Expert Group Meeting
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Economic & Social Commission for Western Asia
ILLICIT FINANCIAL FLOWS & TRADE
MISINVIOCING

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What is Illicit financial flows (IFFs): (GFI)

IFFs are illegal movements of money or capital from one country to another. It occurs when the funds are illegally earned, transferred, and/or utilized. Examples include:

- Human traffickers carrying cash across borders and depositing it in foreign banks;
- Importers using trade misinvoicing to evade customs duties, VAT, or income taxes;
- Terrorist wiring money from the Middle East cells in Europe or vice versa.
- Drug cartels using trade-based ML techniques to mix legal money from car sales with illegal money from drug sales;
- Corrupt public officials use shell companies to transfer dirty money to foreign bank accounts.

- In 2013, $1.1 trillion left developing countries in illicit financial outflows. (Excluding Bulk Cash Movements / Mispricing of services / Other types of ML.)
What is Trade Mis-invoicing

It is a method for moving money illicitly across borders which involves deliberately misreporting the value of a commercial transaction on an invoice submitted to customs. A form of trade-based ML, trade misinvoicing is the largest component of IFF.

There are four primary reasons that criminals misinvoice trade:
1. Taxes and Customs Duties Evasion → under-reporting the value of goods.
2. ML – Criminals or public officials launder proceeds from crime or corruption.
3. Claiming Tax Incentives: Criminals abuse tax incentives in tax havens by over-reporting exports.
4. Dodging Capital Controls – Many developing countries have restrictions on the amount of capital that a person or business can bring in or out of their economies. Investors often misinvoice trade transactions as an illegal alternative to getting money in or out of the country.

Countries process customs transactions quickly, to promote trade & boost economic growth, trade misinvoicing becomes low-risk endeavor for criminals, especially 5-10% misinvoicing.
Some FACTS

1. Illicit inflows and outflows comprise financial resources needed to reach the SDGs.”

2. MNCs engage in trade misinvoicing through deliberate misreporting of the value of a customs transactions, which is tax evasion (illegal & Unethical), NOT tax avoidance (legal but unethical).

3. 87% of illicit financial outflows from 2005-2014 resulted fraudulent misinvoicing of trade.

4. IF outflows from Sub-Saharan Africa ranged 5.3% to 9.9% of total trade in 2014, (highest ratio).

5. Total IFF (out + in) grew between 8.5 &10.1% a year over the 10 year period.

6. In 2014, Outflows between $620 Bill & $970 Bill / Inflows between $1.4 Trill & $2.5 Trill.
Impact on Economy & economic growth:

Money leaving one country will end up in another. Thus IF outflows from developing countries end up in banks in developed countries like the US, UK and tax havens (Switzerland, BVI, Singapore...). According to GFI 45% of IIFs end up in offshore financial centres and 55% in developed countries.

1. GIF report issued 1 week ago fixes IF outflows at 4.2-6.6% of dev. countries total trade in 2014
2. $620 Bill-970 Bill drained from developing world in 2014, primarily through trade fraud.
3. Illicit inflows similarly harmful and estimated at $1.4-$2.5 trillion in 2014.
4. Illicit outflows PLUS inflows accounted for 14-24% of total dev. country trade over 2005-2014.
5. Sub-Saharan Africa Still Suffers Largest Illicit Outflows as % of GDP.
Measures required

The most effective way to limit IFF is to increase financial transparency. Through enacting policies to:

1. Detect and deter cross-border tax evasion;
2. Eliminate anonymous shell companies;
3. Strengthen anti-money laundering laws and practices;
4. Work to curtail trade misinvoicing; and
5. Improve transparency of multinational corporations.
Compliance & Over-regulation
Vs Financial Exclusion
Financial Exclusion Vs Transitional Crime
Policy Recommendations (Acc to GIF)

1. Govs should establish public registries of verified beneficial ownership information on all legal entities, and all banks should know the true beneficial owner(s) of any account in their FI.

2. Gov authorities should adopt and fully implement all of the (FATF) AML recommendations;

3. Already existing laws and regulations should be enforced.

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

6. To curtail trade misinvoicing:
   - Customs agencies should strictly inspect trade transactions involving a tax haven;
   - Govs should boost their customs enforcement by equipping and training officers to detect intentional misinvoicing of trade transactions, through access to real-time world market pricing information at a detailed commodity level;
   - Governments should sign on to the Addis Tax Initiative to further support efforts to curb IFFs as a key component of the development agenda.