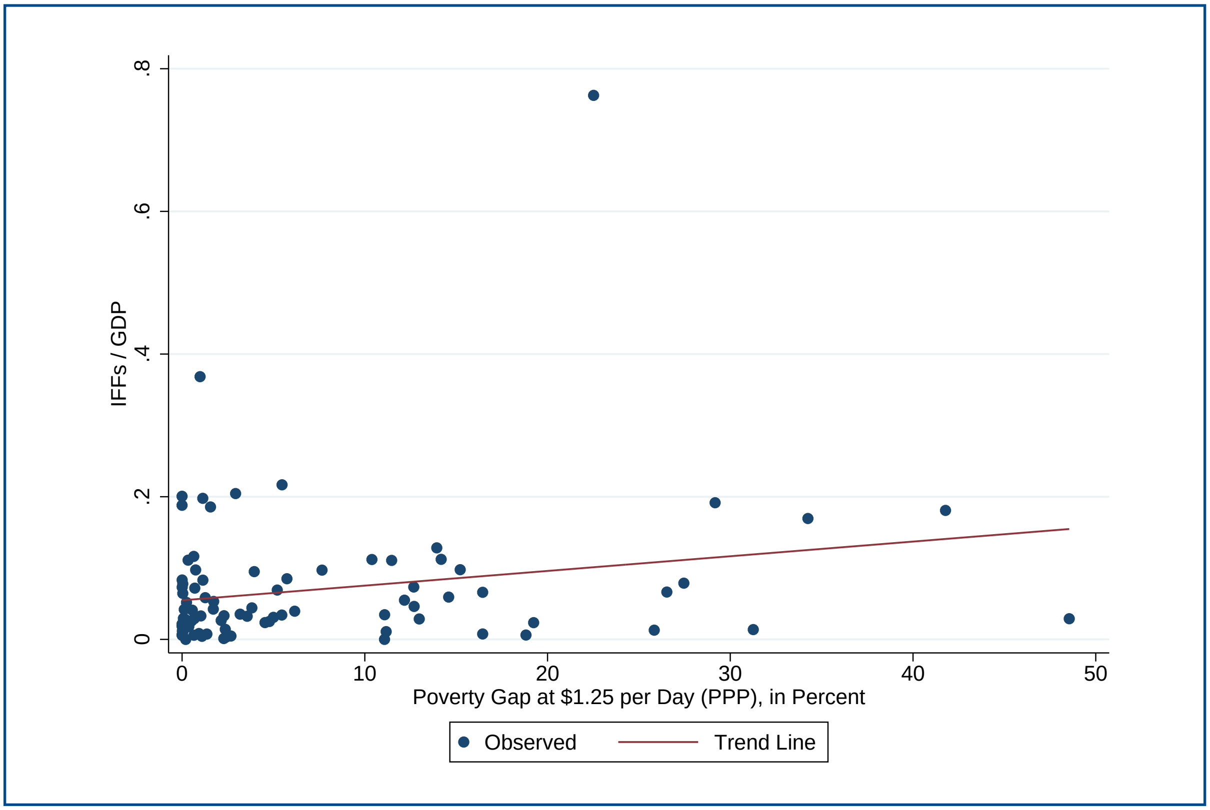


Chart 5B presents a more holistic picture of income inequality. The Gini coefficient, calculated here by the World Bank, is a commonly accepted index for income inequality. The Gini coefficient is determined by calculating the distance between a plotted curve of actual income distribution (a so-called Lorenz curve) and a straight diagonal line that represents a perfectly equal society (e.g. where the bottom 10 percent of earners receive 10 percent of income, the bottom 20 percent of

49. Thomas Piketty, *Capital in the Twenty-First Century*, trans. Arthur Goldhammer (Cambridge, MA: Harvard University Press, 2014).
50. World Bank, "World Development Indicators."

earners receive 20 percent of the income, etc.). The cumulative distance between these two lines is the Gini coefficient. A weakness of this index is that it is based on official income surveys, which do not capture illicit assets and income; if they did, the inequality measure would likely be much worse. As such, official Gini coefficients tend to understate inequality.

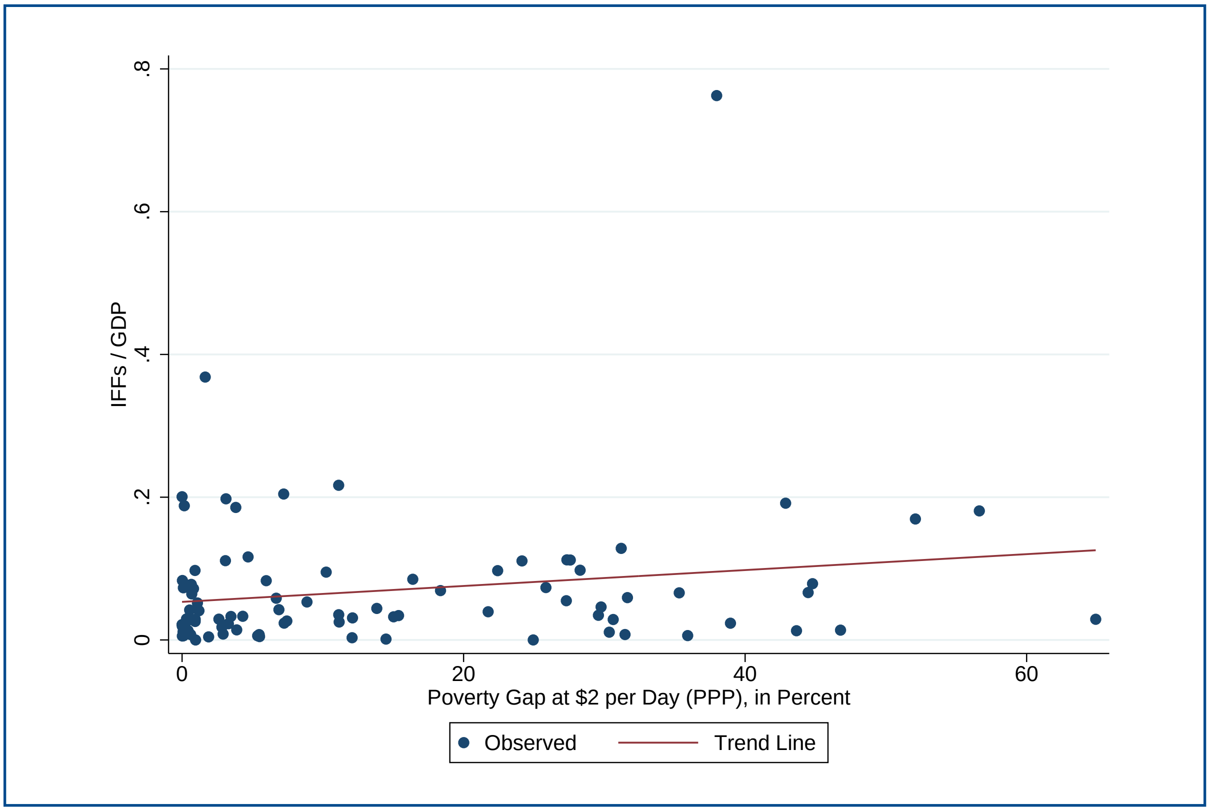
Chart 6A. Illicit Financial Outflows and the Poverty Gap (US$1.25 / Day)[51]



Charts 6A and 6B each show a correlation between higher poverty and higher levels of illicit financial outflows (relative to GDP). Using the World Bank's poverty gap measure, we see that poverty tends to be present where illicit outflows are present. This may come down to the issue of capital flight and domestic resource mobilization—if this money, which was spirited out of developing countries illicitly, remained in those countries, it could have been put to productive use domestically.

51. World Bank, "World Development Indicators."

Chart 6B. Illicit Financial Outflows and the Poverty Gap (US$2 / Day)[52]



52. Ibid.

V. Policy Recommendations

Illicit financial flows from developing countries are facilitated and perpetuated primarily by opacity in the global financial system. This endemic issue is reflected in many well-known ways, such as the existence of tax havens and secrecy jurisdictions, anonymous companies and other legal entities, and innumerable techniques available to launder dirty money—for instance, through misinvoicing trade transactions. This is, essentially, trade fraud and is often referred to as trade-based money laundering when used to move the proceeds of criminal activity.

Curtailing Trade Misinvoicing

Of the estimated US$1 trillion in measurable illicit outflows each year, trade misinvoicing is the method most often used to move funds offshore.[53] Close to 80 percent of all outflows use misinvoicing as the preferred method of movement—meaning that curbing trade misinvoicing must be a major focus for policymakers around the world.

This year presents a spectacular opportunity to tackle the scourge of illicit financial flows. The Millennium Development Goals (MDGs) are set to expire in 2015, and, in September, the United Nations will formally transition to its post-2015 development agenda. Known as the Sustainable Development Goals (SDGs), this framework will establish objectives in 17 areas of global development.[54] Additionally, in July, the Financing for Development (FfD) process will conclude with a UN conference in Addis Ababa, Ethiopia.[55] The FfD process will create a document that is a formal demonstration of political will to address the issues of economic development and global poverty. The FfD and SDG processes will go hand-in-hand to set the global development agenda for the next 15 years.

This is why GFI is calling on the United Nations to adopt, in these documents, a clear and precise prescription to address illicit flows including:

- A declaration that the global community aims to eliminate illicit flows eventually and to reduce them by 50 percent in each developing country by 2030.
- An official definition of IFFs as follows: “illicit financial flows are the cross-border movement of funds that are illegally earned, transferred, and/or utilized.”
- Calling on the IMF to estimate the volume of illicit financial flows for each developing country and then monitor their yearly progress toward a 50 percent reduction by 2030.

53. Kar and Spanjers, *Illicit Financial Flows from Developing Countries: 2003–2012*, 15.
54. Open Working Group on Sustainable Development Goals. *Open Working Group Proposal for Sustainable Development Goals.* New York: United Nations, July 19, 2014. http://sustainabledevelopment.un.org/sdgsproposal.html.
55. Financing for Development Office. *Third International Conference on Financing for Development.* New York: United Nations. http://www.un.org/esa/ffd/ffd3/.

- A formal commitment to ensuring that commercially available trade databases, and related training, are made available to developing country customs departments, which will enable them to identify, investigate and interdict goods that have been misinvoiced in order to substantially reduce illicit flows.

Additionally, the following measures should be taken by all states:

Anti-Money Laundering

All countries should, at a minimum, take whatever steps are needed to comply with all of the Financial Action Task Force (FATF) Recommendations to combat money laundering and terrorist financing.[56]

Regulators and law enforcement officials should strongly enforce all of the anti-money laundering laws and regulations that are already on the books, including through criminal charges and penalties for individuals employed by financial institutions who are culpable for allowing money laundering to occur.

Beneficial Ownership of Legal Entities

All countries and international institutions should address the problems posed by anonymous companies and other legal entities by requiring or supporting meaningful confirmation of beneficial ownership in all banking and securities accounts.

Additionally, information on the true, human owner of all corporations and other legal entities should be disclosed upon formation, updated on a regular basis, and made freely available to the public in central registries. The United Kingdom[57] and Denmark[58] have made progress on this front recently, with the UK passing legislation to create public registries of beneficial ownership—at least for corporations—and Denmark committing to do likewise. Other countries should follow their lead. In December 2014, as part of revisions to the European Union's Anti-Money Laundering Directive (AMLD), the EU decided to require member states to create central registries of beneficial ownership, and mandated that the information be provided not only to law enforcement and financial institutions, but also to members of the public with a "legitimate interest" in the information—although there is no indication of what interests will be considered legitimate.[59] GFI urges all EU member states to quickly implement the central registry requirement and to go beyond the standard required by the AMLD to ensure that all information collected is made freely available to the public.

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56. Financial Action Task Force, *The FATF Recommendations: International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation* (Paris, France: FATF, February 2012), http://www.fatfgafi. org/topics/fatfrecommendations/documents/fatf-recommendations.html.
57. Global Financial Integrity (GFI), *Landmark UK Transparency Law Raises Pressure on White House, Congress*, [Press Release (Washington, DC: GFI, November 7, 2014), http://www.gfintegrity.org/press-release/landmark-uk-transparency-law-raises-pressure-onwhite-house-congress/.
58. Johan Christensen and Anne Skjerning, "Regeringen Vil Åbne Det Nye Ejerregister for Alle," *Dagbladet Børsen*, November 7, 2014, http://borsen.dk/nyheder/avisen/artikel/11/97562/artikel.html.
59. European Parliament, *Money Laundering: Parliament and Council Negotiators Agree on Central Registers,* [Press Release] (Brussels, Belgium: The European Parliament, December 17, 2014), http://www.europarl.europa.eu/news/en/newsroom content/20141216IPR02043/html/Money-laundering-Parliament-and-Council-negotiators-agree-on-central-registers.

Automatic Exchange of Financial Information

All countries should actively participate in the global movement toward the automatic exchange of financial information as endorsed by the G20 and the OECD. 89 countries have committed to implementing the OECD/G20 standard on automatic information exchange by the end of 2018.[60] Still, the G20 and the OECD need to do a better job at ensuring that developing countries—especially least developed countries—are able to participate in the process and are provided the necessary technical assistance to benefit from it.

Country-by-Country Reporting

All countries should require multinational corporations to publicly disclose their revenues, profits, losses, sales, taxes paid, subsidiaries, and staff levels on a country-by-country basis, as a means of detecting and deterring abusive tax avoidance practices.

60. Global Financial Integrity (GFI), *GFI Notes Significant Progress on Automatic Information Exchange but Warns That Poorest Countries Are Being Shunned*, [Press Release] (Washington, DC: GFI, October 30, 2014), http://www.gfintegrity.org/press-release/gfi-notes-significant-progress-automatic-information-exchange-warns-poorest-countries-shunned/.

VI. Conclusions

This report shines light on two specific questions: 1) which developing countries are disproportionately affected by illicit outflows, and 2) how IFFs correlate with development indices on trade, income inequality, and poverty.

In Section III, four groups of developing countries are selected and combined to create a collective list of 82 countries. These countries are then ranked in nine different categories: gross domestic product, total trade (exports + imports vis-à-vis the world), population, foreign direct investment, official development assistance combined with foreign direct investment, public spending on education, public spending on health, total tax revenues, and capital stock (a proxy for domestic investment). These rankings help to highlight those developing countries most affected by the scourge of illicit financial outflows. They should be seen as a complement to the rankings produced in each of GFI's annual updates, which rank all developing countries by the gross volume of their flows (thus highlighting larger economies).

The top ten countries in each category presented in Section III are as follows (in descending order):

- *GDP*: Togo, Liberia, Vanuatu, Djibouti, Solomon Islands, Equatorial Guinea, Samoa, Honduras, Nicaragua, Lesotho [Table 1]
- *Total Trade*: Togo, Liberia, Djibouti, Vanuatu, Samoa, Ethiopia, Honduras, Nicaragua, Comoros, Solomon Islands [Table 2]
- *Population*: Equatorial Guinea, Vanuatu, Samoa, Paraguay, Guyana, Djibouti, Honduras, Togo, Republic of Armenia, Republic of Congo [Table 3]
- *FDI*: Nepal, Burundi, Togo, Samoa, Paraguay, Tajikistan, Cameroon, Ethiopia, Malawi, Burkina Faso [Table 4]
- *ODA+FDI*: Paraguay, Togo, Philippines, Honduras, Nigeria, Swaziland, Papua New Guinea, India, El Salvador, Indonesia [Table 5]
- *Education Spending*: Togo, Liberia, Zambia, Vanuatu, Chad, Guyana, Samoa, Nicaragua, Paraguay, Lao People's Democratic Republic [Table 6]
- *Health Spending*: Togo, Vanuatu, Republic of Congo, Equatorial Guinea, Liberia, Djibouti, Samoa, Chad, Solomon Islands, Lao People's Democratic Republic [Table 7]
- *Total Tax*: Samoa, Togo, Republic of Congo, Liberia, Nigeria, Paraguay, Ethiopia, Nicaragua, Honduras, Vanuatu [Table 8]
- *Capital Stock*: Togo, Liberia, Equatorial Guinea, El Salvador, Nigeria, Republic of Congo, Chad, Honduras, Zambia, Djibouti [Table 9]

In Section IV, we use IFFs relative to trade or GDP to determine how illicit outflows are correlated with development indices on trade, income inequality, and poverty. These plots are created using data from all developing and emerging countries (when data is available), not just the subset used in

Section III. They are not subject to rigorous econometric testing and should be viewed primarily as areas for future research and as indications of general trends.

The trade subsection provides the following correlations:

- High Trade Openness – Low Illicit Outflows [Chart 1]
- High Tariff Rates – High Illicit Outflows [Chart 2]
- High Customs Efficiency – Low Illicit Outflows [Chart 3]

The subsection on poverty and income inequality:

- High Human Development – Low Illicit Outflows [Chart 4]
- High Income Inequality – High Illicit Outflows [Charts 5A & 5B]
- High Poverty – High Illicit Outflows [Charts 6A & 6B]

This report provides policymakers with a look at those developing countries most affected by illicit financial outflows. It also highlights the types of environments in which IFFs tend to thrive. Together, these findings can help advance action on curtailing illicit financial flows from emerging and developing economies.

Appendix

Table A. Geographical Regions

Sub-Saharan Africa (48 Total, 42 Starred)	Asia (27 Total, 20 Starred)	Developing Europe (26 Total, 8 Starred)	MENA (17 Total, 4 Starred)	Western Hemisphere (33 Total, 8 Starred)	Advanced Economies (33 Total)
Angola*	Afghanistan, Islamic Republic of*	Albania	Algeria	Antigua and Barbuda	Australia
Benin*	Bangladesh*	Armenia, Republic of*	Bahrain, Kingdom of	Argentina	Austria
Botswana	Bhutan*	Azerbaijan, Republic of	Egypt*	Aruba	Belgium
Burkina Faso*	Brunei Darussalam	Belarus	Iran, Islamic Republic of	Bahamas, The	Canada
Burundi*	Cambodia*	Bosnia and Herzegovina	Iraq	Barbados	Cyprus
Cabo Verde*	China, P.R.: Mainland	Bulgaria	Jordan	Belize	Czech Republic
Cameroon*	Fiji	Croatia	Kuwait	Bolivia*	Denmark
Central African Republic*	India*	Georgia*	Lebanon	Brazil	Finland
Chad*	Indonesia*	Hungary	Libya	Chile	France
Comoros*	Kiribati*	Kazakhstan	Morocco*	Colombia	Germany
Congo, Democratic Republic of*	Lao People's Democratic Republic*	Kosovo, Republic of*	Oman	Costa Rica	Greece
Congo, Republic of*	Malaysia	Kyrgyz Republic*	Qatar	Dominica	Hong Kong
Cote d'Ivoire*	Maldives	Latvia	Saudi Arabia	Dominican Republic	Iceland
Djibouti*	Mongolia*	Lithuania	Syrian Arab Republic*	Ecuador	Ireland
Equatorial Guinea*	Myanmar*	Macedonia, FYR	Tunisia	El Salvador*	Israel
Eritrea*	Nepal*	Moldova*	United Arab Emirates	Grenada	Italy
Ethiopia*	Pakistan*	Montenegro	Yemen, Republic of*	Guatemala*	Japan
Gabon	Papua New Guinea*	Poland		Guyana*	Korea, Republic of
Gambia, The*	Philippines*	Romania		Haiti*	Luxembourg
Ghana*	Samoa*	Russian Federation		Honduras*	Malta
Guinea*	Solomon Islands*	Serbia, Republic of		Jamaica	Netherlands
Guinea-Bissau*	Sri Lanka*	Tajikistan*		Mexico	New Zealand
Kenya*	Thailand	Turkey		Nicaragua*	Norway
Lesotho*	Timor-Leste, Dem. Rep. of*	Turkmenistan		Panama	Portugal
Liberia*	Tonga	Ukraine*		Paraguay*	Singapore
Madagascar*	Vanuatu*	Uzbekistan*		Peru	Slovak Republic
Malawi*	Vietnam*			St. Kitts and Nevis	Slovenia
Mali*				St. Lucia	Spain
Mauritania*				St. Vincent and the Grenadines	Sweden
Mauritius				Suriname	Switzerland
Mozambique*				Trinidad and Tobago	Taiwan, Province of China
Namibia				Uruguay	United Kingdom
Niger*				Venezuela, Republica Bolivariana de	United States
Nigeria*					
Rwanda*					
Sao Tome and Principe*					
Senegal*					
Seychelles					
Sierra Leone*					
Somalia*					
South Africa					
Sudan*					
Swaziland*					
Tanzania*					
Togo*					
Uganda*					
Zambia*					
Zimbabwe*					

* Denotes developing countries that are part of the 82-country group used in Section III
Note: Advanced economies only used for conducting trade misinvoicing estimates
Source: IMF Direction of Trade Statistics

Table B. Full Rankings (out of 82 Countries) for Section III[61]
(in percent or by rank)

Country	GDP		Trade		Population		FDI	
	Ratio	Rank	Ratio	Rank	IFFs / Capita	Rank	Ratio	Rank
Afghanistan, Islamic Republic of	0.0%	74	0.0%	75	$0.00	76	0.0%	72
Angola	0.8%	64	.	.	$33.51	49	3.2%	70
Armenia, Republic of	11.1%	19	21.6%	16	$359.21	9	175.2%	33
Bangladesh	1.1%	60	2.5%	61	$6.84	67	99.5%	40
Benin	0.6%	67	2.1%	63	$4.24	70	66.9%	46
Bhutan	2.3%	53	2.7%	60	$52.33	35	165.6%	34
Bolivia	2.4%	51	3.9%	53	$49.51	37	73.3%	44
Burkina Faso	5.9%	31	14.2%	26	$34.90	48	724.3%	10
Burundi	3.9%	38	12.1%	28	$8.54	64	12732.6%	2
Cabo Verde	3.5%	39	7.4%	42	$124.41	20	47.5%	52
Cambodia	0.3%	70	0.3%	73	$2.47	72	4.5%	69
Cameroon	3.2%	44	7.9%	38	$37.16	45	1634.9%	7
Central African Republic	1.4%	58	7.8%	39	$6.36	68	56.9%	49
Chad	11.2%	17	20.2%	19	$102.40	24	371.2%	20
Comoros	12.2%	16	26.1%	9	$96.32	25	625.9%	12
Congo, Democratic Republic of	0.8%	63	1.8%	64	$2.62	71	-18.9%	76
Congo, Republic of	11.1%	20	11.2%	32	$323.55	10	55.1%	50
Cote d'Ivoire	7.3%	25	9.4%	35	$88.95	27	471.5%	16
Djibouti	35.5%	4	71.3%	3	$486.20	6	566.2%	14
Egypt	1.8%	55	4.5%	51	$45.50	40	-163.8%	77
El Salvador	3.3%	43	5.4%	49	$113.85	21	20.3%	61
Equatorial Guinea	21.8%	6	16.1%	25	$3,978.19	1	72.5%	45
Eritrea	.	.	.	.	.	.	.	.
Ethiopia	11.2%	18	31.7%	6	$39.57	43	1354.9%	8
Gambia, The	8.8%	23	22.5%	15	$47.16	39	205.2%	28
Georgia	3.1%	46	5.3%	50	$85.16	29	37.2%	55
Ghana	2.1%	54	3.7%	55	$26.31	50	24.1%	59
Guatemala	2.5%	50	5.9%	47	$73.36	31	119.2%	36
Guinea	4.6%	34	7.2%	44	$19.75	54	98.2%	41
Guinea-Bissau	7.1%	26	16.2%	24	$37.02	46	711.4%	11
Guyana	17.3%	13	16.4%	22	$495.13	5	193.2%	31
Haiti	1.6%	56	3.7%	54	$11.40	61	197.0%	29
Honduras	21.7%	8	31.2%	7	$442.22	7	464.6%	17
India	4.0%	37	10.3%	33	$51.63	36	215.4%	26
Indonesia	3.2%	45	7.3%	43	$85.40	28	209.0%	27
Kenya	0.0%	74	0.0%	75	$0.00	76	0.0%	72
Kiribati	0.7%	66	1.4%	67	$10.88	63	-16.2%	75
Kosovo, Republic of	0.0%	74	.	.	$0.00	76	0.0%	72
Kyrgyz Republic	0.8%	65	0.7%	69	$7.61	65	7.0%	68
Lao People's Democratic Republic	9.7%	22	19.8%	20	$104.22	23	242.9%	25
Lesotho	19.2%	10	11.8%	29	$180.41	17	194.7%	30

61. If data is missing for all years for either IFFs or the variable of comparison, a "." is inserted into the table to indicate a missing value.

ODA+FDI		Education Spending		Health Spending		Total Tax Revenues		Capital Stock	
Ratio	Rank	Ratio	Rank	Ratio	Rank	Ratio	Rank	Ratio	Rank
0.0%	73	.	.	0.0%	73	0.0%	52	.	.
-0.4%	76	59.1%	44	21.4%	60	3.4%	46	0.5%	48
111.8%	18	335.9%	11	264.6%	14	64.0%	15	2.7%	17
38.5%	42	58.9%	45	30.1%	55	12.7%	40	0.1%	59
5.4%	65	19.2%	54	14.1%	64	3.7%	45	0.2%	58
23.1%	50	12.8%	56	60.5%	42	0.0%	52	0.1%	63
35.7%	44	21.5%	53	41.7%	49	.	.	0.5%	50
46.6%	36	129.2%	27	86.8%	34	42.9%	22	1.3%	26
15.0%	56	63.7%	43	49.0%	46	.	.	0.8%	37
15.6%	54	72.2%	41	86.8%	35	18.2%	33	0.8%	33
2.3%	71	9.1%	59	5.6%	70	3.0%	49	0.1%	62
96.5%	24	104.7%	34	63.5%	39	.	.	1.1%	31
9.5%	60	99.1%	37	36.7%	52	15.7%	34	0.3%	53
151.8%	13	555.9%	5	329.6%	8	.	.	6.4%	7
98.1%	22	52.4%	47	302.5%	11	.	.	1.7%	23
4.6%	66	66.9%	42	10.4%	67	13.7%	37	0.2%	55
44.2%	38	235.2%	15	483.5%	3	373.7%	3	6.5%	6
109.9%	19	224.8%	18	108.6%	29	52.4%	17	4.1%	12
179.4%	11	.	.	417.1%	6	.	.	5.7%	10
-1518.3%	78	99.8%	36	37.0%	51	12.5%	41	0.5%	47
190.9%	9	107.3%	32	49.3%	45	24.3%	28	7.2%	4
68.5%	29	.	.	478.1%	4	138.7%	11	19.3%	3
.	.	.	.	.	.	.	.	.	.
92.6%	26	245.0%	14	259.5%	16	152.5%	7	2.5%	18
49.3%	35	230.4%	16	192.2%	20	37.0%	25	1.8%	21
20.3%	51	107.0%	33	32.4%	54	13.3%	38	0.7%	40
14.8%	57	45.4%	48	40.0%	50	19.7%	31	0.7%	39
82.0%	27	82.1%	40	36.6%	53	23.5%	29	1.2%	27
39.3%	41	153.1%	24	76.1%	36	.	.	1.2%	28
51.1%	34	.	.	110.5%	28	.	.	0.8%	35
108.4%	20	511.5%	6	264.0%	15	.	.	.	.
8.6%	61	.	.	25.3%	57	.	.	.	.
255.1%	4	.	.	251.6%	17	146.0%	9	6.4%	8
199.6%	8	118.9%	29	101.2%	31	39.6%	23	0.7%	38
184.5%	10	104.5%	35	113.3%	27	37.2%	24	0.8%	34
0.0%	73	0.0%	64	0.0%	73	0.0%	52	0.0%	66
6.5%	63	.	.	6.3%	69	7.2%	42	.	.
0.0%	73	.	.	.	.	.	.	.	.
3.9%	67	14.3%	55	12.1%	66	4.7%	43	0.2%	57
97.1%	23	359.8%	10	304.2%	10	73.9%	14	1.3%	25
99.7%	21	204.1%	19	190.7%	21	45.1%	20	2.7%	16

Table B. Full Rankings (out of 82 Countries) for Section III (cont)
(in percent or by rank)

Country	GDP		Trade		Population		FDI	
	Ratio	Rank	Ratio	Rank	IFFs / Capita	Rank	Ratio	Rank
Liberia	61.6%	2	80.6%	2	$187.85	15	306.1%	21
Madagascar	2.9%	48	6.0%	46	$12.74	59	27.8%	57
Malawi	16.9%	14	24.6%	11	$54.21	34	835.9%	9
Mali	6.6%	30	11.8%	30	$43.99	41	154.6%	35
Mauritania	.	.	.	.	.	.	.	.
Moldova	2.9%	47	2.9%	59	$48.34	38	58.1%	48
Mongolia	3.3%	42	3.0%	58	$75.18	30	19.5%	62
Morocco	0.8%	62	1.4%	66	$23.86	52	37.3%	54
Mozambique	1.3%	59	1.6%	65	$5.06	69	9.6%	67
Myanmar	.	.	7.5%	41	$17.58	55	97.6%	42
Nepal	6.9%	28	17.8%	21	$37.93	44	18568.1%	1
Nicaragua	20.4%	9	28.9%	8	$317.35	11	289.6%	23
Niger	3.5%	40	7.2%	45	$12.43	60	29.2%	56
Nigeria	7.9%	24	16.3%	23	$124.60	19	257.3%	24
Pakistan	0.1%	72	0.4%	72	$1.32	74	16.9%	64
Papua New Guinea	7.0%	27	7.6%	40	$110.53	22	-226.8%	78
Paraguay	18.6%	11	23.3%	14	$574.24	4	2064.4%	5
Philippines	4.4%	35	8.4%	36	$92.48	26	518.7%	15
Rwanda	6.6%	29	21.1%	18	$35.13	47	460.5%	18
Samoa	21.8%	7	45.3%	5	$670.00	3	3044.2%	4
Sao Tome and Principe	12.8%	15	21.1%	17	$151.06	18	91.2%	43
Senegal	0.0%	73	0.0%	74	$0.06	75	0.3%	71
Sierra Leone	2.3%	52	4.2%	52	$10.98	62	26.6%	58
Solomon Islands	22.2%	5	25.6%	10	$302.61	12	178.7%	32
Somalia	.	.	.	.	.	.	.	.
Sri Lanka	0.6%	68	1.3%	68	$14.64	57	51.4%	51
Sudan	3.4%	41	12.3%	27	$56.78	33	100.8%	39
Swaziland	9.8%	21	9.8%	34	$280.39	13	398.2%	19
Syrian Arab Republic	.	.	23.7%	13	$183.21	16	105.1%	38
Tajikistan	5.8%	32	8.1%	37	$41.77	42	1819.7%	6
Tanzania	2.9%	49	5.6%	48	$14.50	58	45.2%	53
Timor-Leste, Dem. Rep. of	0.9%	61	3.2%	57	$7.47	66	18.8%	63
Togo	76.3%	1	105.0%	1	$401.43	8	4122.7%	3
Uganda	5.5%	33	11.4%	31	$25.81	51	116.2%	37
Ukraine	0.6%	69	0.7%	70	$17.38	56	12.5%	65
Uzbekistan	.	.	.	.	.	.	.	.
Vanuatu	35.6%	3	67.6%	4	$996.65	2	614.2%	13
Vietnam	4.2%	36	3.2%	56	$59.01	32	66.4%	47
Yemen, Republic of	1.5%	57	2.4%	62	$19.86	53	11.3%	66
Zambia	18.1%	12	24.1%	12	$220.92	14	293.3%	22
Zimbabwe	0.3%	71	0.5%	71	$2.04	73	22.7%	60

ODA+FDI		Education Spending		Health Spending		Total Tax Revenues		Capital Stock	
Ratio	Rank	Ratio	Rank	Ratio	Rank	Ratio	Rank	Ratio	Rank
68.3%	31	1649.3%	2	455.7%	5	257.4%	4	23.4%	2
17.5%	52	114.6%	31	67.6%	37	28.2%	27	0.7%	41
81.9%	28	315.3%	12	200.1%	19	.	.	2.2%	20
41.9%	40	177.9%	20	98.8%	32	46.1%	19	3.6%	13
.	.	.	.	.	.	.	.	.	.
25.8%	48	33.7%	51	24.8%	58	15.1%	36	0.5%	49
15.3%	55	5.3%	62	52.3%	43	15.6%	35	0.3%	52
23.9%	49	22.6%	52	13.9%	65	3.3%	47	0.2%	56
3.7%	68	.	.	22.5%	59	12.9%	39	0.6%	45
67.5%	32	.	.	.	.	.	.	.	.
116.5%	17	228.8%	17	116.0%	26	56.9%	16	1.1%	30
142.6%	15	423.1%	8	265.2%	13	147.0%	8	.	.
13.8%	58	88.3%	39	49.6%	44	.	.	0.6%	44
209.4%	5	.	.	124.4%	24	229.4%	5	6.6%	5
5.9%	64	5.5%	61	4.1%	71	1.2%	50	0.0%	64
201.1%	7	.	.	160.5%	23	.	.	.	.
957.6%	1	361.0%	9	242.7%	18	156.7%	6	5.3%	11
460.0%	3	170.6%	23	103.9%	30	35.2%	26	0.9%	32
35.9%	43	147.1%	25	62.7%	40	51.7%	18	2.3%	19
117.7%	16	471.6%	7	361.0%	7	98551.8%	1	.	.
33.2%	46	172.5%	21	180.3%	22	83.9%	13	3.2%	14
0.1%	72	0.2%	63	0.1%	72	0.0%	51	0.0%	65
7.0%	62	88.8%	38	14.9%	63	22.7%	30	0.7%	42
43.7%	39	254.0%	13	315.5%	9	.	.	.	.
.	.	.	.	.	.	.	.	.	.
25.9%	47	38.3%	49	17.6%	61	4.6%	44	0.1%	60
59.4%	33	.	.	49.0%	47	.	.	2.8%	15
209.3%	6	118.3%	30	116.7%	25	.	.	1.3%	24
96.2%	25	.	.	.	.	.	.	1.2%	29
68.4%	30	143.0%	26	98.7%	33	.	.	0.8%	36
15.8%	53	52.4%	46	42.8%	48	19.0%	32	0.6%	43
2.7%	70	12.0%	57	16.6%	62	.	.	.	.
513.1%	2	2435.9%	1	1088.7%	1	497.6%	2	24.6%	1
34.5%	45	170.9%	22	61.2%	41	44.2%	21	1.8%	22
11.2%	59	11.1%	58	7.5%	68	3.3%	48	0.1%	61
.	.	.	.	.	.	.	.	.	.
175.5%	12	842.4%	4	931.4%	2	142.0%	10	.	.
45.4%	37	36.1%	50	64.2%	38	.	.	0.5%	46
-145.4%	77	122.0%	28	29.3%	56	.	.	0.3%	54
143.5%	14	1314.3%	3	284.0%	12	124.8%	12	6.0%	9
2.9%	69	5.8%	60	.	.	.	.	0.4%	51

Glossary

AMLD:	Anti-Money Laundering Directive of the European Union.
Broad Capital Flight:	Illicit and licit capital flight outflows from the balance of payments calculated using the World Bank Residual method, supplemented by trade misinvoicing outflows.
Capital Stock:	A proxy for domestic investment.
CPI:	Corruption Perceptions Index, published by Transparency International.
CPIA:	Country Policy and Institutional Assessment Database, The World Bank.
EU:	European Union.
FATF:	Financial Action Task Force on Money Laundering.
FDI:	Foreign Direct Investment.
FfD:	Financing for Development, as in the United Nations' Third International Conference on Financing for Development to be held in Addis Ababa in July 2015.
G20:	Group of 20 largest economies in the world.
GDP:	Gross Domestic Product.
GFI:	Global Financial Integrity.
Gini:	A coefficient commonly used to describe the level of income inequality in a country.
HDI:	Human Development Index, United Nations Development Programme.
HIPCs:	Heavily Indebted Poor Countries, International Monetary Fund.
IFFs:	Illicit Financial Flows, the cross-border movement of funds that are illegally earned, transferred, and/or utilized.
Illicit Outflow:	The gross amount of money or capital exiting a country illicitly.
IMF:	International Monetary Fund.
LDCs:	Least Developed Countries, United Nations.
MDGs:	Millennium Development Goals.
MENA:	Middle East and North Africa.
ODA:	Official Development Assistance. Often referred to as "foreign aid," this is development aid that flows into developing countries.
OECD:	Organization for Economic Cooperation and Development.
PPP:	Purchasing Power Parity.
Real/Constant:	U.S. dollars adjusted for inflation, using 2010 as a base year.
SDGs:	Sustainable Development Goals.
Total Trade:	The exports of a country summed with its imports from other countries.
Trade Entrepôt:	A major trading zone and intermediary (e.g. Hong Kong, Singapore, Dubai).
UN:	United Nations.
UNDP:	United Nations Development Programme.

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About

Global Financial Integrity

Founded in 2006, Global Financial Integrity (GFI) is a non-profit, Washington, DC-based research and advisory organization, which produces high-caliber analyses of illicit financial flows, advises developing country governments on effective policy solutions, and promotes pragmatic transparency measures in the international financial system as a means to global development and security.

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