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FOR IMMEDIATE RELEASE

US\$401.6 Billion Flowed Illegally out of Brazil from 1960 to 2012, Finds New GFI Report

Fraudulent Misinvoicing of Trade Transactions Accounts for 92.7% of Brazil's Illicit Outflows; Underground Economy Averaged 38.9% of Brazil's Official GDP

Customs Enforcement, Transparency Measures, Political Will Seen as Key to Curbing Crime, Corruption, and Tax Evasion

Press Event to Be Held at JW Marriott Hotel Rio de Janeiro at 11am Local Time on Monday, September 8th, Day-Long Conference on Illicit Flows to Follow on Tuesday, September 9th

September 8, 2014

RIO DE JANEIRO, Brazil / WASHINGTON, DC – More than US\$400 billion flowed illegally out of Brazil between 1960 and 2012— draining domestic resources, driving the underground economy, exacerbating inequality, and facilitating crime and corruption—according to a new report to be published Monday at a press event in Rio de Janeiro by Global Financial Integrity (GFI), a Washington DC-based research and advocacy organization.

Titled “*Brazil: Capital Flight, Illicit Flows, and Macroeconomic Crises, 1960-2012*,” the study [[HTML](#) | [PDF](#)] finds that trade misinvoicing—the fraudulent over- and under-invoicing of trade transactions—accounted for the vast majority (92.7 percent) of the country's illicit financial outflows over the 53-year period analyzed.

“Brazil has a very serious problem with illicit financial flows, and curtailing them should be a priority for whichever administration wins the forthcoming elections,” noted GFI President [Raymond Baker](#), a longtime authority on financial crime. “Illicit outflows are draining billions of dollars each year from the official Brazilian economy; money that could otherwise be used to help the nation's economy grow. Beyond the direct loss to the economy, these outflows are driving the underground economy, fueling crime and corruption, and costing the government significant revenue.”

Findings

Authored by GFI Chief Economist [Dev Kar](#), the study estimates that illicit financial flows from Brazil totaled US\$401.6 billion from 1960 through 2012, with annual average illicit outflows increasing from US\$310 million in the 1960s to US\$14.7 billion in the first decade of the twenty first century before jumping to US\$33.7 billion over the last three years of the study, 2010-2012. On average, Brazil's illicit outflows are equivalent to 1.5 percent of the country's GDP.

“Illicit outflows drain capital from the Brazilian economy, facilitate tax evasion, exacerbate inequality, and deplete domestic savings,” said Dr. Kar, who served as a senior economist at the International Monetary Fund before joining GFI. “Even more troubling, our study finds that illicit outflows have grown over time—averaging just over US\$300 million per annum in the 1960s, they're averaging over US\$30 billion per year today. Unless corrective actions are taken, the economic toll of these illicit flows only will continue to grow.”

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The report reveals that the vast majority of Brazil's illicit outflows—92.7 percent, or US\$372.3 billion of the US\$401.6 billion in total outflows—were channeled through the misinvoicing of trade transactions. The remaining US\$29.4 billion in the illicit outflows detected by GFI occurred via hot money outflows, such as unrecorded wire transfers.

“Trade misinvoicing is the dominant channel for illicitly moving money out of Brazil,” noted Dr. Kar. “While our global analyses find that trade misinvoicing constitutes roughly 80 percent of illicit flows worldwide, the problem is particularly severe in Brazil, where it accounts for 92.7 percent of the country's illicit outflows.

Broad Capital Flight

In addition to estimating illicit outflows of capital from Brazil, the study also estimates that broad capital flight—a combination consisting of both licit and illicit outflows—amounted to US\$590.2 billion between 1960 and 2012. Illicit outflows constituted 68 percent of total capital flight, and they were shown to drive broad capital flight from Brazil.

Underground Economy

The report also found that the underground economy averaged 38.9 percent of official GDP over the 53-year period, increasing from an average of 45.8 percent in the 1960s to 55.1 percent in the 1970s before slowly falling to an average of 21.8 percent from 2010 through 2012, as a result of faster economic growth.

Just as with broad capital flight, the study finds that illicit financial outflows drive the underground economy, implying that efforts to curtail illicit financial outflows would also curtail broad capital flight and significantly reduce the size of the underground economy.

Policy Recommendations

“For many years we have observed reticence in Brazil to address problems of capital flight and illicit outflows,” stated Mr. Baker, who will launch the report at a press event Monday morning in Rio de Janeiro. “It is, however, a real and growing problem, as our research shows, and it merits serious attention by policymakers.”

GFI recommends a number of steps the Brazilian government can take to ameliorate the problem of illicit financial flows from the country revolving around two principles:

- 1) Greater transparency in domestic and international financial transactions, and
- 2) Greater cooperation between governments to shut down the channels through which illicit money flows.

These steps include taking stronger legal measures against trade misinvoicing, instituting transparency of company ownership, and building the technical and human capacity needed to effectively utilize the data that will be shared under emerging tax information exchange arrangements.

“Overall, Brazil has an established financial infrastructure, a strong commitment to democratic governance, and many of the laws and procedures needed to curb illicit financial flows and rein in the underground economy already in place,” noted GFI Policy Counsel [Joshua Simmons](#), who contributed to the policy section of the report. “However, these advantages must be coupled with the capacity and political will to fully implement and enforce such measures. Curtailing illicit financial flows must become a priority throughout the Brazilian government.”

Methodology

The study is one of the most methodologically rigorous analyses of illicit financial flows produced by GFI to date. Dr. Kar—assisted by GFI Associate Economist Brian LeBlanc—developed robust economic models consisting of ten different equations that highlight the drivers and dynamics of illicit flows.

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Nevertheless, Dr. Kar cautioned that the methodology is very conservative and that there are likely to be more illicit flows from Brazil that are not captured by the models.

“The estimates provided by our methodology are likely to be extremely conservative as they do not include trade misinvoicing in services, same-invoice trade misinvoicing, hawala transactions, and dealings conducted in bulk cash,” explained Dr. Kar. “This means that a large amount of the proceeds of abusive transfer pricing between arms of the same multinational corporation as well as much of the earnings from drug trafficking, human smuggling, and other criminal activities—which are often settled in cash—are not included in these estimates.”

Press Event: Monday

Global Financial Integrity will launch the report at press conference at the JW Marriott Hotel Rio de Janeiro on Monday, September 8, 2014 at 11am local time. The event will feature a brief presentation of the report and its findings by GFI President Raymond Baker, followed by a question and answer period for journalists. Simultaneous English/Portuguese translation will be provided.

Full Day Conference: Tuesday

Following the launch of the report, GFI is partnering with the Rio de Janeiro-based [Multidisciplinary Institute for Development and Strategies](#) (MINDS) to host [a one-day conference](#), titled “*Illicit Financial Flows in Brazil: A Hidden Resource for Improving Prosperity and Economic Stability*,” on Tuesday, September 9, 2014 featuring remarks from Brazilian and international experts on the scale, causes, and consequences of illicit financial flows in Brazil and potential policy responses.

GFI trusts that the report and the conference will begin a constructive dialogue with the Brazilian government about measures that can be taken to curtail illicit flows.

“We hope that this study will spur the Government of Brazil to consider effective legislative and regulatory measures to curb the flow of illicit money from the country, thereby maximizing domestic resources for economic growth,” added Mr. Baker. “GFI’s goal is to work constructively in conjunction with government officials to curtail these harmful illicit flows.”

Funding

Funding for the new report, “*Brazil: Capital Flight, Illicit Flows, and Macroeconomic Crises, 1960-2012*,” was generously provided by the [Ford Foundation](#).

To schedule an interview with Mr. Baker in Rio de Janeiro, contact Clark Gascoigne at cgascoigne@gfintegrity.org / +1 202-815-4029. To schedule an interview with Dr. Kar, Mr. Simmons, or other GFI spokespersons in Washington, contact Joshua Simmons at +1 202 293 0740 x273 / jsimmons@gfintegrity.org. On-camera spokespersons are available in Rio de Janeiro and in Washington, DC.

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Notes to Editors:

- [Click here](#) to read an HTML version of this press release on GFI’s website. [Click here](#) to download a PDF version of this press release.
- More information about the GFI report—including .zip files of the report’s data—is available on [the GFI website here](#). A PDF of the full report can be [downloaded here](#) [PDF | 2.31 MB].

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- The report will be launched at a press conference at the **JW Marriott Hotel Rio de Janeiro on Monday, 8 September 2014 at 11am local time** (Rio de Janeiro). Complimentary, coffee, juice, and snacks will be provided. To RSVP for the press conference, contact Clark Gascoigne at cgascoigne@gfintegrity.org / +1 202 293 0740, ext. 222 (Office) / +1 202-815-4029 (Mobile).
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- All monetary values in the report and in this release are expressed in U.S. dollars (USD).

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Global Financial Integrity (GFI) is a Washington, DC-based research and advocacy organization, which promotes transparency in the international financial system as a means to global development.

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