

# **Illicit Trade and Illicit Financial Flows**

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD



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# Relationship Between Illegal Trade and IFFs

## Primary Types of IFFs



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- 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**

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

Source: Transnational Crime and the Developing World, Global Financial Integrity, 2017



## 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 Misinvoicing

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# Identifying Under Invoicing

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INVOICE DETAILS

CANCEL

30-01-2020 14:19:55 -0500

CURRENCY Ship

American Dollar (USD) ▼

## INVOICE PRICE PER UNIT

5,000.00 USD  
Per Number

## AVERAGE Most Recent 12 Month

8,454.78 USD  
Per Number  
Month of 11-2019

## DIFFERENCE FROM MOST RECENT AVERAGE:

40.86% below

## WITHIN 1 Std Dev 2 Std Dev

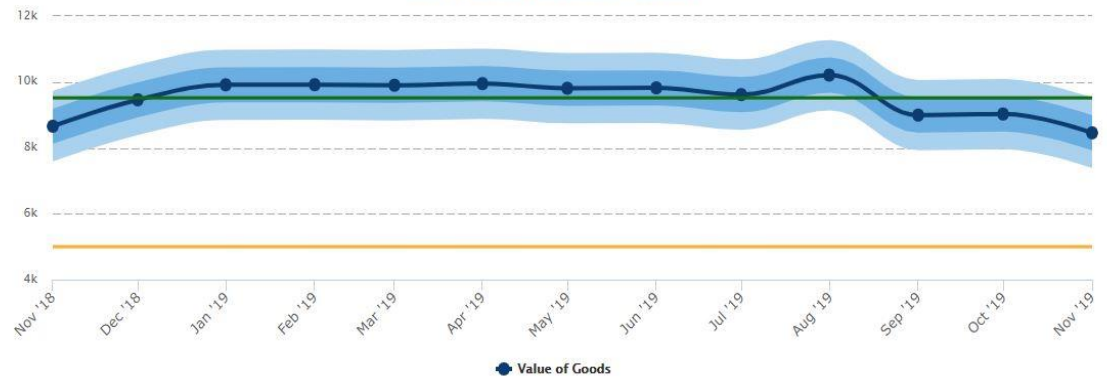
No, too low

13 months of data

## This Invoice Compared to 12-Month Average Price



## Last Twelve Recorded Months



# \$100 Million in Underinvoicing Detected in Developing Country 'A'

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

### Top 10 Goods Traded below Average Price

HS Code	Name	% Below Avg	Partner Country	Value
23099010	Fish Solubles	99.79%	Belgium	\$43,161,507
42022100	Handbags	99.98%	United Kingdom	\$21,703,128
35069190	Adhesives	99.79%	Netherlands	\$10,484,213
84212199	Water Purifiers	99.97%	China	\$9,972,000
03035100	Frozen Herrings	98.45%	Netherlands	\$2,724,638
35079090	Enzymes	69.12%	Germany	\$1,752,473
85285900	Monitors	99.76%	Italy	\$1,598,258
40122000	Used Tyres	99.80%	United Kingdom	\$1,510,351
12099180	Vegetable Seeds	99.26%	Netherlands	\$962,032
39233010	Packaging	95.29%	Spain	\$957,511

Difference between GFTrade Total Avg. Value and Total Value Declared by Importer



# Contact Information

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