



Illicit Financial Flows and Trade Misinvoicing in Colombia

Trade Misinvoicing

Trade misinvoicing is a way of moving money illicitly across borders and is a critical source of illicit financial flows.

The declared value, volume, origin, or type of good on an invoice of either imports or exports can be manipulated in order to conceal the actual value of the transactions.

Global Financial Integrity found a trade value gap of US\$10.8 billion between the values reported by Colombia and those reported by all of its trading partners in 2016.

Different Methods, Different Objectives

Both exports and imports can be misinvoiced by falsifying the value of the goods above or below (“over-invoicing” or “under-invoicing”) the actual value. Different motives for this type of falsification include:

- Laundering money
- Shifting earnings to another jurisdiction
- Evading taxes and/or capital controls
- Changing wealth to a “stronger” currency
- Avoiding regulatory requirements
- Taking advantage of export benefits



Policy Recommendations for Colombia to Detect and Prevent Trade Misinvoicing

- Assess risks to trade misinvoicing, security and the overall abuse of trade channels before streamlining any compliance procedures along customs areas that may be classified as high risk or vulnerable;
- Consider using tools that build the capacity of customs authorities to better detect trade misinvoicing in real time, such as GFTrade;
- Create a consistent definition for beneficial ownership across all across government agencies; currently there are at least 5 different definitions of beneficial ownership in use in Colombia;
- The National Directorate of Taxes and Customs (DIAN) should impose effective penalties for failure to provide accurate and updated beneficial ownership; and
- In future Colombian National Risk Assessments, address ways to mitigate the abuse of land, air and sea trade channels for the purposes of trade misinvoicing.

Examples of Trade Misinvoicing & Colombia

- Humberto Angulo Montero, a former top official for Taxes and Customs in Cartagena and Buenaventura colluded with importers of alcohol, cigarettes, textiles and shoes to underreport the amount of goods coming into Colombia, thereby boosting importers' profits. Angulo Montero received a cut of the proceeds, allowing his assets to grow by 580% between 2003 and 2009.

Source: InSight Crime, 'Colombia Customs Official Got Rich Off Contraband', by James Bargent, April 22, 2015, <https://www.insightcrime.org/news/brief/colombia-customs-official-corruption/>

- Between 2012 and 2015, the local government of Sucre paid various healthcare providers roughly US\$1.5 million for providing mental healthcare services to patients who supposedly needed them. In 2017, it was discovered the invoices sent to the government for payment were for services that were never actually provided. The Colombian Attorney General began an investigation, resulting in several convictions including that of the legal representative of Nuevos Amaneceres Clinic.

Source: "How Corruption Workers: Overview of Corruption Cases in Colombia, 2016-2018," Transparency for Colombia, May 2019 <https://transparenciacolombia.org.co/Documentos/2019/Informe-Monitor-Ciudadano-Corrupcion-18.pdf>

- In 2014, a Colombian cartel used proceeds from drug sales to buy stuffed animals in Los Angeles and exported them to Colombia, where the toys were re-sold in pesos at a discount, thus enabling the cartel to deposit its laundered profits into the domestic banking system.

Source: Uncontained: Trade is the weakest link in the fight against dirty money," *The Economist*, May 3, 2014. <https://www.economist.com/international/2014/05/03/uncontained>

- In 2019, the Colombian government apprehended a criminal network that issued fake invoices, a practice that cost roughly US\$650 million in lost tax revenues. According to the Attorney General's Office, the criminal network created at least 9 fake companies that issued invoices for goods and services that were never actually provided. At least 2,000 Colombian companies purchased these fake invoices in order to reduce their taxable income.

Source: <https://www.elespectador.com/noticias/judicial/desarticulan-cartel-de-facturas-falsas-que-ayudaba-empresas-evadir-pago-del-iva-articulo-874980>

