Illicit Trade and Illicit Financial Flows

Prepared for:
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Palais des Nations, Geneva
February 3 & 4, 2020

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD
Relationship Between Illegal Trade and IFFs

Primary Types of IFFs

- Public Funds Stolen by Public Officials
- Income Tax Evasion by corporations
- Trade Misinvoicing (aka: Trade Fraud)
- Illegal Trade/Trafficking
Actors Involved

Organized Criminal Gangs

Terrorist Organizations

Non-state Actors

- Illegal activities are profit driven
- Trade routes for narcotics also used for guns or antiquities
- Routes for IUU fishing also used for human trafficking
# Estimates of Illegal Trade

**Table X1. The Retail Value of Transnational Crime**

<table>
<thead>
<tr>
<th>Transnational Crime</th>
<th>Estimated Annual Value (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drug Trafficking</td>
<td>$426 billion to $652 billion</td>
</tr>
<tr>
<td>Small Arms &amp; Light Weapons Trafficking</td>
<td>$1.7 billion to $3.5 billion</td>
</tr>
<tr>
<td>Human Trafficking</td>
<td>$150.2 billion</td>
</tr>
<tr>
<td>Organ Trafficking</td>
<td>$840 million to $1.7 billion</td>
</tr>
<tr>
<td>Trafficking in Cultural Property</td>
<td>$1.2 billion to $1.6 billion</td>
</tr>
<tr>
<td>Counterfeiting</td>
<td>$923 billion to $1.13 trillion</td>
</tr>
<tr>
<td>Illegal Wildlife Trade</td>
<td>$5 billion to $23 billion</td>
</tr>
<tr>
<td>IUU Fishing</td>
<td>$15.5 billion to $36.4 billion</td>
</tr>
<tr>
<td>Illegal Logging</td>
<td>$52 billion to $157 billion</td>
</tr>
<tr>
<td>Illegal Mining</td>
<td>$12 billion to $48 billion</td>
</tr>
<tr>
<td>Crude Oil Theft</td>
<td>$5.2 billion to $11.9 billion</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1.6 trillion to $2.2 trillion</strong></td>
</tr>
</tbody>
</table>

Estimates of Other IFFs

- Grand Corruption
  - No Credible Estimates

- Income Tax Evasion/Profit Shifting by corporations
  - Developing Countries lose $200B/year (Source: IMF)

- Trade Misinvoicing
  - Value gap is ~$800B in 2017 (Source: GFI)
  - Revenue loss is ~$150B/year
Requirements for Improved Statistics

• Grand Corruption
  - Transparency of budget line items and expenditures for all countries

• Income Tax Evasion/Profit Shifting
  - Full participation in CbCR with mandatory transparency

• Trade Misinvoicing
  - Transaction-level data transparency for all countries
Trade Misinvoicing Defined

“Trade misinvoicing is the practice of knowingly submitting an invoice that misrepresents the price, quantity or quality of goods in order to evade income taxes, VAT taxes, customs duties etc.”

**AKA:** trade fraud, fraudulent invoicing
Impact on Development

Case Study: Trade Misinvoicing in Egypt 2016

- Value Gap = $8.5 billion
- Value Gap as % of total trade = 10.5%
- Estimated Revenue Loss = $1.6 billion
Impact on Egypt

Using Previous Spending by Government as a Guide, Possible Uses for $1.6B

- $512M
- $512M
- $80M
- $144M
- $208M
- $144M
Current Policy Actions to Address Problem

• Beneficial Ownership Registries (ex. Companies House in UK)

• Country by Country Reporting (Now underway)

• Multi-Agency Gov. Teams (50 now operational)

• Unexplained Wealth Orders (UK)

• Joint Money Laundering Intelligence Taskforce (UK)
Addressing Trade Mis invoicing
Identifying Under Invoicing

INVOICE DETAILS

INVOICE PRICE PER UNIT
5,000.00 USD
Per Number

AVERAGE
Most Recent
12 Month
8,454.78 USD
Per Number
Month of 12-2019

DIFFERENCE FROM MOST RECENT AVERAGE:
40.86% below

WITHIN
1 std dev
2 std dev
No, too low

13 months of date
$100 Million in Underinvoicing Detected in Developing Country ‘A’

Results of Flagged Transactions Using GFTrade During 12-Week Period in 2018

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Name</th>
<th>% Below Avg</th>
<th>Total Avg Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>23099010</td>
<td>Fish Solubles</td>
<td>99.79%</td>
<td>$43,161,507</td>
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<tr>
<td>42022100</td>
<td>Handbags</td>
<td>99.98%</td>
<td>$21,702,128</td>
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<tr>
<td>35069190</td>
<td>Adhesives</td>
<td>99.79%</td>
<td>$10,484,213</td>
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<tr>
<td>84212199</td>
<td>Water Purifiers</td>
<td>99.97%</td>
<td>$9,972,000</td>
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<tr>
<td>03035100</td>
<td>Frozen Herring</td>
<td>98.45%</td>
<td>$2,724,638</td>
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<tr>
<td>35079090</td>
<td>Enzymes</td>
<td>69.12%</td>
<td>$1,752,473</td>
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<tr>
<td>85289900</td>
<td>Monitors</td>
<td>99.76%</td>
<td>$1,598,258</td>
</tr>
<tr>
<td>40122000</td>
<td>Used Tyres</td>
<td>99.80%</td>
<td>$1,510,351</td>
</tr>
<tr>
<td>12099180</td>
<td>Vegetable Seeds</td>
<td>99.26%</td>
<td>$962,032</td>
</tr>
<tr>
<td>39233010</td>
<td>Packaging</td>
<td>95.29%</td>
<td>$957,511</td>
</tr>
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Difference between GFTrade Total Avg. Value and Total Value Declared by Importer
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