Illicit Financial Flows in the Arab Region

Financing for Development

Committee on Financing for Development

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Table of Contents

Illicit Financial Flows in the Arab Region
Conduits of Illicit Financial Flows
Motives of Illicit Financial Flows
Channels of Trade Mis invoicing
Report Results
FINANCIAL FLOWS IN THE ARAB REGION
(2015)
The cross-border movement of money or capital illegally earned, transferred or used.

1. **Disabler** to development
2. **Leakage** to domestic resource mobilization efforts
3. **Erodes** effective tax administration & financial systems
4. **Undermines** rule of law, governance & perception-based corruption standings
5. **Provokes** instability and insecurity

**Corruption**
- Profit Shifting
- Tax Avoidance
- Bribery

**Crime**
- Money Laundering
- Proceeds of Crime, Drug Trade, Human Trafficking

**Security**
- Militant Activity
- Sanctions
- Occupation
- Terrorism
- Sanctions

**Commercial**
- Misinvoicing
- Contraband
- Illicit Trade in Antiquities, Arms, & Oil
- Tax & Tariffs Evasion
- Transfer Pricing

**Conduits of Illicit Financial Flows..3C’S**
Motives for Trade Misinvoicing

- Exchange Controls
- Export Restrictions
- Trade Bans/Sanctions
- Expenditure Eligibility Requirements

Economic Factors

- Regulatory Oversight
- Judicial Delays
- Bribery & Kickbacks
- Environmental Controls
- Political Captures

Governance Conditions

- Income Distribution
- Tax Evasion
- Inequality

Structural Drivers

- Political Instability
- Armed Conflicts
- Terrorism
- Criminal Activity

Security & Stability

- Exchange Controls
- Export Restrictions
- Trade Bans/Sanctions
- Expenditure Eligibility Requirements

Security & Stability

- Regulatory Oversight
- Judicial Delays
- Bribery & Kickbacks
- Environmental Controls
- Political Captures

Governance Conditions

- Income Distribution
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Structural Drivers
Types of Trade Misinvoicing

<table>
<thead>
<tr>
<th>Economic Impact</th>
<th>Financial Impact</th>
<th>Economic Impact</th>
<th>Financial Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1- Evade Currency Control</td>
<td>1- Duty Drawback</td>
<td>1- Foreign Currency Allotment</td>
<td>1- Tax Break, Rebates</td>
</tr>
<tr>
<td>2- Shift Undeclared Income</td>
<td>2- Tax Evasion</td>
<td>2- Money Laundering</td>
<td>2- Export Subsidy</td>
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<tr>
<td>Economic Impact</td>
<td>Financial Impact</td>
<td>Economic Impact</td>
<td>Financial Impact</td>
</tr>
<tr>
<td>1- Current Account Distortions</td>
<td>1- Evade Import Duties &amp; VAT</td>
<td>1- Exploit Currency Controls</td>
<td>1- Tax Evasion</td>
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<tr>
<td>2- Repatriate Undeclared Capital</td>
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<td>2- Evade Export Restrictions</td>
<td>2- Export Subsidy</td>
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Trade Misinvoicing in the Arab Region

Top 10 Mis invoiced Categories in the Arab Region (2008-15)

These 10 categories make up 61% of non-oil trade misinvoicing

Oil trade misinvoicing makes up 22% of total trade misinvoicing
Oil Trade Misinvoicing in the Arab Region

HS 27 is the largest 2-digit commodity category particularly liquefied natural gas between 2008-15.
Thank you