Vulnerability and exposure to illicit financial flows risk in Latin America

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Executive Summary[1]

Illicit financial flows (IFF) affect the economies, societies, public finances and governance of Latin American countries - as they do with all other countries. Latin American and Caribbean countries account for a significant share of trade-based illicit financial flows[2], and are estimated to lose annually US$43bn to global cross-border tax abuse[3]. The urgent need for tackling illicit financial flows is obvious, and was emphasised by the 2015 Addis Ababa Action Agenda for financing for sustainable development to be an important measure for increasing domestic resource mobilisation[4].

A particular challenge in countering illicit financial flows lies in identifying the most relevant of the many channels within which illicit financial flows may occur, and in each channel the economic partner jurisdictions responsible for most risks. We address this research gap by elaborating on an approach pioneered in the report published by the High-Level Panel on Illicit Financial Flows from Africa ("Mbeki Panel")[5], which can be used to generate proxies for illicit financial flow risk by combining bilateral data on trade, investment, and banking stocks and flows, with measures of financial secrecy in the partner jurisdiction.

In this paper, we present the resulting risk profiles for individual Latin American countries that allow granular comparison of vulnerability to illicit financial flows across countries and by

[1] Many sections of this report draw extensively from the Tax Justice Network report *Vulnerability and Exposure to Illicit Financial Flows risk in Africa*, published in August 2019. There is an overlap of authors between the Latin American and the African report and the use of extracts from the African report has been authorised by its authors.

[2] Andrea Podestá, Michael Hanni and Ricardo Martner, *Flujos financieros ilícitos en América Latina y el Caribe*, Macroeconomía del Desarrollo No. 183 (Santiago, Chile, 2017) <https://repositorio.cepal.org/bitstream/handle/11362/40921/1/S1601230_es.pdf> [accessed 27 August 2020].

[3] Tax Justice Network, *The State of Tax Justice 2020: Tax Justice in the Time of COVID-19*, 20 November 2020, 80 <https://www.taxjustice.net/wp-content/uploads/2020/11/The_State_of_Tax_Justice_2020_ENGLISH.pdf> [accessed 4 December 2020].

[4] United Nations, *Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda)*, 2015 <https://sustainabledevelopment.un.org/content/documents/2051AAAA_Outcome.pdf> [accessed 9 March 2020].

[5] United Nations Economic Commission for Africa and African Union, *Report of the High Level Panel on Illicit Financial Flows from Africa ('Mbeki Report')*, 2015 <www.uneca.org/sites/default/files/PublicationFiles/iff_main_report_26feb_en.pdf> [accessed 21 July 2015].

channel, in turn highlighting those jurisdictions supplying most risks. The bespoke national risk profiles provide clear signposts to guide individual countries' audit and monitoring activity, international tax and transparency policies, and negotiation priorities. They can also assist regional and international organisations in directing their interventions and support for curbing the risks identified in this paper.

An important finding is that Latin America imports most of its risks to illicit financial flows from outside the continent. Yet there are some noticeable nuances. While the vulnerability in trade is dominated by North America and Asia, the investment channels (both portfolio and direct investment) as well as banking is dominated by North America and Europe. Most of the vulnerability in the investment channels (more than 90 per cent) originates from OECD member states and their dependencies. Finally, in banking liabilities, substantial vulnerability is caused by the Cayman Islands and the Bahamas.

The insights from this analysis provide policymakers with guidance for their next steps in countering illicit financial flows:

1. Enhance data availability

Broadening the availability of statistical data on bilateral economic relationships is a first step for enabling both in depth and comprehensive analyses and meaningful regulation of economic actors engaged in cross-border transactions. In the process of collecting statistical data according to IMF standards, governments would need to build registration and monitoring capacity that likely helps improve overall economic governance.

2. Consider Latin American coordination on countering IFF risks

The bulk of illicit financial flows risks at the moment is imported into Latin America from outside the region. This finding could help foster joint negotiation positions among Latin American countries when engaging in multilateral negotiations around trade, investment or tax matters. Despite the lack of political organisation at the regional level, which makes coordination and joint action more difficult to achieve, Latin American countries might consider crafting alternative minimum standards for trade, investment, and financial services in order to safeguard against illicit financial flows emanating from secrecy jurisdictions and corporate tax havens controlled by European and OECD countries.

Furthermore, Latin American countries should carefully evaluate their political representation at the OECD and the associated Inclusive Framework, and assess the potential for an enhanced role through a UN tax body and convention.

3. Embed IFF risk analyses across administrative departments

A holistic approach to countering illicit financial flows requires capacity to identify and target the areas of the highest risks for illicit financial flows. Illicit financial flows risk profiles can assist governments to prioritise the allocation of resources across administration departments and arms of government, including tax authorities and customs, the central bank, audit institutions, financial supervisors, anti-corruption offices, financial intelligence units and the judiciary. Within these departments, the illicit financial flows risk profiles would support the targeting of audits and investigations at an operational level as well as the negotiation of bilateral and multilateral treaties on information exchange at a policymaking level. Whether on tax, data, trade or corruption related matters, capacity building strategies at a continental level should include illicit financial flows risk analysis.

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Abbreviations

ACP	African, Caribbean and Pacific
AEOI	Automatic Exchange of Information
BIS	Bank for International Settlements
CDIS	Coordinated Direct Investment Survey
CPIS	Coordinated Portfolio Investment Survey
CRS	Common Reporting Standard
CTHI	Corporate Tax Haven Index
DRC	Democratic Republic of the Congo
ECLAC	UN Economic Commission for Latin America and the Caribbean
EU	European Union
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FSI	Financial Secrecy Index
GDP	Gross Domestic Product
IFF	Illicit financial flows
IMF	International Monetary Fund
KFSI	Key Financial Secrecy Indicator
OECD	Organisation for Economic Cooperation and Development
UAE	United Arab Emirates
UN	United Nations
UNODC	United Nations Office on Drugs and Crime
US	United States of America
VAT	Value Added Tax

1. Introduction: financial secrecy and illicit financial flows in America Latina

In July 2015, several high-level government officials from around the world agreed to the Addis Ababa Action Agenda for financing for sustainable development. To increase domestic resource mobilisation, two areas of action were highlighted: improving tax collection systems and tackling illicit financial flows[6].

The social costs of illicit financial flows underline the importance of this issue. Through global cross-border tax abuse, Latin American nations were estimated to lose annually US$43bn, amounting to 20.4 per cent of the region's national public health budgets[7]. According to the UN Economic Commission for Latin America and the Caribbean (ECLAC), Latin America and the Caribbean accounts for a significant share of trade-based illicit financial flows[8]. By draining domestic revenues, distorting economies and deterring investment, illicit financial flows represent a main barrier to achieve the realisation of human rights and social and economic equity.

This paper elaborates and applies a methodology to estimate illicit financial flows risk exposure of Latin America. It builds on the ground-breaking report published by the High Level Panel on Illicit Financial Flows from Africa ("Mbeki Panel") which highlighted in 2015 how illicit financial flows, by their very nature as hidden flows, cannot be measured precisely[9]. Yet, it is possible to be more precise in analysing a country's risk exposure to hidden elements in any given financial flow, whether these flows related to trade, investment or bank deposits. The more hidden, or secretive, the flows, the greater the risk of illicit financial flows. The report proposed a methodology for assessing these illicit financial flows risks at a macro level. This paper expands and

[6] United Nations, *Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda)*, 2015 <https://sustainabledevelopment.un.org/content/documents/2051AAAA_Outcome.pdf> [accessed 9 March 2020].

[7] Tax Justice Network, *The State of Tax Justice 2020: Tax Justice in the Time of COVID-19*, 80.

[8] Podestá, Hanni and Martner, *Flujos financieros ilícitos en América Latina y el Caribe*.

[9] United Nations Economic Commission for Africa and African Union, *Report of the High Level Panel on Illicit Financial Flows from Africa ('Mbeki Report')*.

adapts this approach to Latin American countries and suggests reforms.

Given the different patterns of exposure and vulnerability to illicit financial flow risks for countries, policymakers face challenges in identifying and targeting the channels and jurisdictions responsible for most of the risk. For Latin American countries, details about the (jurisdictional) origins of financial secrecy and the continent's collective and country-specific relative vulnerability to illicit financial flows is an important resource for policymaking and sound administrative practice.

On a macro level, the assessment of illicit financial flows risk can support authorities in reallocating efforts by knowing the specific risk profile of each one of the Latin American countries. For instance, unlike Africa, where illicit financial flow risks are concentrated in the extractives sector, Latin America's trade-related illicit financial flow risks are more diversified in product categories, and are substantial where Latin American countries are inserted in global production chains, such as electronic devices and vehicles. Thus, by knowing and understanding the sectors that are most vulnerable to illicit financial flows as well a country's principal trade partners, policies and operational capacity for auditing and investigating transactions may be improved and targeted better to where the risk is greatest. This results in better domestic resource mobilisation and allows better tackling of grand corruption and money laundering.

On a micro level, the Brazilian Federal Revenue and Customs Services authority is an example of how national authorities may transfer the approach for applying it at the transaction level. The authority incorporated some aspects of the illicit financial flow risk approach to analyse import and export transactions recorded in Brazilian trade for guiding audit activity.[10] Also, recent research has used custom transaction level micro-data to demonstrate and

[10] The Ad Hoc Working and Research Group on IFFs via Trade Mis-invoicing was set up at the Federal Revenue and Customs Services of Brazil in 2018 comprising specialists in customs, tax and intelligence under the Federal Revenue and Customs Services of Brazil. This group has developed an action plan based on assessing the risk exposure. This includes ensuring an integrated approach between customs and revenue authorities, developing a risk management tool to track exposure of transactions, improving the registration and control of international traded transactions, and making use of data exchanged under the Organisation for Economic Co-operation and Development's (OECD) Convention on Mutual Administrative Assistance in Tax Matters and to the Multilateral Competent Authority Agreement on the Exchange of Country by Country Reports. The working group also proposes a pilot project on the multilateral automatic exchange of transaction-level trade data with a trade partner; this would improve mirror data to identify gaps and anomalies in declared trade data.

identify illicit financial flows in South Africa's trade with "tax havens".[11] We contribute to this literature with a more nuanced risk approach that takes into account the level of secrecy as opposed to binary tax haven lists or statutory tax rates as defining characteristics of what constitutes potentially tax abusing trade relationships.

Trade and treaty negotiations will also benefit from country-level analysis as high levels of secrecy in potential trade and investment partners indicate a need for securing high levels of information exchange and other transparency requirements in order to mitigate against the associated risks for illicit financial flows.

Yet, the risks to illicit financial flows are not limited to trade alone. We show the highest vulnerability scores of Latin American economies to be concentrated in banking assets and in outward foreign direct investment. These findings illustrate the important role that illicit financial outflows – or capital flight – is playing for Latin America. At the same time, our findings do not stop at merely illustrating the widely known facts, but provide a nuanced analytical risk profile for each country to carefully consider and devise nuanced counterstrategies that matches its specific risks.

The evidence-based recommendations made in this paper for targeting vulnerability to illicit financial flows can increase tax revenues and reduce the reliance on borrowing or foreign aid. The resulting fairer taxation would contribute to redressing income inequalities at the national and international level.

[11] Wier, Ludvig, 'Tax-Motivated Transfer Mispricing in South Africa: Direct Evidence Using Transaction Data', *Journal of Public Economics*, 184 (2020), 104153 <https://linkinghub.elsevier.com/retrieve/pii/S0047272720300177> [accessed 8 June 2020]

2. Data and methodology

The central idea in our illicit financial flows risk approach is this: since illicit financial flows are, by definition, hidden, the likelihood of an illicit component will increase with the degree of financial opacity in any given transaction.[12] All else being equal, the easier it is to hide something, the more likely that something will be hidden. This means trading with Switzerland, or accepting investment from the British Virgin Islands, both highly secretive jurisdictions, exposes a country to a greater risk of illicit financial flows than trading with Denmark or accepting investment from France. This does not of course imply that all trade with Switzerland is illicit (or none with Denmark), nor that all multinationals with subsidiaries in the British Virgin Islands (or none with French ones) are committing tax abuses. However, the greater the transparency of a partner jurisdiction in a given bilateral transaction, the lower the risk of something being hidden, all other things being equal. Not all transactions of a less transparent nature will be illicit, but the likelihood of illicit transactions within a less transparent flow will be higher. The greater the degree of opacity, in other words, the higher the risk of illicit financial flows.

2.1 Qualitative component: Financial Secrecy Index secrecy scores

The Financial Secrecy Index was first published in 2009. It was created in response to the consistent failure of attempts to create 'tax haven' blacklists by international organisations. These failures reflected two key issues. First, the absence of objectively verifiable criteria led inevitably to the politicisation of lists, and the inability of international organisations to list their own more politically powerful members – while smaller, less well-connected jurisdictions found themselves targeted. Second, the desire to separate 'tax havens' (bad actors) from all others (good actors, by implication) led to an unhelpful simplification of a complex issue.

Underpinning both issues is the long-recognised difficulty of reaching consensus on a measurable definition for 'tax haven',

[12] This approach has been pioneered in the work for the High Level Panel on Illicit Financial Flows out of Africa (United Nations Economic Commission for Africa and African Union, *Report of the High Level Panel on Illicit Financial Flows from Africa ('Mbeki Report')*.

because of the vagueness and range of uses of the term – and the fact that tax is not always central to the role played by the jurisdiction. The Tax Justice Network argued instead that the main role played is the provision not of tax breaks but of financial secrecy: the ability to hide from publics and regulators elsewhere, including but not limited to tax authorities. Cobham, Jansky and Meinzer (2015)[13] extend this argument by providing a definition of the term 'secrecy jurisdiction' and show how the Financial Secrecy Index operationalises this. Assessed on this basis, a secrecy spectrum emerges rather than a binary division of havens and non-havens.

The most recent edition of the index ranks jurisdictions according to their secrecy score based on twenty Key Financial Secrecy Indicators (KFSIs, see Table 1)[14] and combines this with a Global Scale Weight. This weighting is constructed to reflect the size of the role of each jurisdiction in the worldwide provision of financial services to non-residents. The secrecy score is the linear average of 20 individual values (between 0-100) from the twenty qualitative indicators on the intensity of secrecy provisions. These KFSIs are calculated from data of in-depth analyses of laws, regulations, international standards and cooperative mechanisms. The higher the secrecy scores, the less transparent it is. The lack of transparency makes a secrecy jurisdiction an attractive destination for routing illicit financial flows.

[13] Alex Cobham, Petr Janský and Markus Meinzer, 'The Financial Secrecy Index: Shedding New Light on the Geography of Secrecy', *Economic Geography*, 91/3 (2015), 281–303.

[14] Tax Justice Network, 'Financial Secrecy Index', *Financial Secrecy Index*, 2020 <https://fsi.taxjustice.net/en/> [accessed 5 May 2020].

Table 1: Overview of 20 Key Financial Secrecy Indicators[15]

Ownership Registration	Legal Entity Transparency	Integrity of tax and financial regulation	International Standards and Cooperation
1 Banking secrecy	6 Public company ownership	11 Tax administration capacity	17 Anti-money laundering
2 Trusts and foundations register	7 Public company accounts	12 Consistent personal income tax	18 Automatic information exchange
3 Recorded company ownership	8 Country-by-country reporting	13 Avoids promoting tax evasion	19 Bilateral treaties
4 Other wealth ownership	9 Corporate tax disclosure	14 Tax court secrecy	20 International legal cooperation
5 Limited partnership transparency	10 Legal entity identifier	15 Harmful structures	
		16 Public statistics	

Transparency of construction is central to the Financial Secrecy Index. That is, all data and analyses underlying the scores and ranking are academically referenced to a source and objectively verifiable, and any researcher or policy analyst can choose their preferred secrecy indicators and the international sources to construct their own alternative measures.

Overall, the Financial Secrecy Index provides both a ranking of the most important financial secrecy jurisdictions – that is, those that pose the greatest threat of illicit financial flows to others – and a consistent reporting of policy progress, aggregable from the jurisdiction to global level. The theoretical range of the overall secrecy score is 0-100. The results show the lowest overall secrecy score as 37.55 (Slovenia) and the highest overall secrecy score as 79.83 (Maldives).

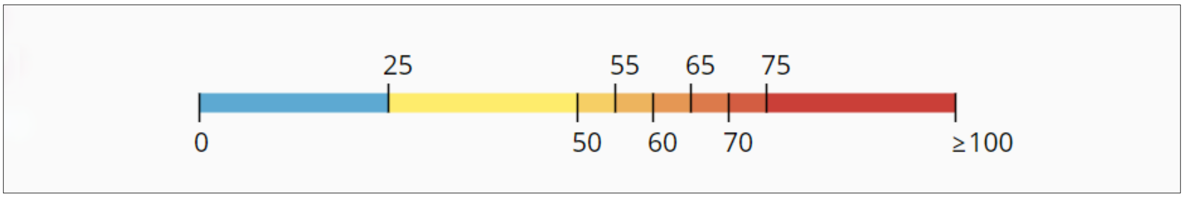
[15] Tax Justice Network, 'Secrecy Indicators', *Financial Secrecy Index*, 2020 <https://fsi.taxjustice.net/en/methodology/secrecy-indicators> [accessed 11 May 2020].

Table 2. Top ten countries in the Financial Secrecy Index 2020

Rank	Jurisdiction	FSI value[16]	FSI share[17]	Secrecy score	Global scale weight
1	Cayman Islands	1,575.19	4.63%	76.08	4.58%
2	United States of America	1,486.96	4.37%	62.89	21.37%
3	Switzerland	1,402.10	4.12%	74.05	4.12%
4	Hong Kong	1,035.29	3.04%	66.38	4.44%
5	Singapore	1,022.12	3.00%	64.98	5.17%
6	Luxembourg	849.36	2.49%	55.45	12.36%
7	Japan	695.59	2.04%	62.85	2.20%
8	Netherlands	682.20	2.00%	67.40	1.11%
9	British Virgin Islands	619.14	1.82%	71.30	0.50%
10	United Arab Emirates	605.20	1.78%	77.93	0.21%

Figure 1 below presents the colour coding used for secrecy scores throughout the report:

Figure 1: Colour coding for secrecy scores



For the purposes of this paper, the data allows for the evaluation of partner jurisdictions in bilateral economic and financial transactions according to the degree of financial secrecy – and therefore of illicit financial flow risk. Data are available for the overall secrecy score and each of the twenty Key Financial Secrecy Indicators for 133 jurisdictions in the 2020 index.

[16] The FSI (Financial Secrecy Index) Value is calculated by multiplying the cube of the Secrecy Score with the cube root of the Global Scale Weight. The final result is divided through by one hundred for presentational clarity.

[17] The FSI Share is calculated by summing up all FSI Values, and then dividing each countries FSI Value by the total sum, expressed in percentages.

Table 3: Selected Latin American countries in the Financial Secrecy Index 2020

Rank	Jurisdiction	FSI value[18]	FSI share[19]	Secrecy score	Global scale weight
15	Panama	479.51	1.41%	71.88	4.58%
61	Venezuela	197.00	0.58%	69.03	21.37%
69	Guatemala	162.15	0.48%	73.50	4.12%
73	Brazil	157.21	0.46%	51.68	4.44%
80	Mexico	139.81	0.41%	52.75	5.17%
82	Chile	135.12	0.40%	55.79	12.36%
83	Costa Rica	132.24	0.39%	62.33	2.20%
85	El Salvador	123.12	0.36%	64.10	1.11%
88	Paraguay	117.59	0.35%	77.45	0.50%
90	Uruguay	115.47	0.34%	57.00	0.21%
91	Bolivia	114.74	0.34%	79.10	4.58%
94	Argentina	109.37	0.32%	54.98	21.37%
101	Peru	96.18	0.28%	57.00	4.12%
102	Colombia	92.25	0.27%	56.48	4.44%
107	Dominican Republic	86.68	0.25%	58.73	5.17%
120	Ecuador	50.66	0.15%	47.21	12.36%

2.2 Quantitative component: external economic relationship data

The data on external economic relationships is sourced from the UN, IMF and Bank for International Settlements (BIS) as detailed below.

Data on banking positions come from table A6.2 of the Locational Banking Statistics data-set of the Bank for International Settlements[20]. Specifically, we obtain data on cross-border claims and liabilities of reporters resident in the partner country,

[18] The FSI (Financial Secrecy Index) Value is calculated by multiplying the cube of the Secrecy Score with the cube root of the Global Scale Weight. The final result is divided through by one hundred for presentational clarity.

[19] The FSI Share is calculated by summing up all FSI Values, and then dividing each countries FSI Value by the total sum, expressed in percentages.

[20] https://stats.bis.org/statx/srs/table/a6.2

measured as amounts outstanding or stocks, for all sectors and all instruments, in US dollars. We complemented these data with data from the Banking Centre of Panama.[21] There are 44,672 unique recorded positions between 2009-2018 for 32 reporting countries (31 reporting to BIS, plus Panama) and 240 partner countries. The data coverage of liabilities is better than the coverage of claims. Additionally, we calculated the derived banking claims and liabilities based on mirror data from the partner country. We define *bank positions (inward)* as the reported liabilities, and *bank positions (outward)* as the derived claims.

Data on direct investment positions come from the IMF's Coordinated Direct Investment Survey (CDIS). These data represent direct investment positions, thus are stocks. We obtain data on inward direct investment positions into the reporting country, and outward direct investment abroad by the reporting country. Additionally, the CDIS provides data on derived inward positions and derived outward positions, which are calculated based on mirror data from the partner country. There are 85,828 unique recorded cross-border positions between 2009 and 2018 for 124 reporting jurisdictions and 247 partner jurisdictions. We define *direct investment (inward)* as the maximum of reported inward investment and derived inward investment, and *direct investment (outward)* as the maximum of reported outward investment and derived outward investment.

Data on portfolio investment holdings come from the IMF's Coordinated Portfolio Investment Survey (CPIS). We obtain data on holdings of portfolio assets (securities held) by the reporting economy, and holdings of portfolio investment liabilities (securities issued) by the reporting economy. The CPIS also provides data on derived portfolio investment liabilities (securities issued by the reporting economy), where the data is derived from the perspective of the partner country (the holder of the securities). There are 64,809 unique recorded transactions between 2009 and 2018 for 90 reporting economies and 242 partner economies. Additionally, we calculated the derived outward positions based on mirror data from the partner country (only derived inward positions are calculated by CPIS). We define *portfolio investment (inward)* as the maximum of reported inward investment and derived inward investment, and *portfolio investment (outward)* as the maximum of reported outward investment and derived outward investment.

[21] Table "Cuadro No. 57-A Depósito Externo por Países me" from https://superbancos.gob.pa/es/fin-y-est/cartas-bancarias

Data on trade comes from the UN Comtrade database. We obtain data on total exports, total imports, total re-exports, and total re-imports between 2009-2019, measured using the most recent available classification. There are 282,451 unique recorded cross-border flows between 189 reporting jurisdictions and 236 partner jurisdictions. The analysis uses data on total exports and total imports. The data coverage is better for imports than for exports.

Data on countries' GDP comes from the World Development Indicators (WDI) of the World Bank[22], specifically indicator NY.GDP.MKTP.CD. Missing data in the WDI was filled using data from the United Nations (UN)[23], data from The World Factbook (CIA)[24], or added manually if not available in any of the sources.

2.3 Addressing data limitations in Latin America

Data availability in the aforementioned key economic datasets is a challenge for fighting against illicit financial flows. This can be illustrated by considering the availability of portfolio investment data (IMF's Coordinated Portfolio Investment Survey[25]) in Latin America. Challenges are present not only with respect to geographical coverage (i.e. specific countries in Latin America) but also to data availability over time.[26] Figure 2 shows that data coverage is not always improving steadily. Differences are obvious when 2015 and 2018 are compared:

[22] https://data.worldbank.org/

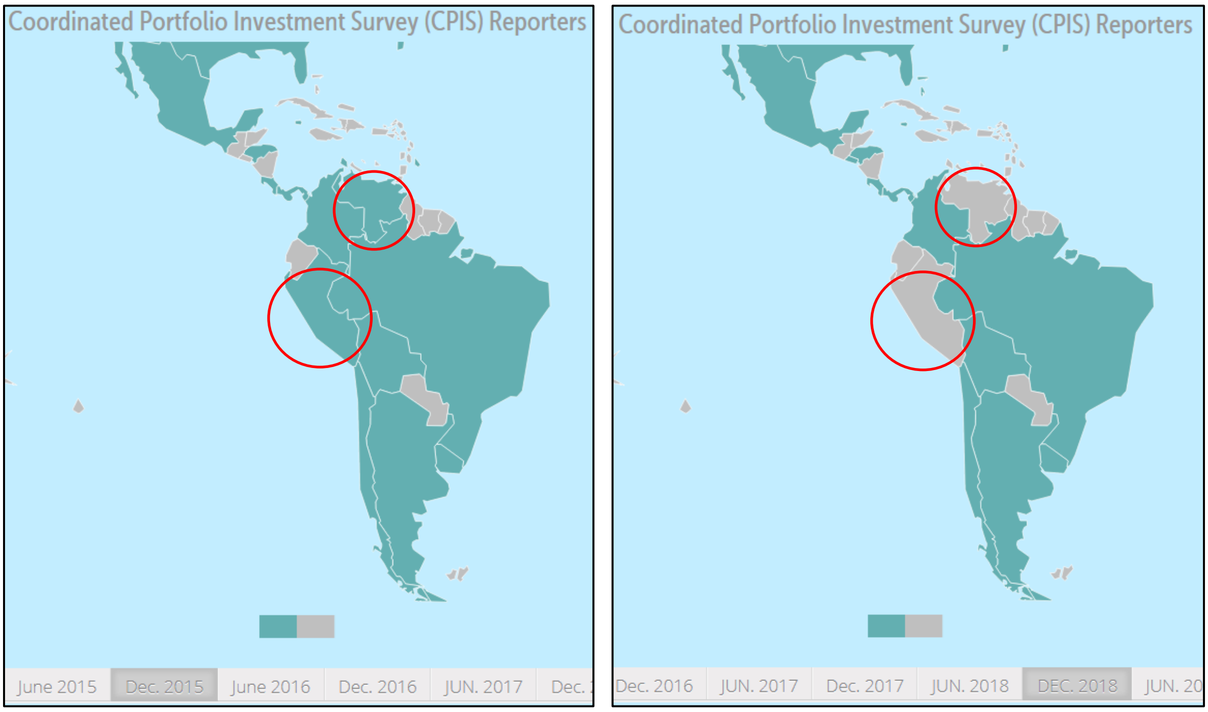
[23] https://data.un.org

[24] https://www.cia.gov/library/publications/the-world-factbook/

[25] The Coordinated Portfolio Investment Survey (CPIS) is not a mandatory data collection exercise. It consists of the provision of voluntary data from each jurisdiction to the IMF on a semi-annual basis. The more jurisdictions providing information, the less limitations to fighting against illicit financial flows.

[26] CPIS is conducted on a semi-annual basis, i.e. information is reported each 6-month period. Future updates may also include data for earlier years that could result in a "non-reporting jurisdiction" in any given year to turn into a "reporting" one. *International Monetary Fund* <https://data.imf.org/?sk=B981B4E3-4E58-467E-9B90-9DE0C3367363&sId=1481577756129> [accessed 16 June 2020].

Figure 2: Data availability in the IMF's Coordinated Portfolio Investment Survey and for Latin America over time



Source: https://data.imf.org/?sk=B981B4E3-4E58-467E-9B90-9DE0C3367363&sId=1481580274211

Figure 2 illustrates that Latin American data coverage decreased from December 2015 to December 2018. While Peru and Venezuela provided information in 2015, they did not do it in 2018. Ecuador, Paraguay, Nicaragua, Cuba, Dominican Republic and Guatemala did not report information in 2015 nor in 2018. Out of the 19 Latin American countries covered in this report (see Annex A), 63.15 per cent provided information in 2015, whereas only 57.89 per cent reported in 2018.

Finally, another rather mild data constraint for the purposes of the illicit financial flows risk analysis is that financial secrecy data is available currently for 133 jurisdictions worldwide. While this may appear as a shortcoming, it is mitigated by the fact that these cover the largest financial centres responsible for over 99 per cent of total global financial service exports.[27]

For the analysis, we have used various strategies to address gaps in data coverage. First, we created a panel data-set by extracting the economic data for multiple years beginning with 2008 up to 2018. We can minimise the gaps per data source and jurisdiction

[27] Tax Justice Network, 'Financial Secrecy Index 2020: Methodology', 2020.

by averaging the data across all years with observations. Second, through our online IFF Vulnerability Tracker[28], we update and fill gaps in the dataset as soon as additional data is made available. Third, and most importantly, we use mirror data in five of the eight channels in order to derive mirror data from reporters. Finally, transparency is crucial in addressing data gaps: we are explicit where a lack of data coverage constrains the analysis. Table 4 provides an overview of the data coverage for Latin America in the final dataset and Annex B includes a detailed country list and detailed information on the data sources used.

Table 4. Illicit financial flows risk analysis - final dataset, data coverage 2008-2018

Illicit financial flowsF Channel / Dataset	Number of Latin American reporter jurisdictions with data for 2018 if secrecy scores of partner jurisdiction are also available	Coverage 2018	Number of Latin American reporter jurisdictions with at least one observation in 2009 – 2018 if secrecy scores of partner jurisdiction are also available	Coverage 2009 – 2018 (%, out of 19)[29]
Outward Trade (Exports)	13	68.4%	18	94.7%
Inward Trade (Imports)	13	68.4%	18	94.7%
Outward FDI	19	100.0%	19	100.0%
Inward FDI	19	100.0%	19	100.0%
Outward Banking Positions	19	100.0%	19	100.0%
Inward Banking Positions	4	21.1%	4	21.1%
Outward Portfolio Inv.	18	94.7%	19	100.0%
Inward Portfolio Inv.	19	100.0%	19	100.0%

[28] https://iff.taxjustice.net/#/

[29] The total of 19 Latin American states and dependencies for which data was found is listed in

Annex A: Latin American States. Annex B lists the countries included in each economic channel across the data set and across the years.

2.4 Methodology used to construct illicit financial flows vulnerability and exposure

The methodology we apply here was originally published in the report of the High Level Panel on Illicit Financial Flows out of Africa[30] and fully developed and applied in the publication of a report focusing on Africa[31] and in the online [IFF Vulnerability Tracker](https://iff.taxjustice.net/#/)[32].

The methodology relies on three related but distinct concepts, which bear on the degree of risk of suffering illicit financial flows that a country faces: 'Vulnerability', 'Intensity' and 'Exposure'. Vulnerability refers to the degree of risk faced in a given channel of cross-border economic or financial activity, as proxied by the average level of financial secrecy of the country's partner jurisdictions in that stock or flow relationship. This is the basic risk measure, reflecting the extent to which countries face the potential for hidden components in each stock or flow.

The importance of that risk depends on the size of the stock or flow in question. The size (say, the total value of commodity exports) is considered in relation to the GDP of the country, and this ratio is considered as the 'Intensity' of the stock or flow.

High Vulnerability, but low Intensity, will make for low overall 'Exposure'. For example, if all foreign direct investment into a country is routed via the British Virgin Islands, the Vulnerability to illicit flows is high; but if there is only $1 of such investment in total, the country's overall Exposure is limited. On the other hand, high Vulnerability in a high Intensity channel implies that a country faces high Exposure to illicit flow risk in this channel.

If all possible partner jurisdictions in a given channel were completely transparent (zero secrecy), the exposure would be zero in this channel. In contrast, if all possible partner jurisdictions in a given channel were perfectly secretive (100 secrecy score), the exposure values would simply be the share of GDP involved in transactions with 'pure secrecy' jurisdictions. Exposure scores can therefore be interpreted as measures of the overall risk to an economy from financial secrecy, which is

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[30] United Nations Economic Commission for Africa and African Union, *Report of the High Level Panel on Illicit Financial Flows from Africa ('Mbeki Report')*, 106–17.

[31] Charles Abugre and others, *Vulnerability and Exposure to Illicit Financial Flows Risk in Africa*, 2019 <https://www.taxjustice.net/wp-content/uploads/2019/08/Vulnerability-and-Exposure-to-Illicit-Financial-Flows-risk-in-Africa_August-2019_Tax-Justice-Network.pdf> [accessed 20 August 2019].

[32] https://iff.taxjustice.net/#/

equivalent to the share of a country's GDP, in a given, cross-border, economic or financial stock or flow, conducted with 'pure secrecy' jurisdictions.

For illustration purposes, consider the hypothetical and simple example of a world where there is only one reporting country, Ecuador, that transacts with a single partner country, and let us focus on a single flow: commodity exports. Imagine that the country to which Ecuador exports to has a Secrecy Score of 50. Thus, Ecuador's Vulnerability to illicit financial flows in that particular flow is 50. Moreover, imagine that exports represent 10% per cent of Ecuador's GDP (its Intensity). Therefore, Ecuador has an Exposure score of 5.

In other words, 5 per cent of Ecuador's GDP is exposed to illicit financial flows. This is equivalent to Ecuador carrying out 5 per cent of its exports with a pure secrecy jurisdiction (i.e. one scoring 100 out of 100), and all other exports with completely transparent trading partners: Ecuador's Exposure, or pure secrecy-equivalent economic activity as a ratio to its GDP, is 5. Ecuador might also face a Vulnerability of 50 in its commodity imports. But if these only make a 5 per cent of its GDP (the Intensity), the Exposure or pure-secrecy equivalent activity will be just 2.5.

Formalisation

We define the following notation:

$i \in \{1,\ldots,I\}$	reporting country
$j \in \{1,\ldots,J\}$	partner country
$t \in \{2008,\ldots,2018\}$	year
X_{ijt}	flow or stock value of cross-border transaction between reporter *i* and partner *j* at time *t*
Y_{it}	GDP of reporting country i at time t
SS_j	Secrecy Score (or individual KFSI) of partner country *j*

Then, for jurisdiction-level scores:

Vulnerability

$$V_{it} = \frac{\sum_{j=1}^{J} X_{ijt} \cdot SS_j}{\sum_{j=1}^{J} X_{ijt}}$$

Intensity

$$I_{it} = \frac{\sum_{j=1}^{J} X_{ijt}}{Y_{it}}$$

Exposure

$$\begin{aligned} E_{it} &= V_{it} \cdot I_{it} \\ &= \frac{\sum_{j=1}^{J} X_{ijt} \cdot SS_j}{\cancel{\sum_{j=1}^{J} X_{ijt}}} \cdot \frac{\cancel{\sum_{j=1}^{J} X_{ijt}}}{Y_{it}} \\ &= \frac{\sum_{j=1}^{J} X_{ijt} \cdot SS_j}{Y_{it}} \end{aligned}$$

2.5 Methodological limitations

Our approach to constructing vulnerability, which rests on a weighting of the economic transactions by secrecy scores of partner jurisdictions, has some limitations as a measure of the risk of illicit financial flows. Most importantly, the size or value of the economic transactions dominate the secrecy aspect of transactions in vulnerability. To avoid this dominance, a related approach, the Bilateral Financial Secrecy Index, applies a formula to increase the weight of the secrecy scores of partners in the final determination of risk for illicit financial flows.[33] In order to determine the most suitable formula for identifying illicit financial flow risks in the economic channels, panel micro data on tax audits, custom checks and suspicious transaction reports on money laundering could be used to calibrate the model further. An effort to establish joint research projects with administrations to calibrate the model by testing it with micro data is currently underway.

[33] Petr Janský, Markus Meinzer and Miroslav Palanský, 'Is Panama Really Your Tax Haven? Secrecy Jurisdictions and the Countries They Harm', *Regulation & Governance*, forthcoming.

Furthermore, different channels and types of illicit financial flows are likely to be susceptible to different kinds of secrecy. For example, risks in banking positions may be driven more by banking secrecy and tax information exchange than by tax court secrecy. Therefore, different components of financial secrecy could be used for identifying risks for illicit financial flows in specific economic channels. Similarly, in order to identify corporate tax avoidance risks, a set of indicators focusing on issues broader than secrecy alone might be more suitable. For example, the haven scores of the Corporate Tax Haven Index[34] might add important aspects to analysing risks of illicit financial flows in the economic channels of foreign direct investment and trade.

The evolution of the index over time means that time series can only be constructed for some of the indicators at present, although future work may seek to expand coverage retrospectively. At present, we use data from the 2020 index for earlier years. It could be useful to include previous editions of the Financial Secrecy Index secrecy score, or reconstructed indicators, for the earlier years in the panel.

Finally, the underlying data on illicit financial flows is not complete. While the data for Exports and Imports is relatively complete, only 31 countries report on banking cross-border positions to the Bank for International Settlements - and often the information on small countries is missing. Moreover, some countries have low coverage. For example, only four countries report inward portfolio investment from Nigeria (Japan, Bulgaria, Romania and Malaysia). This can lead to an overstatement of the vulnerability of specific financial flows if the few trading partners exhibit very high secrecy. As a rule of thumb, data should be examined carefully when less than 30 counterparty countries are available.

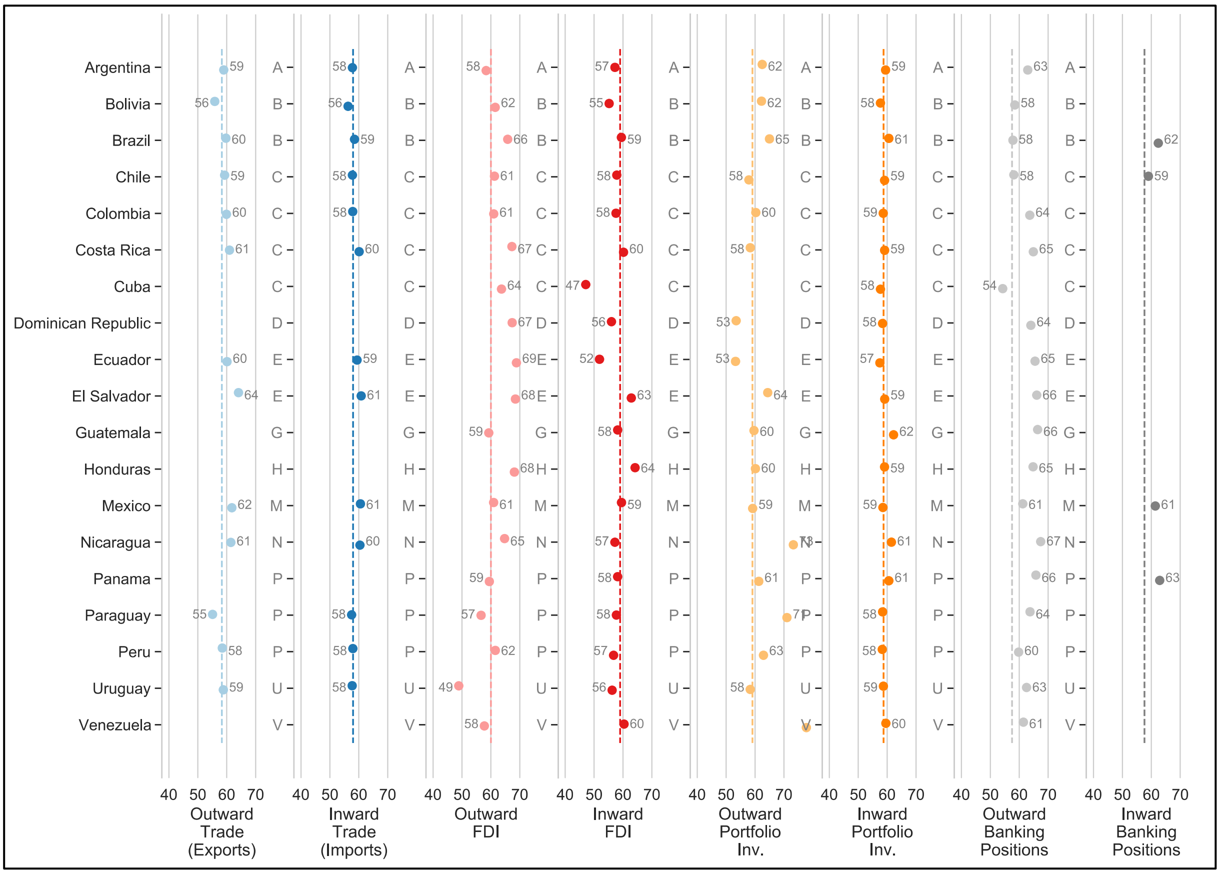
[34] Tax Justice Network, *Corporate Tax Haven Index (CTHI) 2019 Methodology*, 2019 <https://www.corporatetaxhavenindex.org/PDF/CTHI-Methodology.pdf> [accessed 4 June 2019].

3. Vulnerability and exposure to illicit financial flows

Each of the eight economic channels can result in vulnerabilities to different types of illicit financial flows.[35] Exemplary evidence about cases of tax abuse, corruption or money laundering that result in illicit financial flows are presented in the next chapters on each economic channel, separately, and summarised for each channel in Annexes E-H. Figure 3 (below) details the vulnerability of each Latin American country in 2018, compared with the global average (dotted lines). There are noticeable differences in the levels and composition of vulnerability among Latin American countries. Compared with the global average, Latin America exhibit higher vulnerabilities to outward FDI and outward banking positions.

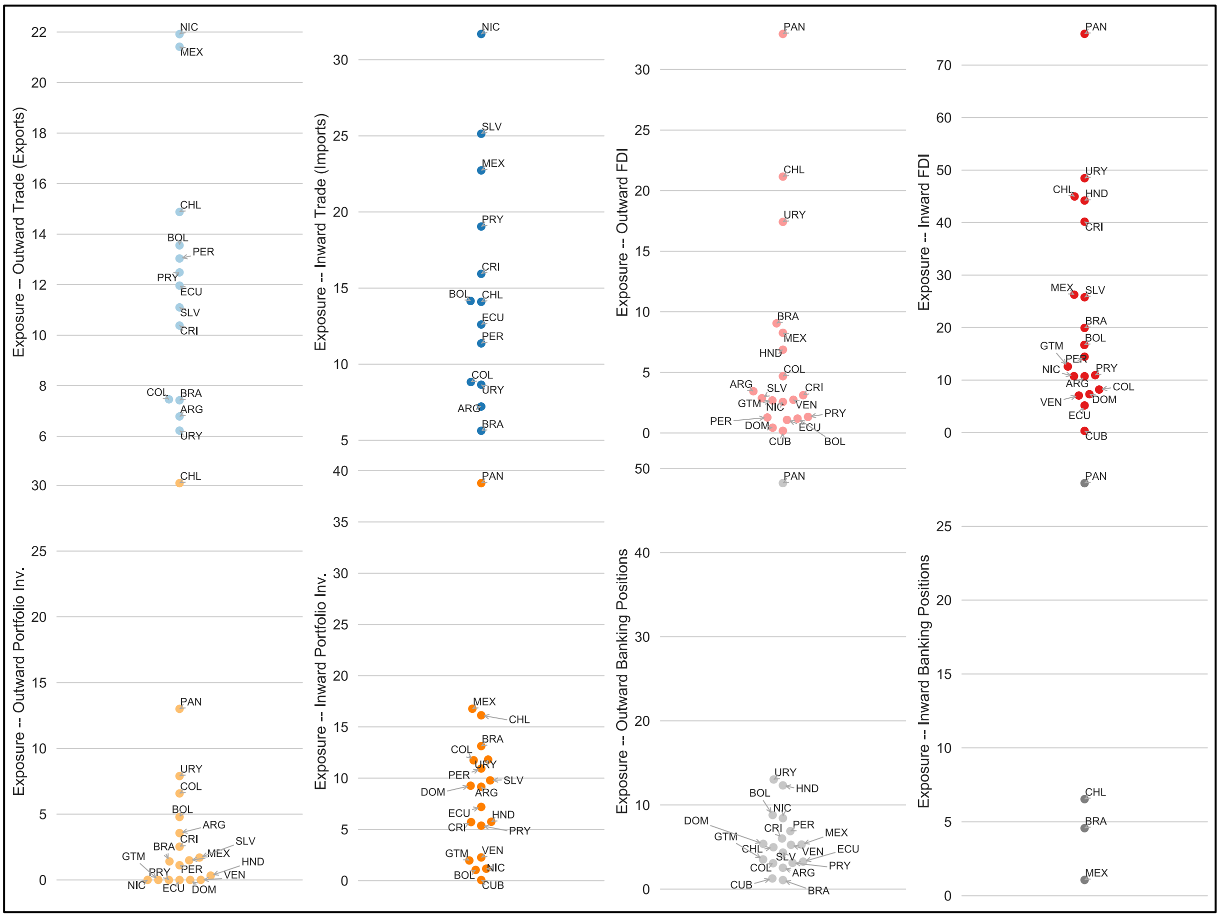
[35] The availability of data for Latin American jurisdictions is presented in Annex B.

Figure 3. Latin American jurisdiction's vulnerability to illicit financial flows in different channels, 2018.



Comparing Figure 3 (vulnerability) and Figure 4 (exposure) illustrates the differences in the distribution of the vulnerability and exposure scores in Latin America. While Vulnerability by definition ranges from 0 to 100, Exposure incorporates the intensity over GDP in each country and channel, and thus can result in a far greater range of values. Chile, and especially Panama, appear as outliers for the investment and banking channels. This is due to their internationalised economies. Nicaragua appears as an outlier for the trade channels, reflecting the importance of trade for Nicaragua's economy, and the higher vulnerability of Nicaragua in this channel (Figure 4).

Figure 4. Exposure to illicit financial flows in Latin American jurisdictions in different channels, 2018.



The exposure to illicit financial flows from 2009 to 2018 has been increasing for all economic channels (Figure 5). Vulnerabilities during the same time period, with the exception of outward FDI, have remained constant (Figure 6). The increase in exposure can thus be attributed to an increased internationalisation of Latin American economies, as cross-border economic transactions represent a greater share of Latin American countries' GDP. For outward FDI, however, the vulnerability has increased above the global average of 60.

Figure 5. Average exposure of Latin American states over time, for all economic channels

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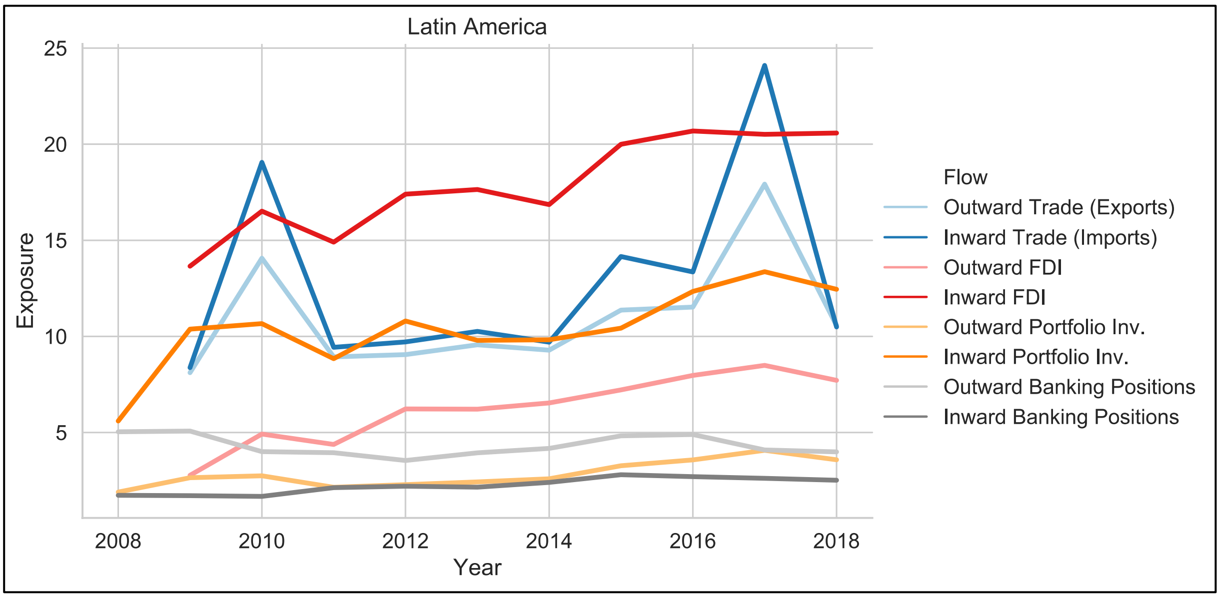
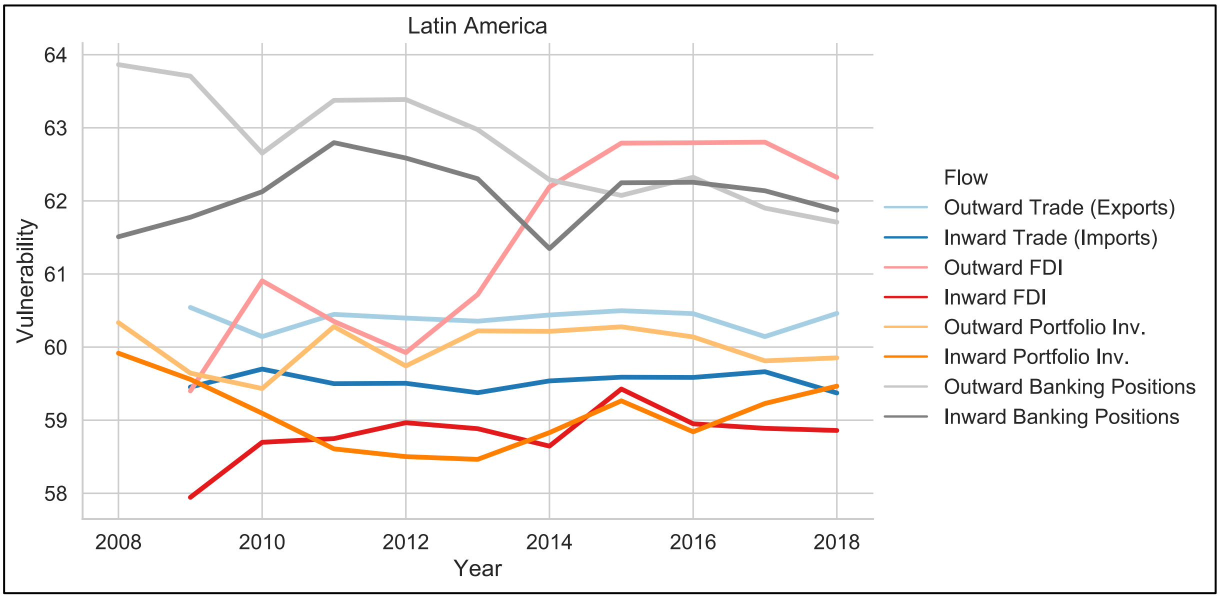


Figure 6. Average vulnerability of Latin American states over time, for all economic channels



Country level reports are likely to be particularly useful for policymakers in focusing their attention and policies. Figure 7 shows a top level comparison across the eight channels of illicit financial flows vulnerability (that is, the average secrecy of partner jurisdictions). The first key point for policymakers is that there can be no analysis without investment in data collection: data shortages in Nicaragua limit the assessment to seven out of the eight economic channels. Indicator 16 of the Financial Secrecy

Index shows the range of public statistics that are necessary to provide full transparency of bilateral economic and financial positions.[36]

The comparison (using available data) shows that Nicaragua faces the highest channel-specific level of vulnerability in its outward FDI and banking positions, while Chile's vulnerabilities are similar. However, these average vulnerabilities alone do not provide policymakers with a clear steer to respond to illicit financial flows risk.

Figure 7. Country profiles of Nicaragua and Chile, showing the average vulnerability (2009-2018) to illicit financial flows.

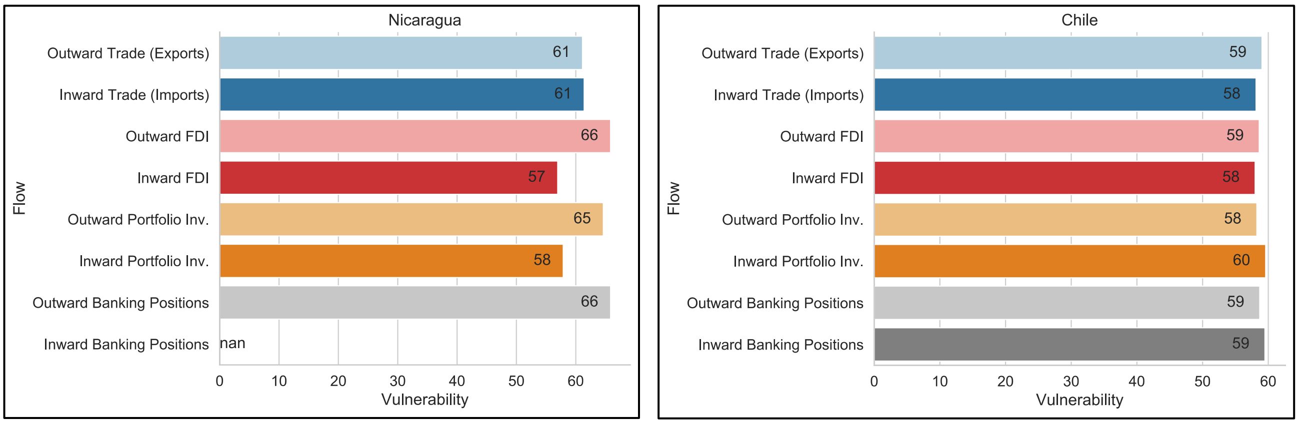
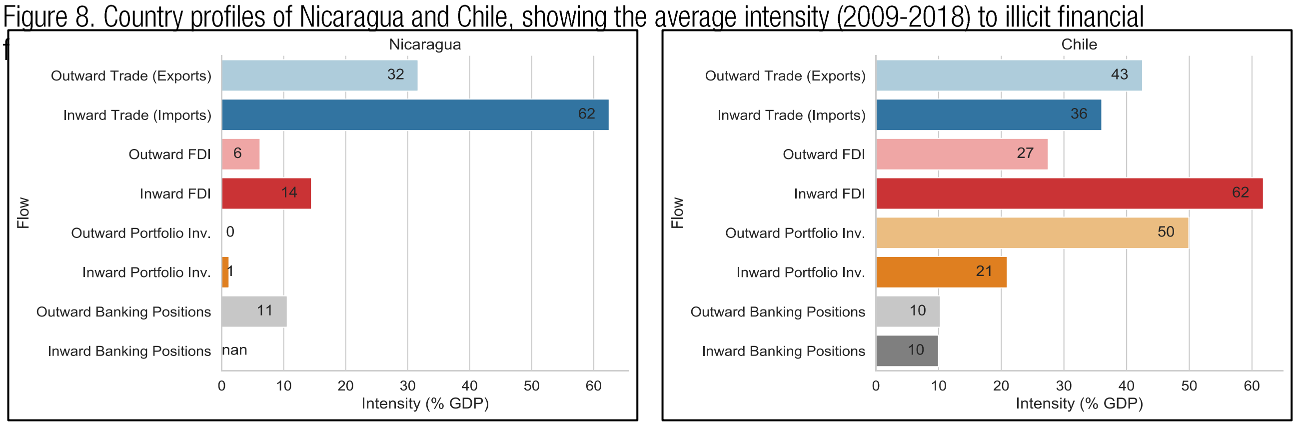


Figure 8. Country profiles of Nicaragua and Chile, showing the average intensity (2009-2018) to illicit financial f



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[36] Tax Justice Network, *Key Financial Secrecy Indicator 16: Public Statistics*, Key Financial Secrecy Indicators (2020), 16 <https://fsi.taxjustice.net/PDF/16-Public-Statistics.pdf> [accessed 4 September 2020].

Figure 8 shows the intensity of each stock and flow, which denotes how large this cross-border transaction is in relation to national GDP. Caution is required in comparing across stocks and flows, since it is difficult to ascertain whether, for example, an inward FDI stock of 10 per cent of GDP is more, or less, important than an annual export flow of 5 per cent of GDP. But the calculation of exposure to illicit financial flows risk, combining intensity and vulnerability, does provide a first level indicator of relative importance of the risks in each area.

Figure 9. Country profiles of Nicaragua and Chile, showing the average exposure (2009-2018) to illicit financial flows.

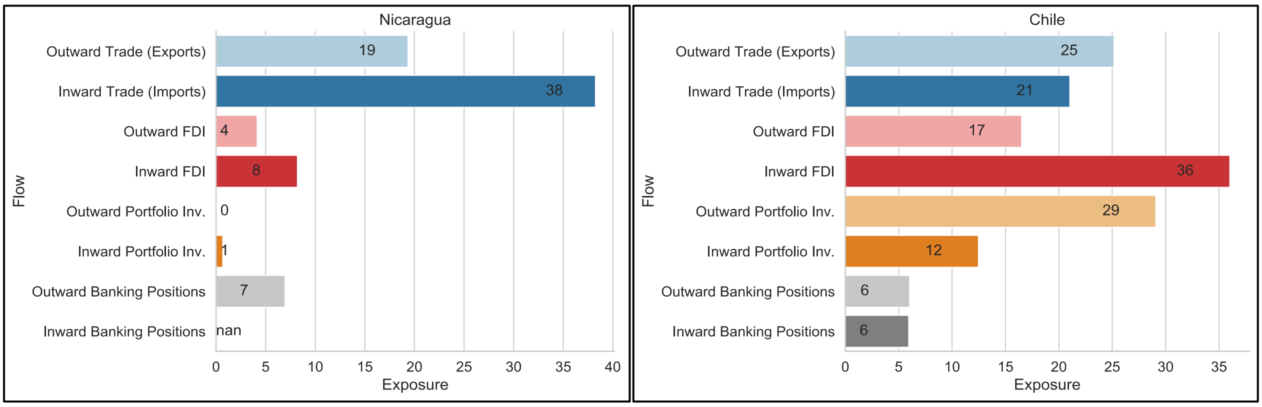


Figure 9 shows these exposure values for the two countries. It is apparent that, comparing back to Figure 7, vulnerability measures alone present a potentially misleading picture of where the greatest risks for a country lie. In the case of Nicaragua, the high intensity of imports provides an equivalent of pure-secrecy transactions worth 38 per cent of GDP. This compares to pure-secrecy equivalents of 19 per cent of GDP for exports, and below 10 per cent for all other channels. The higher vulnerability of outward FDI and banking claims is outweighed by the much greater intensity of trade. In the case of Chile, the largest exposure takes place in inward foreign direct investment, even when it had the lowest vulnerability.

In this way, the various aggregates provide initial guidance on where to prioritise capacity building and audit activity. This can support decisions about issues such as capacity strengthening in the customs department or in tax audit capacity; or whether tax audits should target entities in the financial or corporate sector, for example.

The vulnerability, intensity, and exposure of a country are not constant over time. We use the example of Ecuador to demonstrate how this information can be used to understand the risk of illicit financial flows. All three figures below display data for Ecuador in seven economic channels between 2009 and 2018.

Figure 10 shows Ecuador's vulnerability in each channel, whereas Figure 11 and Figure 12 shows Ecuador's intensity and exposure, respectively.

Figure 10. Vulnerability of Ecuador in seven economic channels between 2009 and 2018.

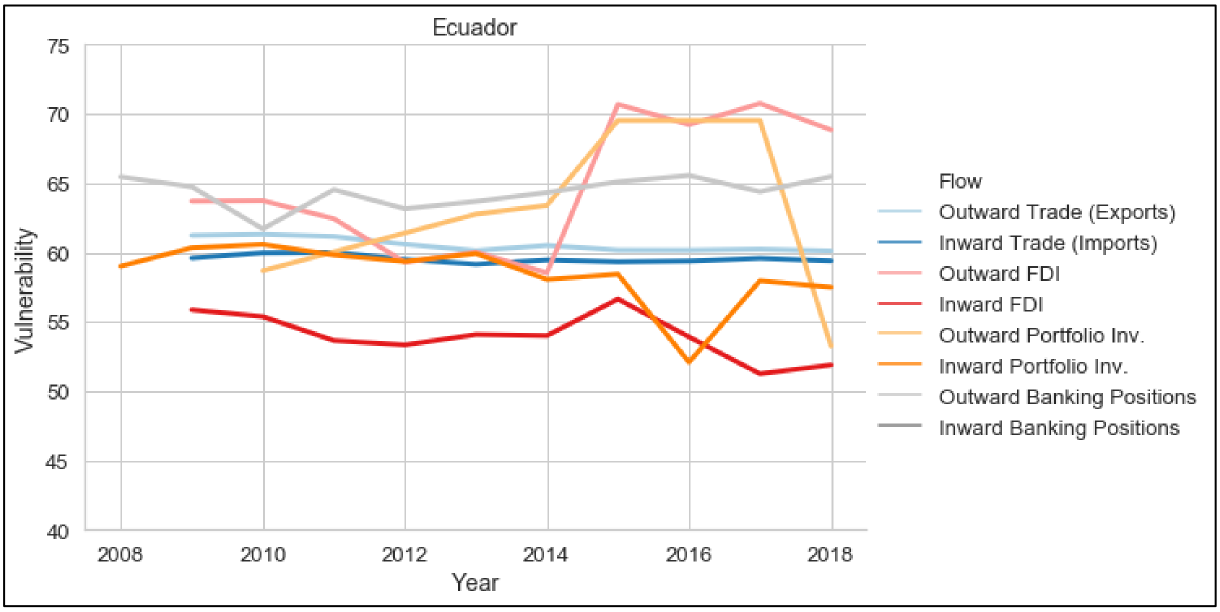


Figure 10 reveals that the vulnerabilities in outward FDI and outward portfolio investment increased over time until reaching a peak in 2015-2017. In 2018 the vulnerability to outward portfolio investment decreased abruptly.

Figure 11. Intensity of Ecuador in seven economic channels between 2009 and 2018 (per cent of GDP)

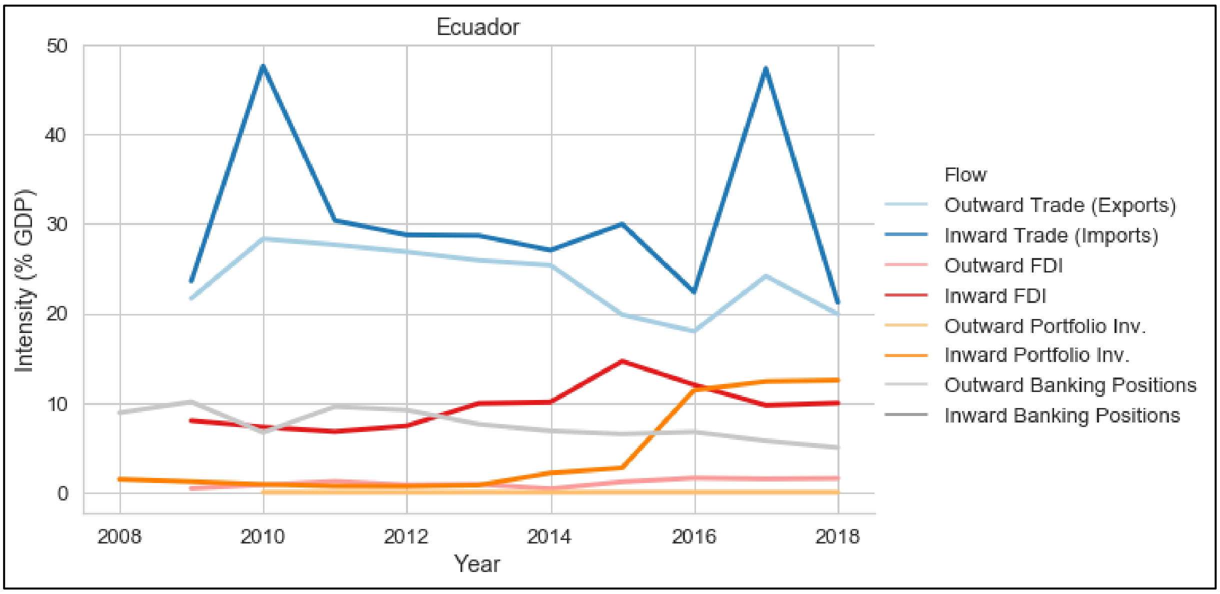
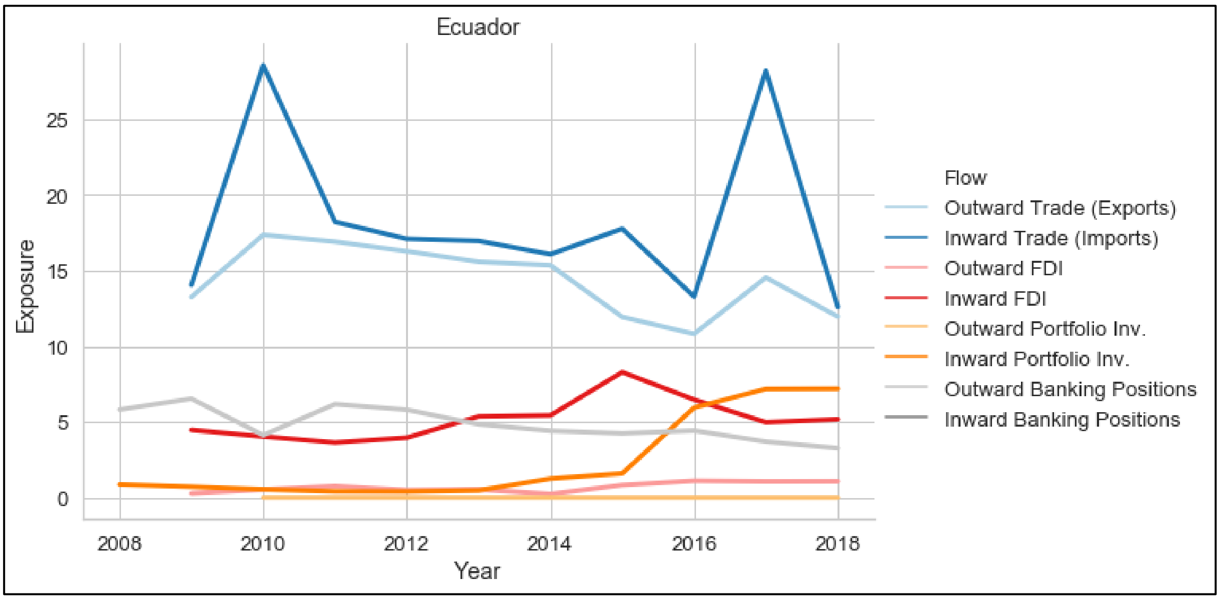


Figure 11 illustrates the important rise of portfolio investment inflows in Ecuador's economy beginning in 2014 and reaching a total of over 12 per cent of GDP in 2018. As a result, exposure in portfolio investment has risen (Figure 12) even though the vulnerability to inward portfolio investment has remained constant in the same period (except for the rebound after the slump in 2016). Direct comparisons between intensity (and by construction also exposure) of trade and of the other channels have to be undertaken cautiously given that trade is a flow measure in contrast to the other stock measures.

Figure 12. Exposure of Ecuador in seven economic channels between 2009 and 2018.



The analyses of exposure (Figure 12) reveals another important aspect in the analysis of Ecuador's risk profile. While exports and imports in 2018 were only the third and fourth most vulnerable channels, given the importance of trade, these channels expose Ecuador the most to risks of illicit financial flows. The exposure of about 15-25 in both imports and exports imply the equivalent of Ecuador trading 30-50 per cent worth of its GDP with a pure, "perfectly" secretive jurisdiction (with a secrecy score of 100 per cent).

In the next stage, a detailed breakdown within each economic channel can help guide policy-making more effectively by revealing the partner jurisdictions which are responsible for the vulnerability. This can allow targeting of policies and operations to address particular vulnerabilities, such as (re)negotiating particular bilateral agreements, or auditing or investigating particular bilateral economic relationships or transactions.

In the subsequent chapters, each individual channel is analysed in more detail and combined with anecdotal evidence on the risk for illicit financial flows. Whenever we are analysing a country's specific partners responsible for providing vulnerability, we rely on data for 2018, the last year for which we have complete data.

4. Trade in goods

This section explores the vulnerability of Latin America trade to illicit financial flows. It includes country-level risk analysis and policy recommendations to tackle vulnerabilities to illicit financial flows through trade. Serious risks of illicit financial flows in trade arise through manipulations of the price, quantity, and quality of traded goods declared at customs, as illustrated in Annex E: Examples of documented cases of illicit financial flows – trade. For example, Switzerland is a major importer of cocoa beans which are normally exported from Ivory Coast, Ghana and, recently, from Latin American countries such as Ecuador and Peru[37].

Another recent detailed analysis of Swiss commodity imports found significant price anomalies for some commodities that could indicate trade mispricing, including for cocoa imports[38]. But these risks are not limited to agricultural products. A study into Brazilian iron exports between 2009 and 2015 found evidence for substantial trade mispricing resulting in significant tax revenue losses.[39] Another recent study into Peruvian copper exports between 2003-2017 has found price anomalies and called for further research and country-level analyses to explore their role in illicit financial flows.[40]

Elaborate money laundering schemes can also be trade-based. For example, a Brazilian company laundered the proceeds of crime through selling overpriced syrup to several shell companies. The Brazilian company was able to reintegrate the earnings from these sales into the legitimate economy through its Brazilian bank

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[37] Gilles Carbonnier and Rahul Mehrotra, 'Abnormal Pricing in International Commodity Trade: Empirical Evidence from Switzerland', 54.

[38] Carbonnier and Mehrotra, 'Abnormal Pricing in International Commodity Trade: Empirical Evidence from Switzerland', 54.

[39] Guilherme Morlim, *Extracción de Recursos En Brasil. Facturación Indebida En El Sector Minero* (2020) <https://ijf.org.br/wp-content/uploads/2020/09/Extraccion-de-Recursos-en-Brasil-2-1.pdf> [accessed 11 December 2020].

[40] Alessandra Rojas, *Exporting Peruvian Copper Concentrate. An Analysis of the Price Mechanisms and Market Practices in the Export of Peruvian Copper*, Working Paper No. R4D-IFF-WP02-2020, 2020 <https://curbingiffsdotorg.files.wordpress.com/2020/06/r4d_iff_peru_rojas.pdf> [accessed 11 December 2020].

account that received payments from the shell companies.[41] In addition, customs officials are at risk of bribery and extortion. In Germany, four custom officials received bribes for ten years in exchange for stamping export papers without verifying goods. Some goods never left the country, yet exporters were able to receive VAT reimbursements from the German government.[42] The higher the secrecy of Latin American trading partners, the greater the risk for such documented abuses to occur.

The Economic Commission for Latin America and The Caribbean (ECLAC) estimated in 2017 that Latin American illicit financial flows in trade predominantly (40 per cent) originate from transactions belonging to the manufacturing sector. Both product groups of electronics and machinery combined amounted to approximately 40 per cent of total trade mispricing between 2004 and 2013, totalling US$310m.[43] The next important sectors for trade mispricing were found to be automobiles and fuels. Another study has found evidence for substantial illicit financial outflows from three central American countries (Guatemala, Ecuador and Costa Rica) by means of abnormal pricing in fresh banana exports to the United States between 2000 and 2009.[44] Annex E: Examples of documented cases of illicit financial flows – trade summarizes relevant examples of documented cases of illicit financial flows in trade.

4.1 Continental risk

In 2018, the vulnerability of imports (60) in Latin America is on average similar to the vulnerability of exports (61). Figure 13 shows how vulnerable Latin American countries are towards exports and imports from the most (El Salvador) to the least vulnerable jurisdiction (Bolivia). For all countries with data, the vulnerability

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[41] Financial Action Task Force (FATF), *Trade Based Money Laundering* (Paris, 2006), 20 <http://www.fatf-gafi.org/media/fatf/documents/reports/Trade%20Based%20Money%20Laundering.pdf> [accessed 28 November 2018].

[42] Andreas Ulrich, 'Korruption: Kontrolleure Außer Kontrolle', *Spiegel Online*, 12 July 2008, section Panorama <http://www.spiegel.de/panorama/justiz/korruption-kontrolleure-ausser-kontrolle-a-565407.html> [accessed 10 January 2019].

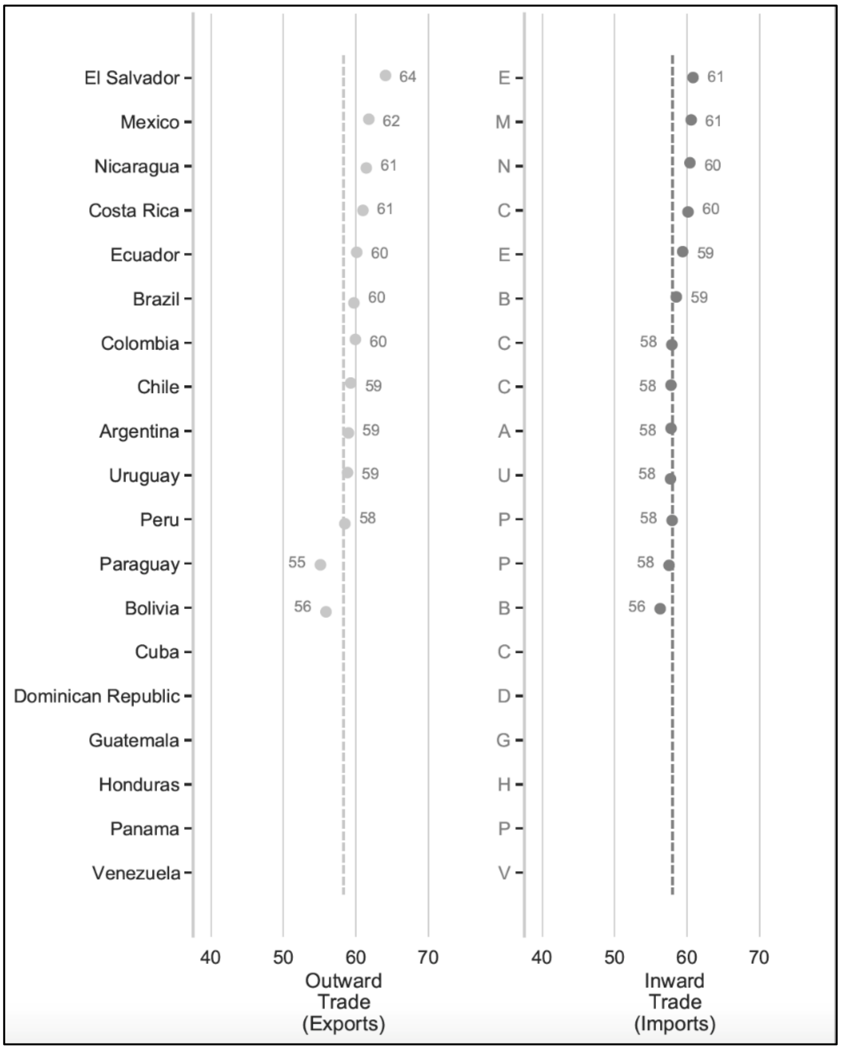
[43] Podestá, Hanni and Martner, *Flujos financieros ilícitos en América Latina y el Caribe*, 29–30.

[44] Keejae Hong, Cabrini H. Pak and Simon J. Pak, 'Measuring Abnormal Pricing – an Alternative Approach: The Case of US Banana Trade with Latin American and Caribbean Countries', *Journal of Money Laundering Control*, 17/2 (2014), 203–18 <https://www.emerald.com/insight/content/doi/10.1108/JMLC-11-2013-0043/full/html> [accessed 1 September 2020].

in both imports and exports is over 55 and under 65 (see Figure 13). There are various missing data points because of time lags in reporting of data to UN Comtrade. For Cuba, there is no UN Comtrade data available (at least since 2009); and the last year for Venezuelan data is 2013. In 2016, the last year for which data on Panama was available, it was the second most vulnerable country after El Salvador. As the following sections discuss in greater detail, the two main trade partners responsible for most illicit trade risk in Latin America in both exports and imports are the United States and China, matching the findings of ECLAC of most trade mispricing to occur in trade with those two countries.[45] As the remainder of this section will explore, a notable difference in our findings is the risk stemming from trade with Switzerland and the Netherlands, and some notorious secrecy jurisdictions.

[45] Andrea Podestá, Michael Hanni and Ricardo Martner, *Flujos financieros ilícitos en América Latina y el Caribe*, Macroeconomía del Desarrollo No. 183 (Santiago, Chile, 2017), 29 <https://repositorio.cepal.org/bitstream/handle/11362/40921/1/S1601230_es.pdf> [accessed 27 August 2020].

Figure 13. Overview of illicit financial flows vulnerability of trade in Latin America, 2018.



4.1.1 Import analysis

Unsurprisingly, Latin America's imports are most vulnerable to secrecy risks from the U.S., largely driven by the dominance of the U.S. as a trading partner for most Latin American countries. The value of Latin American imports from the U.S. is almost twice the value of the next importing partner, China, and reflects a total of 33 per cent of all imports into Latin America. As the United States' (63) and China's (60) secrecy scores are almost identical, the vulnerability share of imports from U.S. (33 per cent) is similarly more than double China's (18 per cent).

Table 5 shows that Brazil (4 per cent), Mexico (2 per cent), Argentina (2 per cent) and Chile (1 per cent) are the only four

Latin American countries in the top 20 suppliers of secrecy risks for the region.

Table 5. Vulnerability in imports 2018 - Latin America's top suppliers of secrecy risks

Rank	Country	LATAM Vulnerability Share	Secrecy Score	Value of Imports (billions) (USD)	Share of Imports
1	United States	34.13%	63	309.4	32.23%
2	China	19.45%	60	185.2	19.29%
3	Brazil	4.46%	52	49.2	5.13%
4	Germany	3.62%	52	39.9	4.16%
5	Japan	3.36%	63	30.5	3.18%
6	South Korea	3.04%	62	28.2	2.93%
7	India	2.38%	48	28.3	2.95%
8	Argentina	2.08%	55	21.6	2.24%
9	Mexico	1.80%	53	19.4	2.03%
10	Canada	1.62%	56	16.6	1.72%
11	Thailand	1.51%	73	11.8	1.23%
12	Malaysia	1.48%	70	12.2	1.27%
13	Italy	1.47%	50	16.6	1.73%
14	Vietnam	1.24%	74	9.5	0.99%
15	Spain	1.17%	44	15.2	1.58%
16	France	1.16%	50	13.3	1.38%
17	Colombia	0.95%	56	9.6	1.00%
18	Chile	0.93%	56	9.5	0.99%
19	Netherlands	0.81%	67	6.9	0.71%
20	Switzerland	0.78%	74	6.0	0.63%

Of the 20 top secrecy suppliers in Latin America's imports, four are of specific concern because of their comparatively high secrecy score (>70; Switzerland, Vietnam, Thailand and Malaysia). Besides, the Netherlands and Switzerland are relevant as their policies facilitate aggressive corporate tax avoidance and both are ranked 4th and 5th in the Corporate Tax Haven Index 2019.[46] As the volume of aggregate imports from these two countries are sizeable (US$12.9bn), the associated risks for tax avoidance and profit shifting through trade and transfer mispricing are significant.

When focusing on the Latin America's import partners with the highest secrecy scores only (as opposed to the vulnerability share, which includes secrecy weighted by volume of trade; see Table 6), a different picture emerges. Overall, 1.52 per cent of imports come from jurisdictions with extremely high secrecy scores (>75). While the share of these imports is modest, imports from notorious (zero tax) tax havens, such as United Arab Emirates, Cayman Islands, Bahamas and Turks and Caicos, amount to US $1,615m and deserve attention by regulators.

[46] Tax Justice Network, *New Ranking Reveals Corporate Tax Havens behind Breakdown of Global Corporate Tax System; Toll of UK's Tax War Exposed* (28 May 2019) <https://www.taxjustice.net/2019/05/28/new-ranking-reveals-corporate-tax-havens-behind-breakdown-of-global-corporate-tax-system-toll-of-uks-tax-war-exposed/, https://www.taxjustice.net/2019/05/28/new-ranking-reveals-corporate-tax-havens-behind-breakdown-of-global-corporate-tax-system-toll-of-uks-tax-war-exposed/> [accessed 5 June 2019].

Table 6. Vulnerability in imports 2018 - Latin America's suppliers of secrecy risks ranked by highest secrecy score

Rank	Country	LATAM Vulnerability Share	Secrecy Score	Value of Imports (millions) (USD)	Share of Imports
1	Algeria	0.36%	80	2,587	0.27%
2	Angola	0.08%	80	581	0.06%
3	Maldives	0.00%	80	0	0.00%
4	Bolivia	0.60%	79	4,357	0.45%
5	United Arab Emirates	0.21%	78	1571	0.16%
6	Jordan	0.01%	78	56	0.01%
7	Anguilla	0.00%	78	3	0.00%
8	Liberia	0.00%	78	1	0.00%
9	Turks and Caicos Islands	0.00%	78	1	0.00%
10	Brunei	0.00%	78	1	0.00%
11	Paraguay	0.61%	77	4,502	0.47%
12	Qatar	0.12%	77	853	0.09%
13	Kenya	0.00%	76	19	0.00%
14	Cayman Islands	0.00%	76	12	0.00%
15	Antigua and Barbuda	0.00%	76	2	0.00%
16	Vanuatu	0.00%	76	1	0.00%
17	Curaçao	0.01%	75	80	0.01%
18	Bahamas	0.00%	75	31	0.00%
19	Samoa	0.00%	75	4	0.00%
20	Gambia	0.00%	75	2	0.00%

4.1.2 Export analysis

Latin America's exports are most vulnerable to secrecy risks from the United States of America (46.68 per cent) as the U.S. is the destination of 45 per cent of Latin American exports (see Table 7). China and the Netherlands are in second and third position, respectively. However, their share of exports is far lower, amounting to 12.85 per cent and 2.42 per cent, respectively.

Four out the first 20 jurisdictions responsible for most vulnerability in exports of Latin America have a high secrecy score (>70; Panama, Vietnam, Switzerland, Paraguay). The Netherlands with an export volume of US$23bn is of particular concern as it pursues aggressive corporate tax avoidance policies and its large volumes of exports points to substantial risks for base erosion and profit shifting.

Table 7. Vulnerability in exports 2018 - Latin America's top suppliers of secrecy risks

Rank	Country	LATAM Vulnerability Share	Secrecy Score	Value of Exports (billions) (USD)	Share of Exports
1	United States	46.68%	63	425.9	44.87%
2	China	12.72%	60	122.0	12.85%
3	Netherlands	2.69%	67	22.9	2.42%
4	Brazil	2.53%	52	28.2	2.97%
5	Canada	2.14%	56	22.0	2.32%
6	India	2.09%	48	25.1	2.65%
7	Japan	2.09%	63	19.1	2.01%
8	Argentina	2.09%	55	21.8	2.29%
9	Chile	1.58%	56	16.3	1.71%
10	South Korea	1.53%	62	14.2	1.50%
11	Germany	1.52%	52	16.9	1.78%
12	Panama	1.10%	72	8.8	0.93%
13	Spain	1.09%	44	14.3	1.50%
14	Peru	1.01%	57	10.1	1.07%
15	Colombia	0.97%	56	9.9	1.04%
16	Mexico	0.89%	53	9.7	1.02%
17	Italy	0.83%	50	9.4	0.99%
18	Vietnam	0.79%	74	6.1	0.64%
19	Switzerland	0.77%	74	6.0	0.63%
20	Paraguay	0.70%	77	5.2	0.55%

Switzerland is of special interest not only because of its high levels of financial secrecy and aggressive corporate tax policies, but also because the country is a key hub for commodity trading, and commodity exports from Latin America were identified as an important avenue for trade mispricing. Swiss civil society group Public Eye (formerly Berne Declaration) has described commodity trading as “Switzerland’s most dangerous business”.[47] Switzerland’s contribution to Latin America’s overall vulnerability to illicit financial flows in exports is 0.77 per cent (with an export share of 0.63 per cent). In ECLAC’s study on illicit trade flows in Latin America, commodity trade (fuels and minerals) amounted to

[47] Thomas Braunschweig and Erklärung von Bern, eds., *Rohstoff: Das Gefährlichste Geschäft Der Schweiz*, 2. Aufl (Zürich, 2012).

approximately 11 per cent of total trade mispricing. Mispricing in minerals was found to be particularly concentrated in exports, amounting to ca. US$18bn (exports only) out of a total of US$20bn (imports and exports) between 2004-2013.[48]

Panama is an important export destination within Latin America (US$8.8bn) with a high secrecy score (72). Panama's role as a Latin American secrecy jurisdiction is partially related to its closeness to major drug producing countries such as Colombia. As explained in chapter 4.2 Country-risk profile, Colombia's profile shows that its trade is highly vulnerable in transactions with USA and Panama. For instance, in 2015, Panama valued US$28m of gold-smuggling coming out from Colombia and Venezuela, whereas Colombia's official outward trade statistics recorded gold exports barely worth US$100,000[49]. This data implies that Panama's role as a secrecy jurisdiction attracts illicit Colombian exports, such as gold-smuggling, into Panama.

When focusing on the Latin America's export partners with the highest secrecy scores only, a different picture emerges. Overall, 2.15 per cent of Latin American illicit financial flow risks in exports stem from jurisdictions with extremely high secrecy scores (>75). However, while the share of these imports is comparatively small, substantial exports to notorious (zero tax) tax havens deserve attention, such as United Arab Emirates, Turks and Caicos Islands, Anguilla, Cayman Islands and Bahamas, totalling US$4,606m. Furthermore, the risks from emerging secrecy jurisdiction in Africa such as Kenya[50], Liberia[51], and Gambia[52] should be monitored.

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[48] Podestá, Hanni and Martner, *Flujos financieros ilícitos en América Latina y el Caribe*, 30–31.

[49] OECD, *Illicit Financial Flows from Developing Countries: Measuring OECD Responses*, 2014 <https://www.oecd.org/corruption/Illicit_Financial_Flows_from_Developing_Countries.pdf> [accessed 9 March 2018]; OECD, *Where Does Colombian Gold Go?*, 2018, 12 <https://www.oecd.org/colombia/Where-does-Colombian-Gold-Go-EN.pdf>.

[50] Tax Justice Network, *Narrative Report on Kenya*, Financial Secrecy Index - Country Reports (2020) <https://fsi.taxjustice.net/PDF/Kenya.pdf> [accessed 4 December 2020].

[51] Tax Justice Network, *Narrative Report on Liberia*, Financial Secrecy Index - Country Reports (2020) <https://fsi.taxjustice.net/PDF/Liberia.pdf> [accessed 4 December 2020].

[52] Tax Justice Network, *Narrative Report on Gambia*, Financial Secrecy Index - Country Reports (2020) <https://fsi.taxjustice.net/PDF/Gambia.pdf> [accessed 4 December 2020].

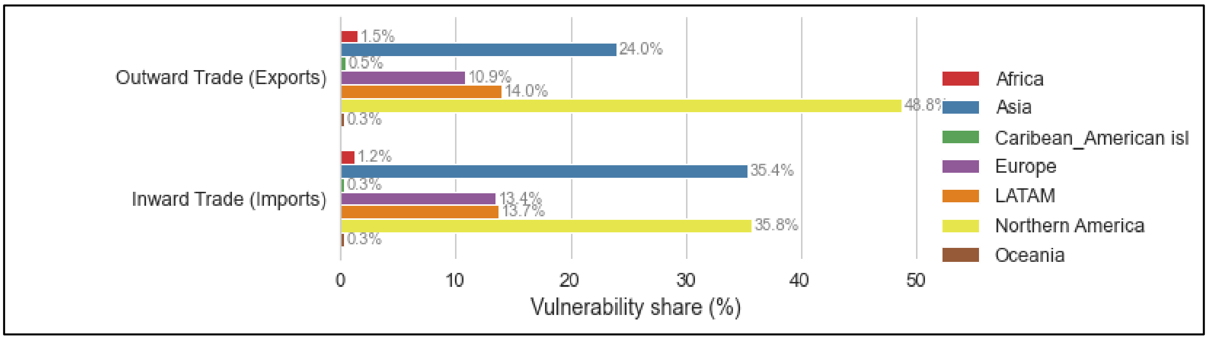
Table 8. Vulnerability in exports 2018 - Latin America's suppliers of secrecy risks ranked by highest secrecy score

Rank	Country	Latin America's Vulnerability Share	Secrecy Score	Value of Exports (millions) (USD)	Share of Exports
1	Algeria	0.40%	80	2,473	0.31%
2	Angola	0.11%	80	658	0.08%
3	Maldives	0.00%	80	15	0.00%
4	Bolivia	0.68%	79	4,240	0.52%
5	United Arab Emirates	0.58%	78	3,645	0.45%
6	Jordan	0.08%	78	473	0.06%
7	Liberia	0.00%	78	31	0.00%
8	Brunei	0.00%	78	10	0.00%
9	Turks and Caicos Islands	0.00%	78	7	0.00%
10	Anguilla	0.00%	78	2	0.00%
11	Paraguay	0.65%	77	4,109	0.51%
12	Qatar	0.07%	77	419	0.05%
13	Cayman Islands	0.03%	76	165	0.02%
14	Kenya	0.01%	76	93	0.01%

4.1.3 The geopolitics of Latin America's trade vulnerability

Latin America's vulnerability to secrecy risks in trade is driven by its trade with Northern America and Asia. Northern America accounts for 35.8 per cent of vulnerability in imports and 48.8 per cent in exports (primarily the United States), whereas Asia is responsible for 35.4 per cent and 24 per cent, respectively (primarily China), mirroring earlier findings by ECLAC on patterns of trade mispricing.

Figure 14. Vulnerability in imports and exports 2018 - Latin America's top suppliers of secrecy risks by region



In 2018, 66 per cent of Latin America's vulnerability in exports stems from the 37 OECD member states and their dependencies[53], while the equivalent share in imports is 58 per cent. Thus, OECD bears the biggest political responsibility to address financial secrecy to reduce Latin America's vulnerability to illicit financial flows in trade.

The OECD has made some effort with the Base Erosion and Profit Shifting project (2013-2015) to address the risks countries face through trade-related illicit financial flows. However, continued use of the largely unworkable arm's length principle to assess the value of intra-group cross-border trade exposes countries to the risk that companies continue mispricing transactions to minimise their overall tax bill. Both the International Monetary Fund and the European Commission alluded to the need for more fundamental reform to international tax rules, which would require replacing the arm's length principle with another way for attributing taxable profits.[54] Some of the Base Erosion and Profit Shifting standards have been criticised for normalising and accelerating the race to the bottom in corporate taxation, for example by enacting weak rules for regulating patent boxes and the taxation of royalty payments for the use of intangible property.[55] While the OECD has

[53] OECD Dependencies include UK Overseas Territories and Crown Dependencies and US and Dutch Overseas Territories: Anguilla, Aruba, Bermuda, British Virgin Islands, Cayman Islands, Curacao, Gibraltar, Guernsey, Isle of Man, Jersey, Montserrat, Puerto Rico, Sint Maarten, Turks and Caicos, and US Virgin Islands.

[54] This could happen for example through a unitary approach: recognising the profit of multinationals at the group level and taxing where value is created. Alex Cobham, 'Beginning of the End for the Arm's Length Principle?', 2017 <https://www.taxjustice.net/2017/09/22/beginning-of-the-end-for-the-arms-length-principle/> [accessed 16 January 2019]. Alex Cobham, 'The Bell Tolls for Arm's Length Pricing', *Tax Justice Network*, 2018 <https://www.taxjustice.net/2018/04/20/the-bell-tolls-for-arms-length-pricing/> [accessed 18 January 2019].

[55] Rachel Etter-Phoya, Shanna Lima and Markus Meinzer, 'Tax Base Erosion and Corporate Profit Shifting: Africa in International Comparative Perspective', *Journal on Financing for Development*, 1/2 (2020), 68–107.

committed to publish aggregate and anonymised data from the country-by-country reporting of multinational companies, many countries failed to allow meaningful data publication. Yet analysis of the first release of data by 15 countries in 2020 has allowed to track US$467bn of corporate profit shifting into corporate tax havens.[56] Even though it is anonymous, growing global corporate disclosure helps improve our understanding of global profit misalignments, i.e. how far removed the share of declared profits and taxes paid is globally from measures of real economic activity, and at whose detriment.[57]

4.2 Country-risk profile

Focusing on single country level analysis, the profile of Colombian export vulnerability highlights important areas for monitoring, investigation and administrative resourcing. As Table 9 reveals, most vulnerability arise from trading with the United States and with Panama. Examples of the risks arising from these exports include trade-based money laundering schemes undertaken by drug cartels in the context of Colombia's role in narcotics production and trafficking. Bilateral trade agreements such as the "United States-Colombia Trade Promotion Agreement" implemented in 2012 play a role in facilitating these exports. The black market peso exchange was an infamous trade based money laundering scheme for the proceed of cocaine trafficking into the United States since the 1980s, estimated annually at US$4bn.[58]

[56] Tax Justice Network, 'Watershed Data Indicates More than a Trillion Dollars of Corporate Profit Smuggled into Tax Havens', *Tax Justice Network*, 2020 <https://www.taxjustice.net/2020/07/08/watershed-data-indicates-more-than-a-trillion-dollars-of-corporate-profit-smuggled-into-tax-havens/, https://www.taxjustice.net/2020/07/08/watershed-data-indicates-more-than-a-trillion-dollars-of-corporate-profit-smuggled-into-tax-havens/> [accessed 31 August 2020].

[57] Alex Cobham, 'Progress on Global Profit Shifting: No More Hiding for Jurisdictions That Sell Profit Shifting at the Expense of Others', *Tax Justice Network*, 2018 <https://www.taxjustice.net/2018/07/24/progress-global-profit-shifting/> [accessed 17 January 2019].

[58] Financial Action Task Force (FATF), *Trade Based Money Laundering*, 7–9.

Table 9. Vulnerability of Colombian exports in 2017

Colombia					
Rank	Country	Secrecy Score	Vulnerability Share	Exports (billions) (USD)	Share of Exports
1	United States	63	31.4%	11.0	30.19%
2	Panama	72	8.42%	2.6	7.09%
3	China	60	5.43%	2.0	5.48%
4	Netherlands	67	4.71%	1.5	4.23%
5	Turkey	60	3.79%	1.4	3.85%
6	Mexico	53	3.67%	1.5	4.21%
7	Brazil	52	3.19%	1.4	3.74%
8	Ecuador	47	3.14%	1.5	4.02%
9	Peru	57	2.88%	1.1	3.05%
10	Bahamas	75	2.74%	0.8	2.20%
Overall vulnerability of Colombian exports in 2017: 60					

Variants of this scheme have been found to operate much later, some of which involve the smuggling, re-exporting and false declaration of gold bullion to the United States.[59] For example, in 2015, Panama recorded US$28m of gold coming from Colombia and Venezuela, whereas Colombia's official trade records amounted for barely US$100,000[60]. Gold smuggling was not considered a real issue until 2011 when the authorities finally noticed a mismatch between gold production and gold exports. Colombian authorities noticed that gold exports were significantly surpassing its production at the time[61]. For instance, between 2012 and 2013, the Inspector General's Office and the National Tax and Customs Agency estimated that around 50 per cent of the total outward gold trade was illegally smuggled into the country[62]. Colombian gold exports thus deserve more scrutiny.

The role of Panama as Colombia's second most important export destination is particularly important given its very high secrecy

[59] Financial Action Task Force (FATF), *Trade Based Money Laundering*, 13–15.

[60] OECD, *Illicit Financial Flows from Developing Countries: Measuring OECD Responses*.

[61] OECD, *Illicit Financial Flows from Developing Countries: Measuring OECD Responses*; OECD, *Where Does Colombian Gold Go?*, 12.

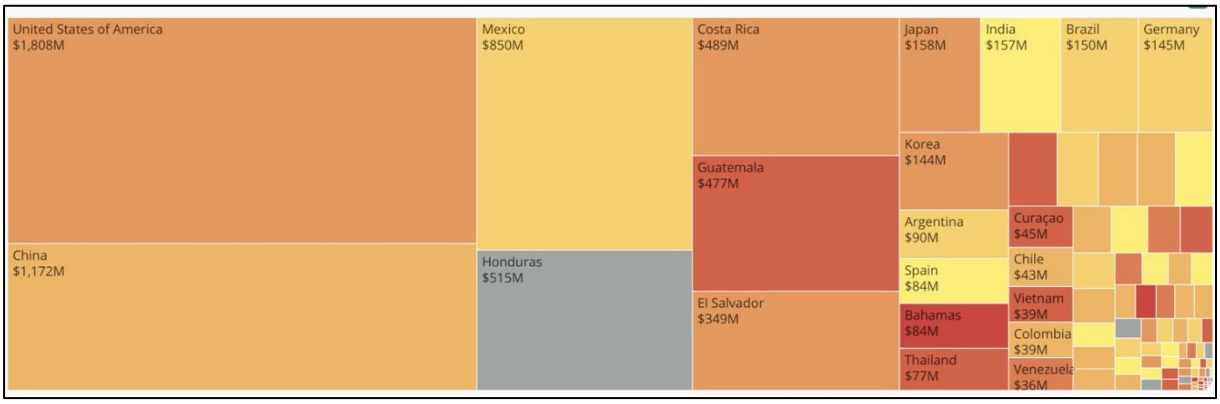
[62] OECD, *Illicit Financial Flows from Developing Countries: Measuring OECD Responses*; OECD, *Where Does Colombian Gold Go?*, 12.

score (72) and its high rank the Financial Secrecy Index 2020 (15/133). The secrecy jurisdiction of Panama originated as a registration center for foreign ships that were aimed at helping Standard Oil to avoid American taxes[63]. From 1927 and afterwards, the U.S. helped Panama to implement several laws that were intended to create an offshore jurisdiction, including tax-exempt companies, bank secrecy and lax incorporation laws.

Another major concern relates to the Bahamas, ranked 10th in contributing most to Colombia's vulnerability with an export volume of more than US$800mn (2 per cent of national exports). The Bahamas have an extremely high secrecy score of 75 and are ranked 9th in the Corporate Tax Haven Index with zero corporate and personal income taxes. It could be fruitful to investigate what produce worth hundreds of millions of US$ is exported from Colombia to a few islands with a population of less than 500,000.

With regard to imports, questionable trade ties with the Bahamas are found also in the case of Nicaragua (see Figure 15), which imported from these Caribbean islands goods worth US$84m. Similarly, with the Dutch controlled Caribbean corporate tax haven of Curacao, Nicaragua recorded imports amounting to US$45m, raising questions as to the export niche of the tax haven.

Figure 15. Vulnerability of Nicaragua (imports) in 2018



Source: https://iff.taxjustice.net/#/profile/NIC

Looking at historical data, two phenomena are worth noting. In 2013, Curacao reached the top of the rank of partner countries

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[63] Tax Justice Network, *Narrative Report on Panama*, Financial Secrecy Index - Country Reports (2020) <https://fsi.taxjustice.net/PDF/Panama.pdf> [accessed 27 August 2020].

that contribute the most to Nicaragua's vulnerability. However, afterwards, it dropped 18 places. Conversely, Bahamas has jumped from the 111 position (2016) to the 22 (2017), increasing its vulnerability share by 0.63 per cent. National authorities should pay attention and reallocate efforts to properly track inward transactions from the Bahamas and Curacao to Nicaragua.

4.3 Policy recommendations

Latin America's vulnerability to illicit financial flows in trade stems to a large extent from North America, and, albeit to lesser extent, from Asia. The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that illicit financial outflows from Latin America due to trade mis-invoicing alone amounted to US$102bn in 2013, resulting in associated tax revenue losses across the continent of $31bn.[64] Our analysis of more current data (2017 and 2018) points to the ongoing secrecy risks in Latin America's trade and the role of corporate tax havens and secrecy jurisdictions in facilitating illicit financial outflows.

The amount of non-collected public revenue underscores the need for Latin America to concentrate its resources for strengthening legal and administrative measures aimed at tackling illicit activities. Compared to Europe and Africa, Latin America, as a region, may face specific difficulties for tackling illicit financial flows. Due to a lack of political organisation at the continental level (such as the African Union and the European Union) and fragmented landscapes of bi- and multilateral trade and bilateral investment agreements, coordination and joint action might be more difficult to achieve.

Most importantly, a combination of trade and investment treaties might unintentionally result in imposing legal constraints on their tax administrations' policy space to counter illicit financial flows and raise tax revenues. These risks should be carefully analysed and weighed against the potential benefits of such treaties. An important current area where Latin American coordination might be timely is the attempt by some high-income countries in trade negotiations to permanently ban customs duties on electronic

[64] Podestá, Hanni and Martner, *Flujos financieros ilícitos en América Latina y el Caribe*, 25, 31.

transmissions, making it harder to ensure taxation of the digital economy.[65]

Policy solutions devised by the OECD and other organisations should be thoroughly evaluated for their suitability in a Latin American context and setting, not least because OECD member states are important sources of vulnerability and destination of illicit financial flows for Latin America. Particularly, the merits and efficacy of the OECD Base Erosion and Profit Shifting minimum standards for protecting Latin nations against illicit financial flow risks in trade, should be thoroughly analysed. For example, recent research used transaction-level custom data of South Africa to determine the levels of transfer mispricing within multinational firms. It concluded that OECD-recommended reforms have had no long-term impact on transfer mispricing in South Africa.[66] Latin American countries might consider crafting alternative tax minimum standards for trade negotiations in order to safeguard against illicit financial flows emanating from trade with European and OECD corporate tax havens.

Domestically, tax administrations should audit trade depending on the level of opacity of trading partners at the transactional level to detect and counter risks. Lessons may be learned from work in Brazil, where a large proportion of illicit financial flows from the country is prone to mis-invoicing, and in particular, the under-invoicing of exports.[67] To tackle this problem, the Brazilian tax and customs departments collaborated to establish a system to measure the risk exposure of import and export transactions recorded in Brazilian trade.[68] Brazilian authorities applied the

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[65] Jane Kelsey and others, *How 'Digital Trade' Rules Would Impede Taxation of the Digitalised Economy in the Global South*, Third World Network, 2020 <https://twn.my/title2/latestwto/general/News/Digital%20Tax.pdf> [accessed 27 August 2020].

[66] Ludvig Wier, 'Tax-Motivated Transfer Mispricing in South Africa: Direct Evidence Using Transaction Data', *Journal of Public Economics*, 184 (2020), 104153 <https://linkinghub.elsevier.com/retrieve/pii/S0047272720300177> [accessed 8 June 2020].

[67] Fabiano Coelho, Lucas Rodrigues Amaral and Luciana Bacarolo, 'Fighting Illicit Financial Flows: Brazilian Customs´ Approach', *WCO News*, June 2019, 89 edition <https://mag.wcoomd.org/magazine/wco-news-89/fighting-illicit-financial-flows-brazilian-customs-approach/> [accessed 14 June 2019]; Morlim, *Extracción de Recursos En Brasil. Facturación Indebida En El Sector Minero*.

[68] The Ad Hoc Working and Research Group on IFFs via Trade Mis-invoicing was set up at the Federal Revenue and Customs Services of Brazil in 2018 comprising specialists in customs, tax and intelligence under the Federal Revenue and Customs Services of Brazil. This group has developed an action plan based on assessing the risk exposure. This includes ensuring an integrated approach between customs and revenue authorities, developing a risk management tool to track exposure of transactions, improving the registration and control of international traded transactions, and making use of data

approach we used throughout this entire report to micro-data at the trade transaction level by establishing the secrecy levels of trade transactions. Additionally, the geographic pattern of trade transactions was compared against the pattern of financial transactions that paid for the traded goods. Transactions were classed as having low-risk exposure where export or import transactions were not multilayered, i.e. the country of payment (acquisition or sale) was the same as the country of destination or origin of the goods, and the country of acquisition or sale was not a high secrecy jurisdiction. In contrast, transactions deemed to be exposed to high risk were those with triangular exports or imports, i.e. the country of acquisition or sale was not the same as the country of destination or origin of the goods, and the country of acquisition or sale was a high secrecy jurisdiction. As a result of the analysis, Brazilian authorities developed a risk management tool (Illicit Financial Flows Explorer) and are implementing a number of policies to counter illicit financial flows.

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exchanged under the Organisation for Economic Co-operation and Development's (OECD) Convention on Mutual Administrative Assistance in Tax Matters and to the Multilateral Competent Authority Agreement on the Exchange of Country by Country Reports. The working group also proposes a pilot project on the multilateral automatic exchange of transaction-level trade data with a trade partner; this would improve mirror data to identify gaps and anomalies in declared trade data.

5. Foreign direct investment

Sought-after foreign direct investment exposes Latin American countries to risk of illicit financial flows. This chapter examines how the continent and specific countries may be at risk and what possible strategies exist for policymakers to address the problem. For both inward and derived outward investment positions data, there is data coverage for all 19 Latin American countries reviewed in our study, as shown in Table 4 and Annex B.

Outward and inward direct investment may give rise to a diverse range of illicit financial flows as Annex F: Examples of documented cases of illicit financial flows – inward* and outward* direct investment illustrates. Multinational companies may employ a range of base erosion and profit shifting techniques to reduce their tax bill. This in turn increases the risk of illicit financial flows for host and home countries of multinationals and their subsidiaries. One frequently observed stratagem, such as applied by MTN[69], Amazon[70] or Apple[71], is for a subsidiary of a company to shift profits to low or zero-tax jurisdictions, such as an intermediate holding in Ireland, Mauritius, Luxembourg or the Netherlands, rather than directly making payments to the headquarters of a company. These phenomena can be detected in both inward and outward direct investment.

According to a media investigation published in 2018, Coca-Cola Brazil was involved in such a tax avoidance scheme. At the core of the allegations is a Brazilian Coca-Cola subsidiary owned by two companies registered in the U.S. state of Delaware (inward FDI), a

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[69] George Turner, *Finance Uncovered Investigation: MTN's Mauritian Billions*, 9 October 2015 <https://www.financeuncovered.org/investigations/finance-uncovered-investigation-mtns-mauritian-billions/> [accessed 25 June 2019].

[70] Sol Picciotto, 'Why Is Amazon Still Paying Little Tax in the UK?', *Tax Justice Network*, 10 August 2018 <https://www.taxjustice.net/2018/08/10/why-is-amazon-still-paying-little-tax-in-the-uk/> [accessed 17 June 2019].

[71] Jean-François Rougé, 'The Globar War: The EU's Apple Tax Case', *ECONOMICS*, 5/1 (2017), 14–35 <https://content.sciendo.com/view/journals/eoik/5/1/article-p14.xml> [accessed 23 May 2019]; Martin Brehm Christensen and Emma Clancy, *Exposed: Apple's Golden Delicious Tax Deals. Is Ireland Helping Apple Pay Less than 1% Tax in the EU?* (Brussels, 21 June 2018) <https://www.guengl.eu/content/uploads/2018/06/Apple_report_final.pdf>; Permanent Subcommittee on Investigations of the Committee on Homeland Security and Governmental Affairs, United States Senate, *Offshore Profit Shifting and the U.S. Tax Code - Part 2 (Apple Inc.)*, 2013 <https://www.govinfo.gov/content/pkg/CHRG-113shrg81657/pdf/CHRG-113shrg81657.pdf> [accessed 17 June 2019].

corporate tax haven and secrecy jurisdiction.[72] The prices charged for the syrup within the group and to independent bottlers may have been manipulated for tax avoidance purposes, and tax credits have been received for which no tax has ever been paid, amounting to an estimated tax loss of US$2bn each year according to the media's calculations. In November 2020, the U.S. tax administration Internal Revenue Service (IRS) won a lawsuit against Coca-Cola (which the company may appeal against) over royalty transfer pricing and valuation of IP rights, resulting in additional taxes due worth US$3.4bn.[73]

As for inward direct investment related to money laundering, for example, Global Witness reported in 2017 how a Colombian fraudster and drug dealer laundered millions of dollars of illicit funds including from a pyramid fraud scheme and from drug trafficking, through investing in real estate in Panama, in units at Donald Trump's Ocean Club.[74]

In outward direct investment, there is also the risk that domestic companies and individuals make false statements about the relationship, owners, and accounts of their foreign businesses or activities in tax returns. This may be done for round-tripping purposes, that is, to nominally invest abroad with the ultimate destination being the domestic economy, to exploit tax treaties or other provisions only available to foreign investors, or to pay kickbacks for securing contracts abroad. For instance, in 2019, Joaquín Guzmán Loera (a.k.a. "El Chapo") was found guilty by a District Court in Brooklyn, United States. He was accused of drug trafficking, money laundering and murder. According to the United States Drug Enforcement Administration (DEA), "Guzman Loera then used various methods to launder billions of dollars of drug proceeds, including bulk cash smuggling from the United States to México, U.S. based insurance companies, reloadable debit cards and numerous shell companies, including a juice company and a

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[72] Tax Justice Network, *Narrative Report on the United States of America (USA)*, Financial Secrecy Index - Country Reports (2020) <https://fsi.taxjustice.net/PDF/UnitedStates.pdf> [accessed 4 December 2020].

[73] https://ojoioeotrigo.com.br/2018/10/coca-colas-tax-planning-is-international/; https://ojoioeotrigo.com.br/2018/01/cocas-happiness-factory-is-in-the-brazilian-amazon-and-is-not-cool/; https://news.bloombergtax.com/daily-tax-report/coca-cola-tax-court-loss-reminds-companies-to-watch-ip-valuation; 4.12.2020.

[74] Global Witness, *Narco-a-Lago: Money Laundering at the Trump Ocean Club, Panama*, 2017 <https://www.globalwitness.org/en/campaigns/corruption-and-money-laundering/narco-a-lago-panama/> [accessed 17 June 2019].

fish flour company".[75] This example shows how individuals make false statement about the relationship, owners and accounts of their foreign business.

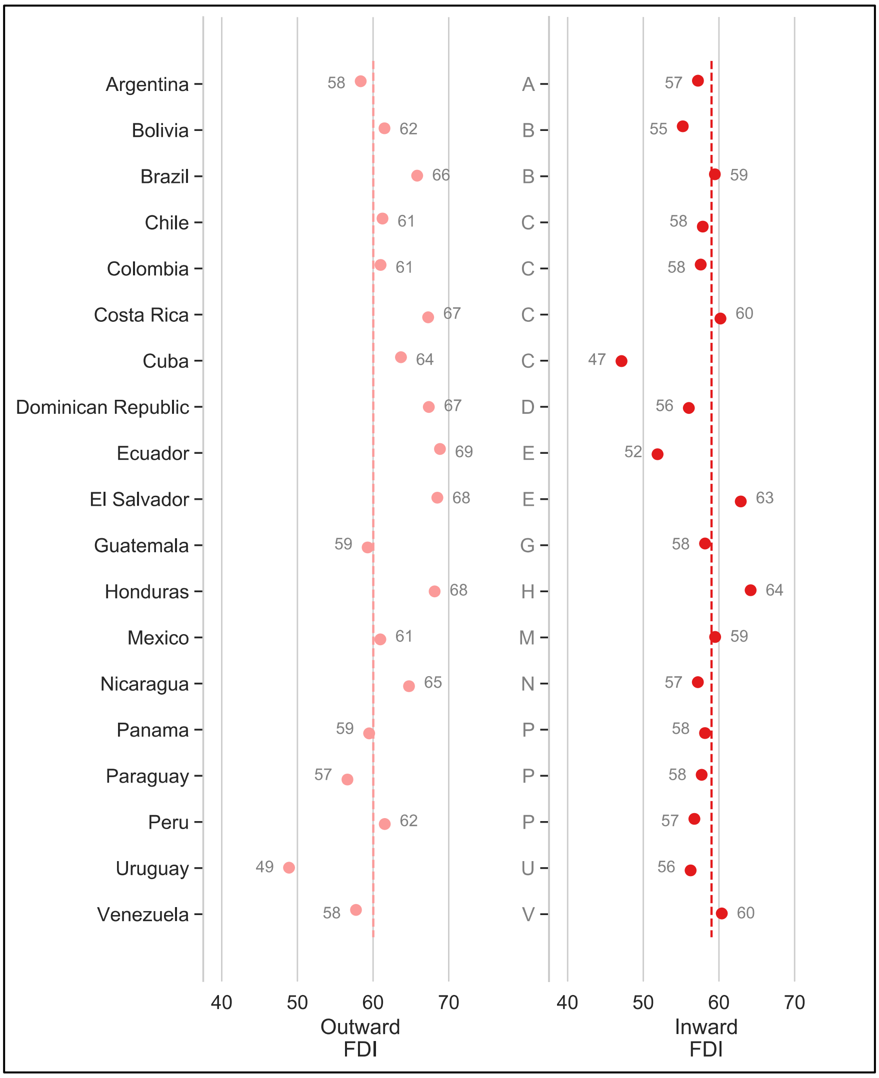
5.1 Continental risk

Latin America's average vulnerability to illicit financial flows in inward and derived outward direct investment is 59 and 62 respectively.[76] Among the 19 countries with data on inward direct investment, the range of vulnerability varies from 47 (Cuba) to 64 (Honduras), while the range for outward direct investment is from 49 (Uruguay) to 69 (Ecuador).

[75] https://www.dea.gov/press-releases/2019/07/17/joaquin-el-chapo-guzman-sinaloa-cartel-leader-sentenced-life-prison-plus; 8.9.2020.

[76] Inward direct investment data is the direct investment into the reporting country, while outward direct investment is direct investment abroad by the reporting country. Here we used *derived* outward direct investment data which is based on mirror data from partner countries.

Figure 16. Overview of illicit financial flows vulnerability of direct investment in Latin America (including conduits), 2018.



As Figure 16 above shows, outward foreign direct investment is most vulnerable to illicit financial flows in Ecuador (69), Honduras (68), El Salvador (68), Costa Rica (67) and the Dominican Republic (67). Inward foreign direct investment is most vulnerable to illicit financial flows in Honduras (64), El Salvador (63), Costa Rica (60), Brazil (60) and Venezuela (60).

5.1.1 Direct inward investment analysis

Five of the top suppliers of secrecy risks in direct inward investment in 2018 have extremely high secrecy scores and some of them are also corrosive corporate tax havens (see Table 10).[77] As to the jurisdiction with the highest secrecy scores, the table below shows that Cayman Islands (76), Switzerland (74), Bermuda (73), Panama (72) and British Virgin Islands (71) have secrecy scores over 70. The aggregated value of direct investment by these five jurisdictions amounts to US$128,7bn. Besides, six of the top suppliers of secrecy risks related to inward investment are also ranked from the 1st to the 6th position in the Corporate Tax Haven Index 2019, i.e. the Netherlands, Luxembourg, Switzerland, British Virgin Islands, Cayman Islands and Bermuda.

The Netherlands in particular poses serious risks to the Latin American continent as it is responsible for the second largest share of Latin America's vulnerability to illicit financial flows in inward FDI, with a total of US$338bn. The Netherlands occupies the 4th position in the Corporate Tax Haven Index and is a frequently used jurisdiction for setting up holding or conduit companies for exploiting double taxation agreements ("treaty shopping").

[77] Tax Justice Network, *Corporate Tax Haven Index - 2019 Results*, Corporate Tax Haven Index 2019 (2019) <https://www.corporatetaxhavenindex.org/introduction/cthi-2019-results> [accessed 18 June 2019].

Table 10. Vulnerability in direct inward investment 2018 - Latin America's top suppliers of secrecy risks

Rank	Country	Vulnerability Share	Secrecy Score	Value of Direct Inward Investment (billions) (USD)	Share of Direct Inward Investment
1	United States	25.95%	63	461.4	24.29%
2	Netherlands	20.39%	67	338.3	17.81%
3	Spain	8.55%	44	217.6	11.45%
4	Canada	4.40%	56	88.2	4.64%
5	Luxembourg	4.38%	55	88.3	4.65%
6	Switzerland	3.65%	74	55.2	2.90%
7	Chile	3.09%	56	61.9	3.26%
8	United Kingdom	3.01%	46	72.8	3.83%
9	Japan	2.48%	63	44.2	2.33%
10	France	2.32%	50	51.9	2.73%
11	Germany	2.03%	52	43.9	2.31%
12	Italy	1.62%	50	35.9	1.89%
13	Mexico	1.61%	53	34.2	1.80%
14	British Virgin Islands	1.59%	71	24.9	1.31%
15	Brazil	1.42%	52	30.7	1.61%
16	Cayman Islands	1.31%	76	19.3	1.01%
17	Colombia	1.10%	56	21.7	1.14%
18	Bermuda	1.03%	73	15.8	0.83%
19	Argentina	1.02%	55	20.8	1.09%
20	Panama	0.87%	72	13.6	0.71%

5.1.2 Direct outward investment (derived) analysis

As to the top suppliers of secrecy risks, United States represents the greatest share of Latin America’s vulnerability in direct outward investment (derived) with 16.75 per cent, whereas Costa Rica the lowest with not even 1 per cent. Besides, Cayman Islands (76), Bahamas (75), Guatemala (74) and Panama (72) are jurisdiction receiving highly vulnerable outward investments from Latin America.

The particular role of Cayman Islands, British Virgin Islands, the Netherlands, Bahamas and Luxembourg in not only supplying secrecy risks, but also corporate tax risks, is worth pointing out. Particularly, Cayman Islands, British Virgin Islands and Bahamas are zero tax rate corporate tax havens, which receive investment from Latin America hardly because of their domestic economy, but because their tax rates allow investors to shift profits from high to low tax jurisdictions. Cayman Islands stands out because of four main reasons: 1) it contributes in almost 11 per cent of Latin America's vulnerability share of outward investments, 2) it has the highest secrecy score among Latin America's top suppliers of secrecy risks reaching a secrecy score of 76, 3) it is ranked at the 3rd position among the Corporate Tax Haven Index 2019, and 4) is a zero rate tax haven which means that it is a perfect destination for shifting profits from Latin America to somewhere else abroad by means of outward investment.

Table 11. Vulnerability in direct outward investment (derived) 2018 - Latin America's top suppliers of secrecy risks

Rank	Country	Vulnerability Share	Secrecy Score	Value of Direct Outward Investment (billions) (USD)	Share of Direct Outward Investment (derived)
1	United States	16.75%	63	111.6	16.60%
2	Cayman Islands	10.88%	76	59.9	8.91%
3	British Virgin Islands	9.82%	71	57.7	8.58%
4	Netherlands	7.64%	67	47.5	7.06%
5	Panama	7.05%	72	41.1	6.11%
6	Bahamas	4.45%	75	24.8	3.68%
7	Austria	4.39%	57	32.6	4.84%
8	Spain	4.25%	44	40.6	6.03%
9	Brazil	3.48%	52	28.3	4.20%
10	Uruguay	3.37%	57	24.8	3.68%
11	Argentina	2.57%	55	19.6	2.91%
12	Chile	2.31%	56	17.4	2.58%
13	Peru	2.28%	57	16.8	2.50%
14	Luxembourg	2.22%	55	16.8	2.50%
15	Canada	1.99%	56	15.0	2.22%
16	United Kingdom	1.68%	46	15.2	2.26%
17	Colombia	1.58%	56	11.7	1.74%
18	Guatemala	1.30%	74	7.4	1.10%
19	Mexico	1.20%	53	9.5	1.42%
20	Costa Rica	0.99%	62	6.6	0.99%

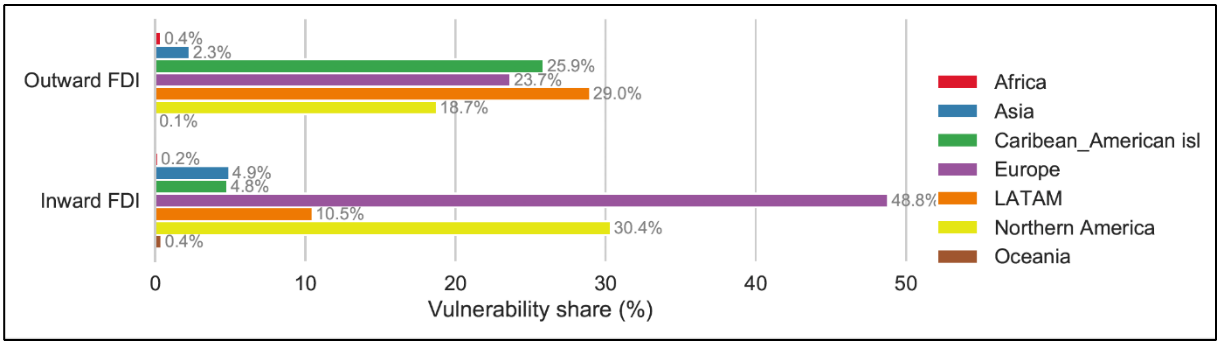
5.1.3 The geopolitics of Latin America's direct investment vulnerability

When assessing the big picture, some differences among regions become apparent. Whereas Europe contributes most to vulnerability regarding inward foreign direct investment (48.8 per cent), in case of outward direct investment, the main source of vulnerability is from within the Latin American continent.

As to the inward foreign direct investment, the origin of vulnerability is quite concentrated in Europe (vulnerability share of 48.8 per cent). Secondly, Northern America and Latin America are the second and third regional top suppliers with a vulnerability share of 30.4 per cent and 10.5 per cent, respectively.

A very different pattern can be observed in outward direct investment. Latin America is mainly responsible for its own vulnerability, reaching a vulnerability share of 29 per cent (Figure 17). After Latin America, the Caribbean Islands are the second region receiving more illicit financial flows reaching a vulnerability share of 26 per cent.

Figure 17. Vulnerability in direct investment (inward and outward (derived)) 2018 - Top suppliers of secrecy risks faced by Latin America, by region of supply



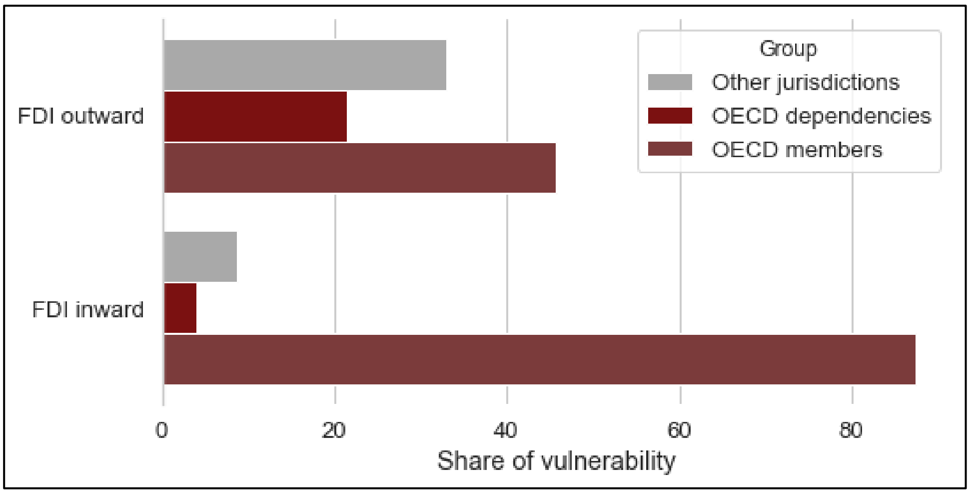
The OECD with its dependencies has a particular political responsibility to address financial secrecy to reduce Latin America's risk to vulnerability in illicit financial flows in direct inward and outward investment.[78] In 2018, 91 per cent of Latin America's vulnerability risk in direct (inward) foreign investment is supplied by OECD countries and their dependencies[79]. The vulnerability in outward direct investment from OECD members

[78] OECD Dependencies include UK Overseas Territories and Crown Dependencies and US and Dutch Overseas Territories. See Annex D: Dependencies of countries in the European Union and OECD for further information.

[79] OECD Dependencies include UK Overseas Territories and Crown Dependencies and US and Dutch Overseas Territories: Anguilla, Aruba, Bermuda, British Virgin Islands, Cayman Islands, Curacao, Gibraltar, Guernsey, Isle of Man, Jersey, Montserrat, Puerto Rico, Sint Maarten, Turks and Caicos, and US Virgin Islands.

and their dependencies amounts to a considerable share of 66 per cent.

Figure 18. Vulnerability in direct investment (inward and outward (derived)) 2018 – Top suppliers of secrecy risks faced by Latin America, by OECD membership and dependencies



5.2 Country-risk profile

A striking example of highly concentrated illicit financial flows risks in derived outward FDI positions in Latin America is Chile. Panama dominates (over 17 per cent) all Chile's vulnerability in outward FDI with over US$15bn of investment. British Virgin Islands (71) and Cayman Islands (76) are other high secrecy jurisdictions in Chile's vulnerability in outward FDI.

Table 12. Vulnerability of Chile's outward direct investment (derived) stock in 2018

Chile					
Rank	Country	Secrecy Score	Vulnerability Share	Direct Investment Outward (derived) (billions) (USD)	Share of Direct Investment Outward (derived)
1	Panama	72	17.16%	15.1	14.62%
2	United States	63	12.47%	12.5	12.14%
3	Brazil	52	10.64%	13.0	12.61%
4	Peru	57	10.5%	11.6	11.28%
5	British Virgin Islands	71	9.93%	8.8	8.53%
6	Argentina	55	7.65%	8.8	8.52%
7	Colombia	56	5.59%	6.2	6.06%
8	Cayman Islands	76	4.74%	3.9	3.81%
9	Luxembourg	55	3.42%	3.9	3.78%
10	Uruguay	57	2.98%	3.3	3.20%
Overall vulnerability of investment outward (derived) 61					

As for inward FDI, Table 13 shows that the Netherlands is responsible for 31 per cent of all Brazilian vulnerability in inward FDI. Due to its position as a corporate tax haven and a secretive jurisdiction, Brazilian authorities should pay special attention to Dutch inward investment and analyse the costs, risks, and benefits of the tax treaty between the two countries to consider cancellation of the treaty. Other corporate tax havens of concern to Brazil because of their substantial inward direct investment and tax avoidance risks are Luxembourg[80] (#6 on Corporate Tax Haven Index 2019), Switzerland[81] (#5), and the British Virgin Islands[82] (#1), and the US (#25), as illustrated in the case of the Brazilian Coca-Cola subsidiary, which is owned by two companies registered in the U.S. state of Delaware allegedly involved in

[80] Tax Justice Network, *Narrative Report on Luxembourg*, Financial Secrecy Index - Country Reports (2020) <https://fsi.taxjustice.net/PDF/Luxembourg.pdf> [accessed 27 November 2020].

[81] Tax Justice Network, *Narrative Report on Switzerland*, Financial Secrecy Index - Country Reports (2020) <https://fsi.taxjustice.net/PDF/Switzerland.pdf> [accessed 27 November 2020].

[82] Tax Justice Network, *Narrative Report on the British Virgin Islands*, Financial Secrecy Index - Country Reports (2020) <https://fsi.taxjustice.net/PDF/BritishVirginIslands.pdf> [accessed 27 November 2020].

manipulation of prices charged for syrup for tax avoidance purposes.

Table 13: Vulnerability of Brazil's inward foreign direct investment stock in 2018

Brazil					
Rank	Country	Secrecy Score	Vulnerability Share	Direct Investment Inward (billion) (USD)	Share of Direct Investment Inward
1	Netherlands	67	30.35%	169.3	26.77%
2	United States	63	18.06%	108.0	17.08%
3	Luxembourg	55	8.11%	55.0	8.69%
4	Spain	44	6.95%	59.4	9.40%
5	France	50	4.32%	32.5	5.14%
6	Switzerland	74	3.85%	19.5	3.09%
7	Japan	63	3.56%	21.3	3.36%
8	United Kingdom	46	2.71%	22.1	3.49%
9	British Virgin Islands	71	2.49%	13.1	2.08%
10	Chile	56	2.49%	13.0	2.05%
Overall vulnerability of investment inward 59					

5.3 Policy recommendations

Anti-avoidance measures may be taken to address the risks of illicit financial flows in direct investment. The Corporate Tax Haven Index (CTHI) indicates that all nations could put in place more robust defensive measures to curb profit shifting.[83] These include limiting deductions on intragroup payments, including royalty, interest and some service payments, applying a withholding tax on dividend payments abroad and enforcing transaction controlled foreign company rules.[84] In addition to countermeasures, the CTHI suggests steps Latin American countries can take to close loopholes and gaps in its corporate

[83] Tax Justice Network, *Corporate Tax Haven Index (CTHI) 2019 Methodology*.

[84] Leyla Ates, Moran Harari and Markus Meinzer, 'Positive Spillovers in International Corporate Taxation and the European Union', *Intertax*, 48/4 (2020), 389–401 <https://kluwerlawonline.com/journalarticle/Intertax/48.4/TAXI2020035> [accessed 28 August 2020].

income tax system as well as increasing transparency in its corporate governance framework which could help addressing Latin America's illicit financial flows risks stemming from foreign direct investment.[85]

A more immediate policy reform option to address tax related illicit financial flows through foreign direct investment is for tax administrations and Ministries of Finance to subject double tax treaties to a rigorous cost-benefit analysis, and to consider cancelling particularly harmful and aggressive treaties. Recent analysis suggests that the treaties African nations have entered into with United Arab Emirates, Mauritius and France are the most aggressive treaties in constraining taxing rights of African nations.[86]

Beyond the domestic reform efforts, the vulnerability analysis underscores the concentration of the political responsibility of OECD member states in FDI-related illicit financial flows. The implied political economy of international tax governance points to the need for vigilance in the current negotiations in the "BEPS 2.0" process around the reform to the taxation of multinational companies under the inclusive framework of the OECD.[87] More ambitious proposals for comprehensive reforms, such as those made by the Intergovernmental Group of Twenty-Four (G24)[88] and by the Independent Commission for the Reform of International Corporate Taxation (ICRICT)[89], may be sidelined as a

[85] Etter-Phoya, Lima and Meinzer, 'Tax Base Erosion and Corporate Profit Shifting: Africa in International Comparative Perspective', 68–107; Leyla Ates and others, 'The Corporate Tax Haven Index: A New Geography of Profit Shifting', in *COFFERS Volume* (forthcoming).

[86] Tax Justice Network, *Haven Indicator 20: Double Tax Treaty Aggressiveness* (2019) <https://www.corporatetaxhavenindex.org/PDF/20-Double-Tax-Treaties.pdf> [accessed 6 June 2019]; Lucas Millán-Narotzky and others, *Double Tax Treaty Aggressiveness: Who Is Bringing down Taxing Rights in Africa?* (Forthcoming).

[87] Alex Cobham, 'A Historic Day for Unitary Taxation', *Tax Justice Network*, 2019 <https://www.taxjustice.net/2019/11/21/a-historic-day-for-unitary-taxation/, https://www.taxjustice.net/2019/11/21/a-historic-day-for-unitary-taxation/> [accessed 19 June 2020]; OECD, 'Programme of Work to Develop a Consensus Solution to the Tax Challenges Arising from the Digitalisation of the Economy', 2019 <https://www.oecd.org/tax/beps/programme-of-work-to-develop-a-consensus-solution-to-the-tax-challenges-arising-from-the-digitalisation-of-the-economy.pdf> [accessed 20 January 2020].

[88] G24, *Comments of the G-24 on the OECD Secretariat Proposal for a Unified Approach to the Nexus and Profit Allocation Challenges Arising from the Digitalisation (Pillar 1)*, 9 November 2019 <https://www.g24.org/wp-content/uploads/2019/12/G-24_Comments-on-OECD-Secretariat-Proposal-for-a-Unified-Approach.pdf> [accessed 10 June 2020].

[89] Independent Commission for the Reform of International Corporate Taxation (ICRICT), *The Fight Against Tax Avoidance - BEPS 2.0: What the OECD BEPS Process Has Achieved and What Real Reform Should Look Like*, 2019 <https://static1.squarespace.com/static/5a0c602bf43b5594845abb81/t/5c409495f950b

consequence.[90] Latin American countries should carefully evaluate their political representation at the OECD and the inclusive framework, and assess the potential for an enhanced role through a UN tax body and convention.

7e303b71a45/1547736215689/thefightagainsttaxavoidance_FINAL.pdf> [accessed 12 July 2019].

[90] Tax Justice Network, *Consultation Response to OECD's Consultation 'Addressing the Tax Challenges of the Digitalisation of the Economy'*, 2019 <https://www.oecd-ilibrary.org/docserver/a07f9958-en.pdf?expires=1554297852&id=id&accname=guest&checksum=09CBD5891A2C3B7E7759E3B312D574F6> [accessed 3 April 2019]; Etter-Phoya, Lima and Meinzer, 'Tax Base Erosion and Corporate Profit Shifting: Africa in International Comparative Perspective', 68–107.

6. Financial portfolio investment

Financial assets held in Latin American countries by non-residents, or those held abroad with origin in Latin American economies, are another avenue for illicit financial flows. In this chapter, the risk posed by financial assets is examined at the continental- and country-level alongside strategies to counter illicit financial flow risks. For 2018, data on outward portfolio investment (assets) are available for 18 Latin American countries and inward portfolio investment (liabilities) for 19, respectively (for details of data availability see Annex B: Data availability).

Countries are exposed to illicit financial flows through the manipulation of assets in multiple ways as shown in Annex G: Examples of documented cases of illicit financial flows – inward* and outward* portfolio investment. Assets may be shifted abroad to evade taxes and to launder the proceeds of crime and corruption. For example, in countries with regulated currency exchange systems, residents may abuse a parallel hidden exchange market to launder money, like a group of Venezuelan ex-officials that took advantage of their government connections to abuse the currency exchange system and siphoned off US$1.2bn to the United States, among others, by using fictional investment funds in the U.S. to hide the money trail.[91] Assets can also be shifted by resident investors who seek to evade income taxes on assets by investing in foreign financial securities for tax purposes and making false declarations in their tax returns. For example, one US resident held bank accounts with assets worth US$3m including stocks in German companies at Swiss banks Credit Suisse and UBS which were not declared.[92] By bribing staff in a financial institution to approve fraudulent round-trip trades, corruption paves the way for money to siphon out of the country.

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[91] Welle (www.dw.com), 'How Millions of "dirty Dollars" Were Laundered out of Venezuela | DW | 13.03.2019', *DW.COM* <https://www.dw.com/en/how-millions-of-dirty-dollars-were-laundered-out-of-venezuela/a-47867313> [accessed 17 August 2020].; Welle (www.dw.com), 'How Venezuela Gets Plundered | Business| Economy and Finance News from a German Perspective | DW | 06.08.2018' <https://www.dw.com/en/how-venezuela-gets-plundered/a-44971653> [accessed 17 August 2020].

[92] United States Senate - Permanent Subcommittee on Investigations, *Offshore Tax Evasion: The Efforts to Collect Unpaid Taxes on Billions in Hidden Offshore Accounts* (Washington, DC, 26 February 2014), 89 <https://www.hsgac.senate.gov/imo/media/doc/REPORT%20-%20OFFSHORE%20TAX%20EVASION%20(Feb%2026%202014,%208-20-14%20FINAL).pdf> [accessed 21 June 2019].

In Venezuela, for instance, company executives have bribed an official in a state-owned bank to direct bond trading work to a registered broker-dealer in the United States and collected more than US$60m from the trading business.[93]

Portfolio liabilities (and likewise portfolio assets) can also be manipulated to exploit tax regimes and hide ill-gotten wealth. Residents may falsely claim to be non-residents in order to access tax exemptions that are targeted at foreign investors only. Through round tripping, invested domestic financial assets and income are omitted from the resident investor's tax return because a foreign shell company or similar vehicle is used to disguise the investment as foreign. Similarly, non-resident investors can collude with domestic actors to access tax privileges, which is what happened in a recently uncovered complex offshore stock trading scheme, the so-called "cum-ex and cum-cum" tax evasion cases.[94] Non-resident investors, fund and banks colluded with resident banks to reap undue tax refunds and exemptions. This deprived 11 European countries of at least €55bn in tax revenue.[95]

To hide the origin of proceeds of crime and corruption or the identities of investors, domestic and foreign operators may invest in the domestic financial markets and securitised real estate with the collusion of resident wealth and investment managers. For example, a U.S. investment firm assisted a foreign politically exposed person to set up brokerage accounts in the name of foreign shell companies to launder bribes received from drug traffickers.[96] Non-resident investors may collude with resident wealth and investment managers to report false identity and/or residency information under the automatic exchange of

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[93] The FCPA Blog, 'Hurtado Jailed Three Years in Direct Access Partners Bribe Case | The FCPA Blog' <https://fcpablog.com/2015/12/18/hurtado-jailed-three-years-in-direct-access-partners-bribe-c/> [accessed 17 August 2020].

[94] Michelle Hanlon, Edward L. Maydew and Jacob R. Thornock, *Taking the Long Way Home: U.S. Tax Evasion and Offshore Investments in U.S. Equity and Debt Markets* (Rochester, NY, 29 March 2013) <https://papers.ssrn.com/abstract=1915429> [accessed 21 June 2019].

[95] *The CumEx-Files – How Europe's Taxpayers Have Been Swindled of €55 Billion. A Cross-Border Investigation | CORRECTIV* (18 October 2018) <https://cumex-files.com/en/> [accessed 21 June 2019]; Hanlon, Maydew and Thornock, *Taking the Long Way Home*.

[96] Financial Action Task Force (FATF), *Money Laundering and Terrorist Financing in the Securities Sector*, 2009, 45–46 <http://www.fatf-gafi.org/media/fatf/documents/reports/ML%20and%20TF%20in%20the%20Securities%20Sector.pdf> [accessed 12 November 2018].

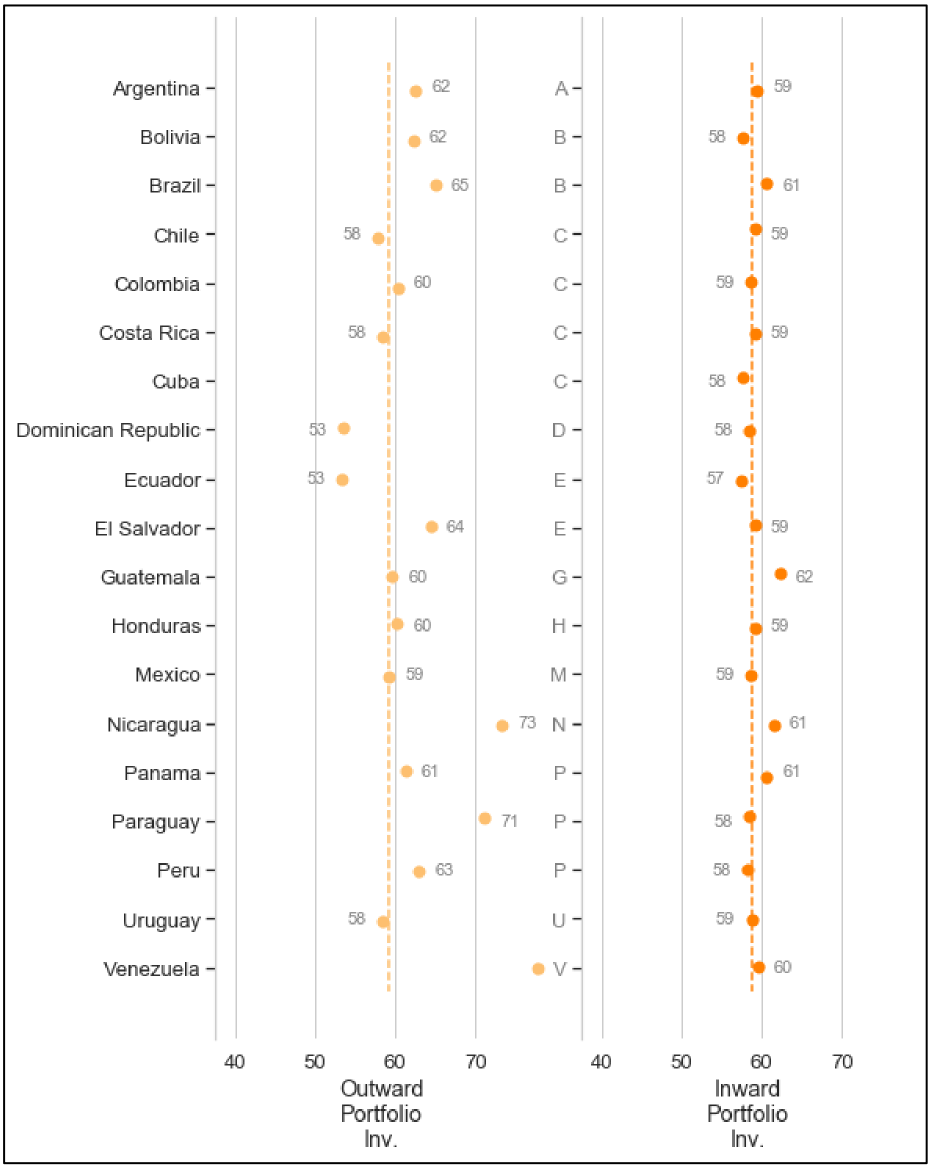
information mechanisms of the Common Reporting Standard in order to engage in tax evasion.[97]

6.1 Continental risk

Latin America’s average vulnerability to illicit financial flows is similar in both, outward and inward portfolio investment (assets and liabilities respectively), in 2018 (59 and 60, respectively; see Figure 19 below). For portfolio investment assets (outward investment), the vulnerability ranges from 53 (Dominican Republic and Ecuador) to 78 (Venezuela), which is the most vulnerable one. The vulnerability range of portfolio investment assets is narrower than the one for liabilities and spans from 57 to 62.

[97] Andres Knobel, ‘Statistics on Automatic Exchange of Banking Information and the Right to Hold Authorities (and Banks) to Account’, 2019 <https://www.taxjustice.net/2019/06/21/statistics-on-automatic-exchange-of-banking-information-and-the-right-to-hold-authorities-and-banks-to-account/, https://www.taxjustice.net/2019/06/21/statistics-on-automatic-exchange-of-banking-information-and-the-right-to-hold-authorities-and-banks-to-account/> [accessed 26 June 2019].

Figure 19. Overview of illicit financial flows vulnerability of portfolio investment in Latin America, 2018



6.1.1 Portfolio investment liabilities analysis

In 2018, the United States of America accounted for nearly half of Latin America's vulnerability to illicit financial flows in derived portfolio investment liabilities, with nearly US$470bn invested in Latin American portfolio assets (see Table 14). At almost fourth of the USA's share, the next greatest cause for vulnerability is Luxembourg (11.85 per cent). Of the top twenty countries, which together make up 96.03 per cent of the total vulnerability, 16 are OECD members, two are OECD dependencies (Cayman Islands and Bermuda), and only the Bahamas and Saudi Arabia are not related to the OECD.

Table 14. Vulnerability in inward portfolio investment 2018 - Latin America's top suppliers of secrecy risks

Rank	Partner name	Latin America Vulnerability share (%)	Secrecy Score	Value of Inward Portfolio Investment (billions) (USD)	Share of Inward Portfolio Investment (%)
1	United States	43.63%	63	469.5	41.26%
2	Luxembourg	11.85%	55	144.7	12.71%
3	Cayman Islands	5.63%	76	50.1	4.40%
4	United Kingdom	4.08%	46	59.8	5.25%
5	Japan	3.92%	63	42.2	3.71%
6	Netherlands	3.73%	67	37.4	3.29%
7	Germany	3.60%	52	47.1	4.14%
8	Ireland	3.54%	48	49.8	4.38%
9	Canada	2.92%	56	35.4	3.11%
10	Switzerland	2.37%	74	21.7	1.90%
11	France	1.78%	50	24.2	2.13%
12	Norway	1.40%	44	21.4	1.88%
13	Bahamas	1.36%	75	12.2	1.08%
14	South Korea	1.23%	62	13.5	1.19%
15	Saudi Arabia	0.95%	67	9.6	0.84%
16	Chile	0.93%	56	11.3	0.99%
17	Italy	0.88%	50	11.9	1.04%
18	Bermuda	0.87%	73	8.1	0.71%
19	Denmark	0.80%	45	12.0	1.05%
20	Australia	0.56%	50	7.6	0.67%

When sorting for the top suppliers of secrecy risks to Latin America by highest secrecy score, 12 countries have very high secrecy scores (>70) as Table 15 shows. Of the countries with very high secrecy scores, each of the following three countries contribute more than 1 per cent to Latin America’s vulnerability share: Cayman Islands (5.63 per cent), Switzerland (2.37 per cent), and the Bahamas (1.36 per cent).

Table 15. Vulnerability in portfolio investment liabilities (derived) 2018 - Latin America's top suppliers of secrecy risks ranked by highest secrecy score

Rank	Partner name	Latin America Vulnerability share (%)	Secrecy Score	Value of Inward Portfolio Investment (millions) (USD)	Share of Inward Portfolio Investment (%)
1	Paraguay	0.00%	77	0	0.00%
2	Cayman Islands	5.63%	76	50,096	4.40%
3	Bahamas	1.36%	75	12,238	1.08%
4	Liechtenstein	0.00%	75	2	0.00%
5	Curacao	0.00%	75	0	0.00%
6	Switzerland	2.37%	74	21,658	1.90%
7	Bermuda	0.87%	73	8,077	0.71%
8	Thailand	0.03%	73	257	0.02%
9	Bangladesh	0.01%	73	55	0.00%
10	Panama	0.29%	72	269	0.24%
11	Mauritius	0.01%	72	59	0.01%
12	Guernsey	0.18%	71	1755	0.15%
13	Malaysia	0.00%	70	19	0.00%
14	Venezuela	0.00%	69	15	0.00%
15	Gibraltar	0.00%	69	12	0.00%
16	Netherlands	3.73%	67	37,446	3.29%
17	Saudi Arabia	0.95%	67	9,615	0.84%
18	Hong Kong	0.14%	66	1,410	0.12%
19	Jersey	0.08%	66	809	0.07%
20	Macao	0.04%	65	414	0.04%

6.1.2 Portfolio investment assets analysis

With regards to outward portfolio investment, the United States accounts for even more than half of Latin America’s vulnerability to illicit financial flows (52 per cent), with US$160bn invested by Latin Americans in portfolio assets in the United States (see Table 16). Like portfolio liabilities, the next greatest supplier of vulnerability is again Luxembourg with 16.62 per cent. Of the top twenty countries, which together make up more than 96 per cent of the total vulnerability, 14 are OECD countries, two are OECD (UK) dependencies (Cayman Islands and British Virgin Islands), and only four are not part of the OECD (The Bahamas, Peru, Colombia and Panama).

Table 16. Vulnerability in portfolio investment assets (derived) 2018 - Latin America's top suppliers of secrecy risks by region and area

Rank	Partner name	Latin America Vulnerability share (%)	Secrecy Score	Value of Outward Portfolio Investment (billions) (USD)	Share of Outward Portfolio Investment (%)
1	United States	51.84%	53	160.4	49.34%
2	Luxembourg	16.62%	52	58.3	17.94%
3	Ireland	4.65%	46	18.8	5.78%
4	Japan	3.14%	74	9.7	2.99%
5	Bahamas	2.97%	52	7.7	2.35%
6	Cayman Islands	2.35%	67	6.0	1.85%
7	Mexico	1.90%	44	7.0	2.16%
8	Germany	1.84%	50	6.9	2.12%
9	United Kingdom	1.81%	57	7.6	2.35%
10	Switzerland	1.76%	56	4.6	1.42%
11	Brazil	1.34%	71	5.0	1.55%
12	Netherlands	0.85%	56	2.5	0.76%
13	Spain	0.82%	62	3.6	1.11%
14	France	0.72%	72	2.8	0.86%
15	Peru	0.70%	53	2.4	0.74%
16	Colombia	0.62%	52	2.1	0.66%
17	British Virgin Islands	0.61%	46	1.7	0.52%
18	Canada	0.52%	74	1.8	0.55%
19	South Korea	0.50%	52	1.6	0.49%
20	Panama	0.46%	67	1.2	0.38%

When sorting for the top suppliers of secrecy risks to Latin America by highest secrecy score, three countries, namely Algeria, Angola and Maldives have an extremely high secrecy score (80) and all remaining 13 countries also have very high secrecy scores (>70) as Table 17 shows. Of the countries with extremely or very high secrecy scores, only three countries contribute more than 1 per cent each to Latin America’s vulnerability share: the Bahamas (2.97 per cent), Cayman Islands (2.35 per cent), and Switzerland (1.76 per cent).

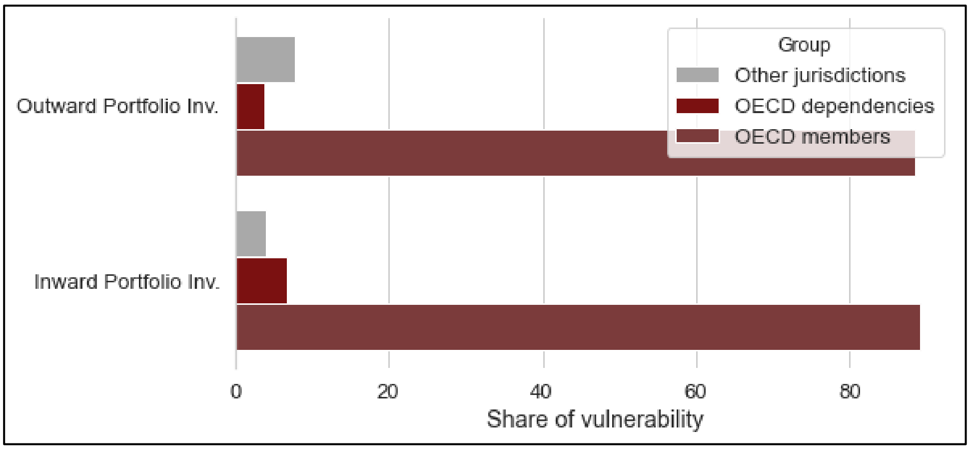
Table 17. Vulnerability in portfolio investment assets (derived) 2018 - Latin America's top suppliers of secrecy risks ranked by highest secrecy score

Rank	Partner name	Latin America Vulnerability share (%)	Secrecy Score	Value of Outward Portfolio Investment (millions) (USD)	Share of Outward Portfolio Investment (%)
1	Algeria	0.00%	80	1	0.00%
2	Angola	0.00%	80	0	0.00%
3	Maldives	0.00%	80	0	0.00%
4	Bolivia	0.03%	79	80	0.02%
5	United Arab Emirates	0.03%	78	73	0.02%
6	Anguilla	0.01%	78	19	0.01%
7	Liberia	0.00%	78	6	0.00%
8	Jordan	0.00%	78	0	0.00%
9	Qatar	0.02%	77	47	0.01%
10	Paraguay	0.02%	77	38	0.01%
11	Cayman Islands	2.35%	76	6,006	1.85%
12	Antigua and Barbuda	0.00%	76	3	0.00%
13	Bahamas	2.97%	75	7,656	2.35%
14	Liechtenstein	0.16%	75	423	0.13%
15	Netherlands Antilles	0.01%	75	33	0.01%
16	St. Kitts and Nevis	0.00%	75	0	0.00%
17	Montserrat	0.00%	75	0	0.00%
18	Switzerland	1.76%	74	4,618	1.42%
19	Guatemala	0.09%	74	232	0.07%
20	Belize	0.01%	74	26	0.01%

6.1.3 The geopolitics of Latin America's vulnerability in portfolio investment assets and liabilities

OECD members and their dependencies constitute more than 92 per cent of Latin America's vulnerability share of outward portfolio investment and more than 95 per cent in Latin America's vulnerability share of inward portfolio investment (see Figure 20).

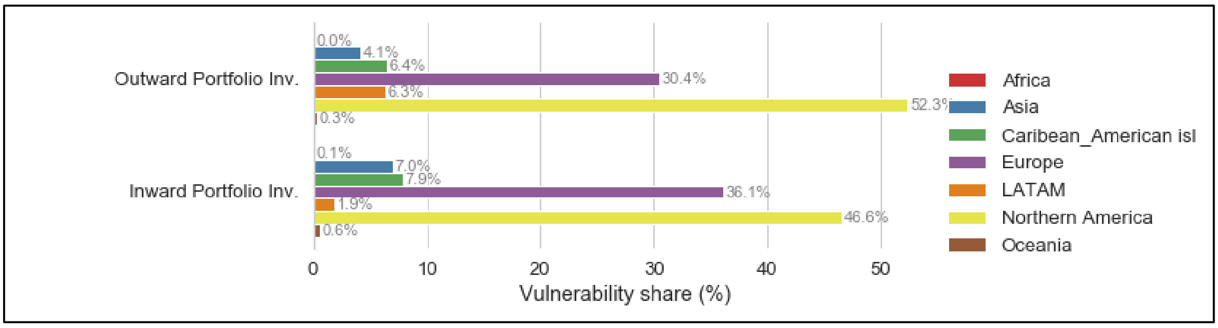
Figure 20. Vulnerability shares of Latin America to OECD and their dependencies in outward and inward portfolio investment, 2018



The contribution of OECD countries and dependencies, and particularly countries in the Americas and Europe, to Latin America's vulnerability in both portfolio investment liabilities and assets is hardly surprising given the dominance of OECD countries' in global financial markets[98] (see Figure 21). Latin American nations might consider devising a joint strategy against the risks for illicit financial flows associated with these investments.

[98] Jan Fichtner, 'Perpetual Decline or Persistent Dominance? Uncovering Anglo-America's True Structural Power in Global Finance', *Review of International Studies*, 43/1 (2017), 3–28 <https://www.cambridge.org/core/journals/review-of-international-studies/article/perpetual-decline-or-persistent-dominance-uncovering-angloamericas-true-structural-power-in-global-finance/75536FC7435F72FC9AB4968D0509F019> [accessed 26 June 2019]; Jan Fichtner, Eelke M. Heemskerk and Javier Garcia-Bernardo, 'Hidden Power of the Big Three? Passive Index Funds, Re-Concentration of Corporate Ownership, and New Financial Risk', *Business and Politics*, 19/02 (2017), 298–326 <https://www.cambridge.org/core/product/identifier/S1469356917000064/type/journal_article> [accessed 15 June 2017]; Petr Janský and others, *Financial Secrecy Affecting the European Union: Patterns across Member States, and What to Do about It*, 2018 <https://www.taxjustice.net/wp-content/uploads/2018/09/Financial-Secrecy-affecting-the-European-Union-Policy-Paper-Tax-Justice-Network.pdf> [accessed 13 December 2018].

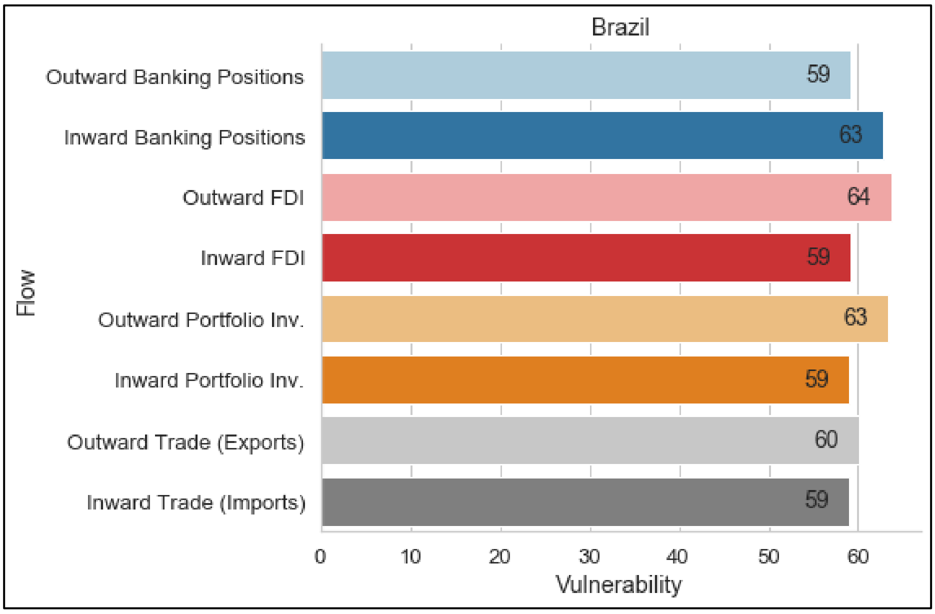
Figure 21. Vulnerability shares of Latin America's top suppliers of secrecy risks in portfolio investment by world region, 2018



6.2 Country-risk profile: Brazil

Given that Brazil's vulnerability to illicit financial flows in inward portfolio investment (at 59) is considerably lower than in its outward portfolio investment (at 64), this section will focus primarily on the latter (which is also the highest vulnerability of all Brazilian channels; see Figure 22).

Figure 22. Country profile of Brazil's vulnerability to illicit financial flows in all 8 economic channels, aggregated values 2009-2018.



In 2018, the United States, the Bahamas and Cayman Islands together constituted more than 70 per cent of Brazil's vulnerability to illicit financial flows (see Table 18 below).

Table 18. Vulnerability of Brazil's outward portfolio investment assets (derived) in 2018

Brazil						
Rank	Jurisdiction	Secrecy Score	Vulnerability Share	Value of Portfolio Investment Assets (billions) (USD)	Share of Portfolio Investment Assets	Activated AEOI Relationship? [99]
1	United States	63	38.86%	16.4	40.16%	N
2	Bahamas	75	20.02%	7.1	17.27%	Y
3	Cayman Islands	76	11.87%	4.2	10.14%	Y
4	Switzerland	74	4.07%	1.5	3.57%	Y
5	Luxembourg	55	3.56%	1.7	4.17%	Y
6	South Korea	62	2.98%	1.3	3.15%	Y
7	Spain	44	2.75%	1.7	4.06%	Y
8	Bermuda	73	2.63%	1.0	2.35%	Y
9	Mexico	53	2.28%	1.2	2.81%	Y
10	Gibraltar	69	1.51%	0.6	1.41%	Y
Overall Vulnerability of portfolio investment assets: 65						

Out of the top ten partner countries in which Brazilian taxpayers hold portfolio investment assets, the United States is the only country with which Brazil does not have any automatic exchange of information (AEOI) relationship under the CRS. This is no surprise given the United States has not joined the Common Reporting Standard (CRS) Multilateral Competent Authority Agreement,[100] and is only part of the Foreign Account Tax Compliance Act (FATCA), which requires financial institutions across the globe to automatically report information about any U.S.-related financial account to the Internal Revenue Service (IRS).

Nonetheless, FATCA is not a multilateral platform and it does not entail the principle of equal reciprocity either. In other words, the United States is not willing to share back with its partners the

[99] Organisation for Economic Co-operation and Development, 'Automatic Exchange Portal - Activated Exchange Relationships for CRS Information' <https://www.oecd.org/tax/automatic-exchange/international-framework-for-the-crs/exchange-relationships/> [accessed 31 August 2020].

[100] Organisation for Economic Co-operation and Development, 'Automatic Exchange Portal - Activated Exchange Relationships for CRS Information'.

same information about the bank accounts of other countries' citizens held in its territory.[101] As such, the United States is able to continue providing de facto banking secrecy to non-residents investing in the U.S. financial system.[102] In the absence of routine reciprocal reporting, evidence suggests that the non-declaration of income is the norm[103] and Brazilian authorities are unlikely to have sufficient information on the foreign portfolio investments of its residents, which would be required for investigation and audit of these assets.

We can use the available data on portfolio and banking assets to illustrate the potential revenue losses caused by the lack of effective information exchange arrangements with the United States. To this effect, we combine the derived banking claims of Brazilians with the reported portfolio assets of Brazilians in the United States. We assume that all portfolio assets reported by Brazil are controlled and owned by Brazilian tax residents, and assume similarly, that the overall banking claims of Brazilians approximate income yielding bank assets abroad. According to that data, as of 2018, US$19.1bn were held by Brazilian residents in the American financial system. Assuming that 10 per cent of the sum is declared by Brazilian taxpayers, and assuming that these portfolio investments yielded a 5 per cent return on investment and that these returns are all taxable in Brazil, this would result in an additional taxable income of US$859m (=5 per cent times 90 per cent of 19.1bn) per annum for Brazil. With Brazilian tax rate of

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[101] *Narrative Report on the United States of America (USA)*, Financial Secrecy Index - Country Reports (2020) <https://fsi.taxjustice.net/PDF/UnitedStates.pdf> [accessed 4 December 2020]

[102] Nick Shaxson, 'Loophole USA: The Vortex-Shaped Hole in Global Financial Transparency', 2015 <https://www.taxjustice.net/2015/01/26/loophole-usa-vortex-shaped-hole-global-financial-transparency-2/, https://www.taxjustice.net/2015/01/26/loophole-usa-vortex-shaped-hole-global-financial-transparency-2/> [accessed 10 September 2020]; Anders Knobel, 'It's Time for Countries to Start Publishing the Data They're Collecting under OECD's Common Reporting Standard', 2018 <https://www.taxjustice.net/2018/07/11/its-time-for-countries-to-start-publishing-the-data-theyre-collecting-under-oecds-common-reporting-standard/, https://www.taxjustice.net/2018/07/11/its-time-for-countries-to-start-publishing-the-data-theyre-collecting-under-oecds-common-reporting-standard/> [accessed 10 September 2020].

[103] Markus Meinzer, 'The Creeping Futility of the Global Forum's Peer Reviews' (2012), 13 <http://www.taxjustice.net/cms/upload/GlobalForum2012-TJN-Briefing.pdf> [accessed 24 January 2020]; Markus Meinzer, 'Automatic Exchange of Information as the New Global Standard: The End of (Offshore Tax Evasion) History?', in *Automatic Exchange of Information and Prospects of Turkish-German Cooperation*, ed. by Leyla Ates and Joachim Englisch (Istanbul, Turkey, 2018), 43–44; Annette Alstadsæter, Niels Johannesen and Gabriel Zucman, 'Tax Evasion and Inequality', *American Economic Review*, 109/6 (2019), 2073–2103 <https://www.aeaweb.org/articles?id=10.1257/aer.20172043> [accessed 4 November 2019].

27.5 per cent for personal income tax[104], that would amount to about US$236m of missed revenue. While this is a simplifying calculation, its magnitude illustrates the substantial amounts at stake for Brazil. The refusal by the United States to engage in automatic information exchange mechanisms under the Common Reporting Standard is costing Brazil dearly – and the entire Latin American continent as a whole.

6.3 Policy recommendations

Latin American countries should consider devising a joint strategy on how to tackle the risks of highly concentrated illicit financial flows in portfolio investments in their economies. Given the volatile nature of portfolio assets and their role in major financial crises, the risks of illicit financial flows should also be analysed in the context of considerations for financial stability.

An immediate minimum policy response to some investors in and from countries with particularly high levels of secrecy would consist in ensuring a broad range of information exchange and administration cooperation agreements covering not only tax matters, but also judicial, police and financial intelligence channels of cooperation. Many Latin America countries (e.g. Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Panama, Uruguay) have already joined the Common Reporting Standard (CRS) and they encourage and assist other Latin American countries to do the same.[105] Some Latin American countries even pioneered the Punta Del Este declaration which supports use of Common Reporting Standard (CRS) data for example in money laundering or corruption investigations.[106]

Furthermore, given the striking role of the United States in Latin America's high vulnerability to illicit financial flows, its refusal to engage in Common Reporting Standard (CRS) and the way it undermines the global level playing field should urgently be addressed. One way to do so could consist in devising a joint Latin American policy – possibly jointly with other interested economic

[104] Pricewaterhouse Coopers, 'Brazil - Individual - Taxes on Personal Income' <https://taxsummaries.pwc.com/brazil/individual/taxes-on-personal-income> [accessed 1 September 2020].

[105] Organisation for Economic Co-operation and Development, 'Automatic Exchange Portal - Activated Exchange Relationships for CRS Information'.

[106] Tax Justice Network, *Key Financial Secrecy Indicator 18: Automatic Information Exchange*, 2020 <http://www.financialsecrecyindex.com/PDF/18-Automatic-Info-Exchange.pdf> [accessed 29 January 2020].

blocs such as the European Union – to require all financial institutions active on the continent to participate in multilateral information exchange or to face a 30 per cent withholding tax for Latin American source payments. This approach would reciprocate what FATCA did for non-US investors and has been proposed for the European Union level before.[107]

[107] The Tax Justice Network has already called several times for the European Union to follow the United States in imposing a withholding tax against financial institutions from jurisdictions that do not fully engage in automatic information exchange– including the United States itself. See Tax Justice Network, *Why Europe Should Impose Withholding Taxes on Payments, to Crack Open Secretive Tax Havens* (London, 2016) <www.taxjustice.net/wp-content/uploads/2013/04/TJN2016_WithholdingTax.pdf> [accessed 11 September 2016]; Nicholas Shaxson, 'Support Grows for Our Withholding Tax Policy against Tax Haven USA', *Tax Justice Network*, 2016 <www.taxjustice.net/wp-content/uploads/2013/04/TJN2016_WithholdingTax.pdf> [accessed 1 December 2020]; Markus Meinzer, 'Countering Cross-Border Tax Evasion and Avoidance: An Assessment of OECD Policy Design from 2008 to 2018' (Utrecht University, 2019) <http://coffers.eu/wp-content/uploads/2019/10/1910-Meinzer-PhD-Dissertation-OECD-Tax-Policies.pdf> [accessed 2 June 2020].

7. Banking deposits

The role of banking in Latin America as a facilitator of illicit financial flows has recently been analysed in a report published by the Financial Transparency Coalition.[108] It provides a detailed overview of banking in the region including current analysis of the main actors of the financial sector, of relevant megabanks and case studies of Mexico and Cayman Islands. The risks for illicit financial flows emanating from the banking system are consequential, given the central role the system plays in most cross-border financial transactions. This includes payments related to economic activity captured in any of the previous economic channels (trade, direct investment, and portfolio investment). For example, a payment for any specific export transaction of goods which is captured by the customs department should in theory be matched by a financial transaction that is reflected in the banking payment system. Evidence suggests that the number of cross-border banking payments (proxied by number of SWIFT messages) is correlated with the volume of trade in the same jurisdiction[109], and mismatches between the jurisdiction of shipping and payment are used as proxies for illicit financial flows risk by some administrations[110].

Yet the Bank for International Settlements' (BIS) locational banking statistics used for the analyses here do not capture these flows[111] (or "movies"), but only the cross-border stocks (or "snapshots") of claims and liabilities of reporting banks. Only very

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[108] Andres Arauz, *The Role of Banking in Latin America as a Facilitator of Illicit Financial Flows*, A Toolkit on Illicit Financial Flows: Module 5 (2020) <https://financialtransparency.org/wp-content/uploads/2020/03/Module-5_Technical-Module_The-Role-of-Banking-in-Latin-America-as-a-Facilitator-of-Illicit-Financial-Flows.pdf> [accessed 11 December 2020].

[109] When conducting bilateral analyses, there is only a weak correlation between bilateral SWIFT messages and trade flows between the same country pairs. See Matthew Collin, Samantha Cook and Kimmo Soramaki, 'The Impact of Anti-Money Laundering Regulation on Payment Flows: Evidence from SWIFT Data', *SSRN Electronic Journal*, 2016, 11 <http://www.ssrn.com/abstract=2893790> [accessed 17 December 2018].

[110] Coelho, Rodrigues Amaral and Bacarolo, 'Fighting Illicit Financial Flows: Brazilian Customs´ Approach'.

[111] Cross-border banking system flows are captured centrally only by SWIFT, an international banking messaging system. Beyond that, banks are obliged under anti-money laundering rules to keep records of their financial transactions themselves under applicable money laundering and similar regulations, including on the ultimate beneficial owners (originators/recipients) of financial transactions.

few jurisdictions participate in these statistics. As of April 2020, there are a total of 48 reporting jurisdictions for the BIS.[112] As mentioned in chapter 3 above, we complemented these data with data from the Banking Centre of Panama.[113] Yet, as mentioned in chapter 2 above, we have recorded positions for only 32 reporting jurisdictions (31 reporting to BIS, plus Panama). In Latin America, the only jurisdictions reporting locational banking statistics are Brazil, Chile, Mexico, and Panama.

Despite the limited data availability, it is possible to derive valuable information relevant for Latin America from the reporting jurisdictions and banks. Reporting jurisdictions and banks report on liabilities and claims for each partner jurisdiction, and this inevitably extends to jurisdictions that currently do not provide locational banking statistics to the BIS. For example, the data reveals that in 2018, Spanish banks reported a liability towards Mexico of US$7.65bn and Swiss banks reported US$0.5bn of banking liabilities towards Chile. While this information is hard to interpret, we can use these reported liabilities of all BIS reporting countries to derive approximate assets ("derived claims") held by residents of one country in the financial system of the other. Hence, Mexican residents (including banks) invested US$7.65bn worth of assets with banks in Spain, and Chilean residents owned US$0.5bn of assets at banks in Switzerland in 2018.

It is important to bear in mind that the locational banking data only captures the immediate legal owner of banking assets, but not the ultimate legal or beneficial owner.[114] For example, banking assets controlled by a resident in Latin America in a U.S. bank would not be captured by the liabilities data reported by the U.S. if the bank account is in the name of a company registered in the British Virgin Islands. Instead, the U.S. would report this deposit as a liability vis-à-vis the British Virgin Islands.

At the same time, if banks resident in Latin America offer foreign currency accounts to Latin America clients (e.g. in U.S. dollars or Euros), the resident banks need to hold the equivalent sums in correspondent accounts at foreign banks, mostly within the

[112] Bank for International Settlements, 'Global Coverage of BIS Locational Banking Statistics', 2020 <https://www.bis.org/statistics/lbs_globalcoverage.pdf>.

[113] Table "Cuadro No. 57-A Depósito Externo por Países me", found on the website of 'Cartas Bancarias | Superintendencia de Bancos de Panamá' <https://superbancos.gob.pa/es/fin-y-est/cartas-bancarias> [accessed 21 September 2020].

[114] Lukas Menkhoff and Jakob Miethe, *Dirty Money Coming Home: Capital Flows into and out of Tax Havens* (2017), 11 <https://www.diw.de/documents/publikationen/73/diw_01.c.574066.de/dp1711.pdf> [accessed 7 April 2018].

currency area matching the currency in which the account is held (for Euro, for example in Frankfurt, Germany). Consequently, the jurisdiction where the Latin America client account holders reside would not be captured in German BIS statistics, but only the jurisdiction of residency of the bank offering the accounts would be recorded in the country where the correspondent account is held by a foreign bank.

The ways in which this channel enables illicit financial flows are diverse and broad because of the vast sums transacted and the pervasiveness of financial transactions in any white-collar crimes (see Annex H for an overview). For example, Eurozone banks alone transacted in 2016 on average €878bn per day through loro or vostro accounts (correspondent banking accounts held for other banks).[115] As for BIS outward derived asset data, residents may directly control accounts at foreign banks and fail to disclose the assets and/or related income in their tax returns. This risk is compounded when banking groups (domestic banks colluding with foreign related parties, such as subsidiaries, branches, or holdings) engage in covert transfers on behalf of domestic clients, shifting assets abroad.

Examples of the massive risks emanating from such transfers are presented in Annex H. In the 1990s, banks in Germany engaged in fraudulent banking transfers with branches or subsidiaries in Luxembourg, Switzerland and Gibraltar in order to shift abroad billions on behalf of their clients, who sought to evade newly introduced withholding taxes on banking deposit interest. To do this, banks established specific transfer, pipeline or tunnel accounts between domestic banking offices and related party banking offices abroad. Routinely, the bank would officially record a cash withdrawal of large amounts to mislead regulators. The bank would then credit those sums covertly (anonymously or in the name of fictional account holders, such as “Helmut Kohl”) in the transfer account, where client’s assets were aggregated and then transferred “en bloc” abroad. Identifying the real beneficiaries of the transfers was only possible through codewords and bank internal software. In 1999, after three years of criminal investigations, only DM13.6bn of the total of DM19.4bn

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[115] European central Bank, *Tenth Survey on Correspondent Banking in Euro*, 2016, 9 <https://www.ecb.europa.eu/pub/pdf/other/surveycorrespondentbankingineuro201702.en.pdf>.

(approx. €10bn) of covert transfers by Commerzbank alone had been successfully attributed to clients.[116]

Money launderers can rely on similar services if they are successfully co-opting or abusing banks. For example, Mexican drug cartels were able to launder billions of dollars through HSBC due to weak internal controls and a lack of action by US regulators. The HSBC's Mexican affiliate moved US$7bn to the US between 2007 and 2008, despite signs that the money could be coming from Mexican cartels. This resulted in money laundering and terrorist financing charges and ultimately led to HSBC paying US$1.92bn in a deferred prosecution agreement with the US Department of Justice.[117]

Abusing the financial system for channelling corrupted money abroad can take place either through foreign bank accounts or through domestic banks while using correspondent banking. For example, in 2004 an investigation of the United States Senate on money laundering discovered that Mr. Pinochet, former president of Chile, used the assistance of several banks to conceal and move his funds while he was under investigation and the subject of a Spanish court order directing a worldwide freeze of his assets. According to the Senate committee, the multiple accounts Pinochet had opened in various countries (e.g. the Bahamas, Cayman Islands, Gibraltar, and Switzerland) accepted millions of dollars in deposits with no serious inquiry into the source of his wealth.[118] An investigation into the large-scale Odebrecht bribery and money laundering case[119] revealed that Odebrecht used Andorran bank "Banca Privada d'Andorra" between 2008 and 2015 to transfer funds to offshore accounts of Peruvian residents.[120]

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[116] Markus Meinzer, *Steueroase Deutschland. Warum Bei Uns Viele Reiche Keine Steuern Zahlen* (München, 2015), 222–25.

[117] 'HSBC to Pay US$1.9bn in Probe - Taipei Times', 12 December 2012, section Business <https://www.taipeitimes.com/News/biz/archives/2012/12/12/2003549925> [accessed 6 September 2020].

[118] Permanent Subcommittee on investigations United States Senate Committee on Homeland Security and Governmental Affairs, *Money Laundering and Foreign Corruption: Enforcement and Effectiveness of the Patriot Act.*, 2004 <http://www.derechos.org/nizkor/corru/doc/riggsbank1.html#II.%20Executive%20Summary> [accessed 6 September 2020].

[119] Marco Aquino, 'Peru's Presidential Lineup: Graft Probes, Suicide and Impeachment', *Reuters*, 15 November 2020 <https://www.reuters.com/article/us-peru-politics-presidents-factbox-idUSKBN27V0M1> [accessed 11 December 2020].

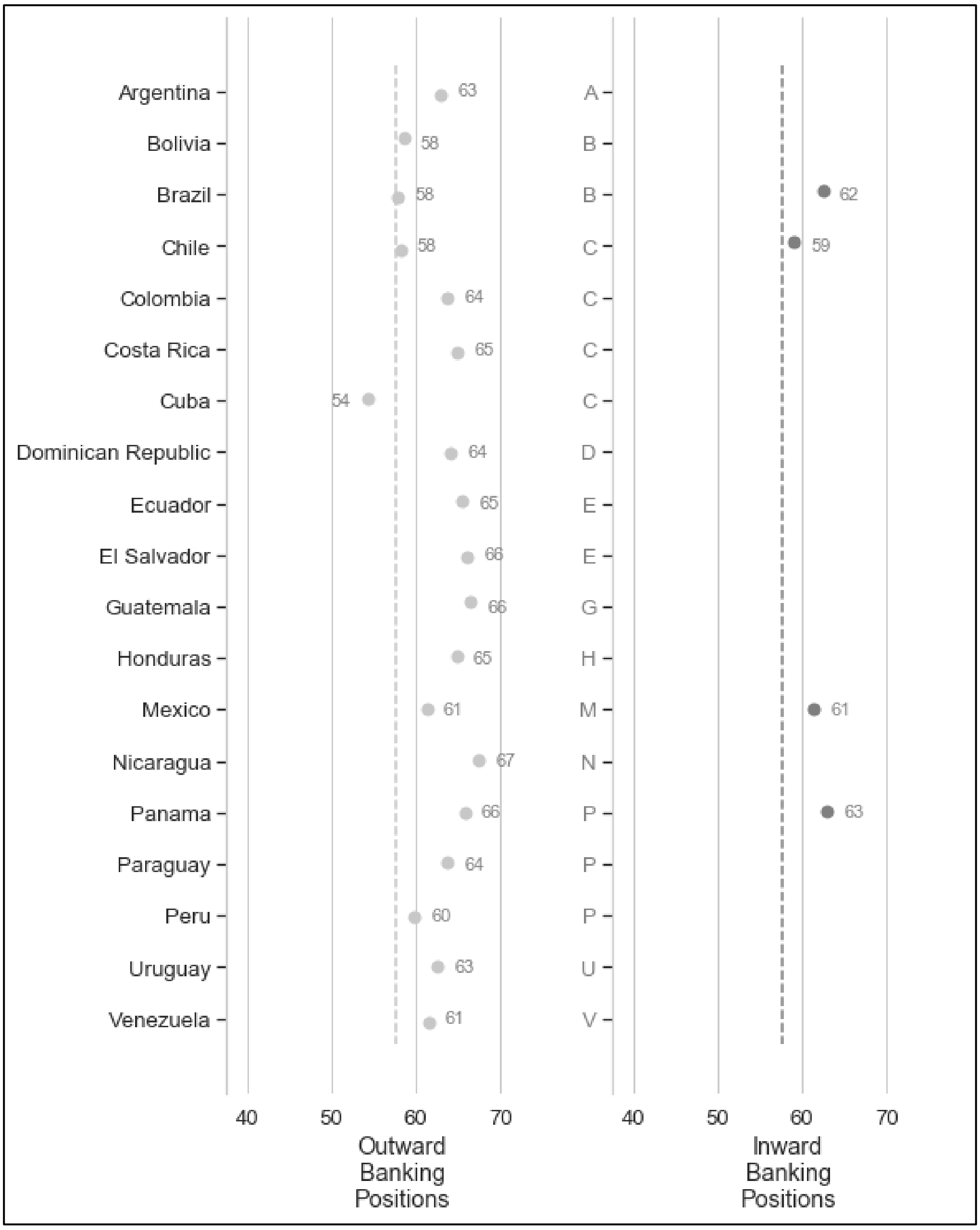
[120] https://lavajato.ojo-publico.com/articulo/lista-negra-caso-lavajato/; 11.12.2020.

While using the BIS data may assist in revealing the risks inherent in such transactions, it can only do that partially, especially if the corresponding country, like Peru, does not report locational data to the BIS or the reporting country opts to not bilaterally disaggregate its data.

7.1 Continental risk

The average vulnerability of Latin America countries to illicit financial flows in both claims and liabilities was 58 as of 2018 (see Figure 23 below). For derived banking claims, the vulnerability ranges from 54 (Cuba) to 67 (Nicaragua). The data on the banking liabilities is limited to only four reporting Latin America countries and ranges from 59 (Chile) to 63 (Panama). Given the gap in the data, the analysis in this chapter will focus on the derived banking claims (outward banking positions), for which the data is complete.

Figure 23. Overview of illicit financial flows vulnerability of banking positions in Latin America, 2018



7.1.1 Banking claims (derived) analysis

In 2018, the United States was responsible for more than half of Latin America's vulnerability to illicit financial flows in banking claims (56 per cent), with US$195bn invested from Latin America in its territory (see Table 19 below). Switzerland and Panama follow as second and third largest suppliers of vulnerability to Latin America (13 per cent and 6 per cent, respectively). Of the top twenty countries, which together make up 99 per cent of the total vulnerability, fifteen are OECD countries, one is an OECD

(UK) dependency (Jersey), and only four are not related to the OECD (Hong Kong, Taiwan, Panama and Brazil).

Table 19. Vulnerability in outward positions in 2018 - Latin America's top suppliers of secrecy risks

Rank	Country	Latin America's Vulnerability Share	Secrecy Score	Value of Claims (billions) (USD)	Share of Claims
1	United States	56.49%	63	194.9	55.43%
2	Switzerland	13.42%	74	39.3	11.18%
3	Panama	6.46%	72	19.5	5.55%
4	United Kingdom	4.98%	46	23.4	6.65%
5	Spain	3.74%	44	18.5	5.25%
6	Netherlands	3.27%	67	10.5	2.99%
7	France	2.62%	50	11.4	3.24%
8	Japan	2.39%	63	8.2	2.34%
9	Canada	1.72%	56	6.7	1.90%
10	Germany	1.35%	52	5.7	1.61%
11	Hong Kong	0.78%	66	2.5	0.72%
12	Luxembourg	0.75%	55	2.9	0.84%
13	Taiwan	0.38%	66	1.2	0.36%
14	Italy	0.26%	50	1.1	0.32%
15	Belgium	0.23%	45	1.1	0.32%
16	Jersey	0.21%	66	0.7	0.19%
17	Australia	0.17%	50	0.7	0.21%
18	Chile	0.17%	56	0.7	0.19%
19	Brazil	0.13%	52	0.5	0.15%
20	Austria	0.12%	57	0.5	0.13%

When sorting all jurisdictions which provide secrecy risks to Latin America in banking claims by highest secrecy score, the role of Switzerland, Panama, Guernsey and Netherlands with very high secrecy scores is a cause for concern (see Table 20 below). These four jurisdictions alone are responsible for over 23 per cent of the Latin America’s vulnerability, hosting in total about US$70bn of Latin American banking assets.

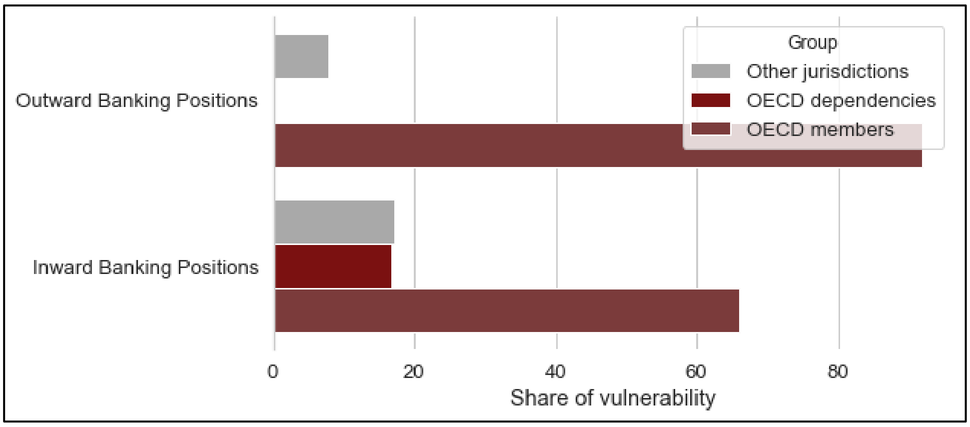
Table 20: Vulnerability in outward banking positions in 2018 - Latin America's top suppliers of secrecy risks ranked by highest secrecy score

Rank	Country	Latin America's Vulnerability Share	Secrecy Score	Value of Claims (billions) (USD)	Share of Claims
1	Switzerland	13.42%	74	39.3	11.18%
2	Panama	6.46%	72	19.5	5.55%
3	Guernsey	0.06%	71	0.2	0.05%
4	Netherlands	3.27%	67	10.5	2.99%
5	Hong Kong	0.78%	66	2.5	0.72%
6	Taiwan	0.38%	66	1.3	0.36%
7	Jersey	0.21%	66	0.7	0.19%
8	Isle of Man	0.07%	65	0.2	0.06%
9	Macao	0.01%	65	0.03	0.01%
10	United States	56.49%	63	194.9	55.43%
11	Japan	2.39%	63	8.2	2.34%
12	Philippines	0.00%	63	0.01	0.00%
13	South Korea	0.05%	62	0.2	0.05%
14	Austria	0.12%	57	0.5	0.13%
15	Canada	1.72%	56	6.7	1.9%
16	Chile	0.17%	56	0.7	0.19%
17	South Africa	0.02%	56	0.1	0.02%
18	Luxembourg	0.75%	55	2.9	0.84%
19	Mexico	0.01%	53	0.02	0.01%
20	Germany	1.35%	52	5.7	1.61%

7.1.2 The geopolitics of Latin America's vulnerability in banking claims

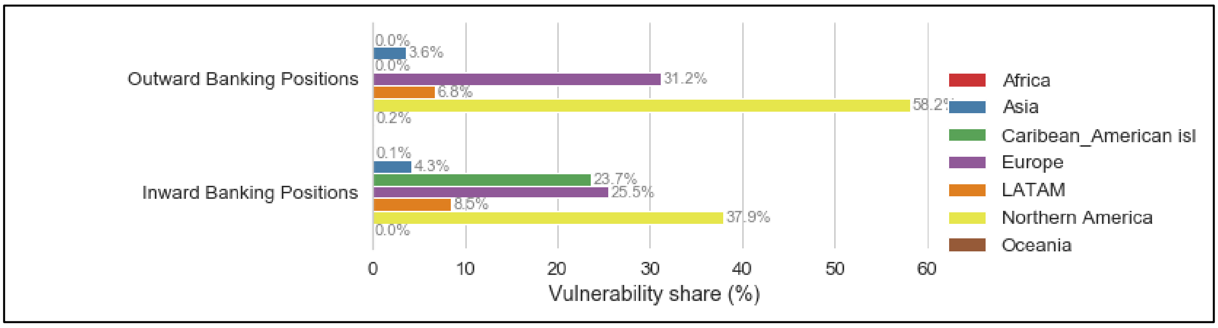
European and OECD countries account for the vast majority of Latin America's vulnerability to illicit financial flows in banking claims. In fact, OECD countries constitute almost 92 per cent in Latin America's vulnerability share of banking claims while other countries constitute only 7.78 per cent (see Figure 24). OECD's dependencies play an insignificant role compared to other channels.

Figure 24. Vulnerability of Latin America to OECD members and their dependencies in banking claims, 2018



European countries alone constitute 31.2 per cent of Latin America’s vulnerability share (see Figure 25), after the United States which is the largest supplier of secrecy to Latin America in banking claims.

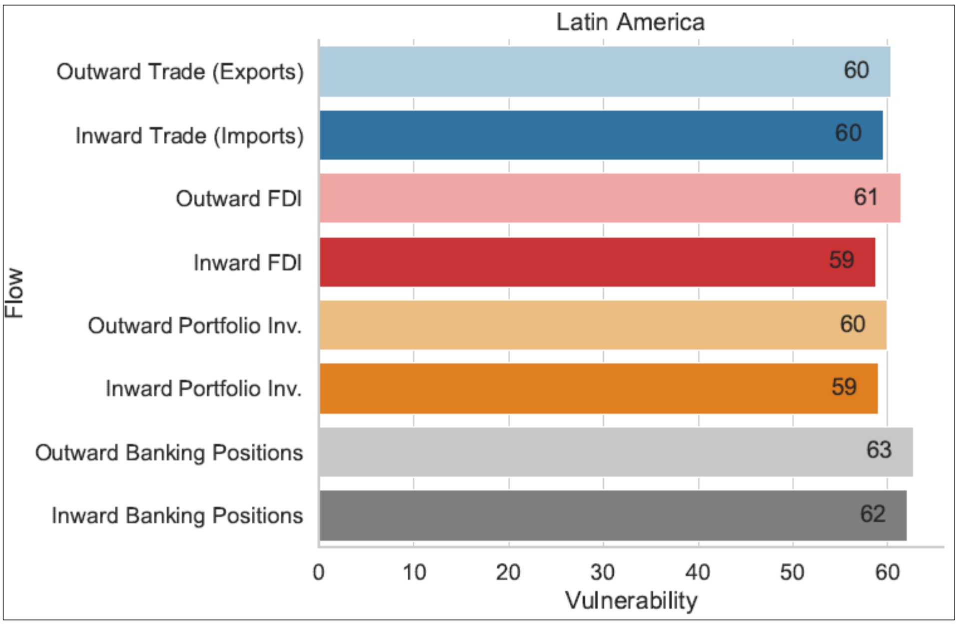
Figure 25. Vulnerability shares of Latin America's top suppliers of secrecy risks in banking claims by world region, 2018



7.2 Country-risk profile

As exemplified in the cases detailed above and in Annex H, Latin America’s countries have suffered a lot from corrupted government officials who chose to drain their countries’ economies by abusing the financial system to hide the money in bank accounts abroad. It is perhaps not surprising that as of 2018, out of all eight economic illicit financial flows channels, the risk spectrum of Latin America countries in derived banking claims is the highest of all channels (see Figure 26 below).

Figure 26: Overview of illicit financial flows vulnerability of Latin America in all eight economic channels, 2018



Automatic exchange of tax information could help address these risks. Despite the identified loopholes of the system for automatic banking data exchange devised by the OECD (under the Common Reporting Standard) and its exclusion of developing countries in the design stage[121], its role in providing relevant information about bank accounts held abroad by residents is crucial.[122] As determined recently by the United Nations in its Financing for Sustainable Development Report 2020, there is no doubt that countries without access to information will not be able to increase their revenue mobilisation related to their cross-border activity.[123]

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[121] Knobel, Andres and Meinzer, Markus, *"The End of Bank Secrecy"? Bridging the Gap to Effective Automatic Information Exchange - An Evaluation of OECD's Common Reporting Standard (CRS) and Its Alternatives* (24 November 2014) <http://www.taxjustice.net/wp-content/uploads/2013/04/TJN-141124-CRS-AIE-End-of-Banking-Secrecy.pdf> [accessed 30 January 2020].

[122] Markus Meinzer, 'Automatic Exchange of Information as the New Global Standard: The End of (Offshore Tax Evasion) History?', *SSRN Electronic Journal*, 2017 <http://www.ssrn.com/abstract=2924650> [accessed 29 January 2020]; Ralph Cunningham, 'Developing Countries Want Automatic Information Exchange, Tax Justice Network Research Reveals | International Tax Review', *International Tax Review*, 24 June 2014 <https://www.internationaltaxreview.com/Article/3354926/Corporate-Tax/Developing-countries-want-automatic-information-exchange-Tax-Justice-Network-reveals.html?ArticleId=3354926> [accessed 1 May 2019].

[123] United Nations Department of Economic & Social Affairs, *Financing for Sustainable Development Report 2020- Inter-Agency Task Force on Financing for Development* (S.l.,

Venezuela, for example, does not currently engage in automatic information exchange on banking data at all. This implies an unmitigated risk for a broad range of illicit financial flows, including, but not limited to, tax matters. Recently, U.S. Federal investigators were provided access to Swiss bank records in an investigation of US$4.5bn money-laundering related to Venezuela. The case concerns a wealthy circle of Venezuelan businessmen known as "boliburgueses" that allegedly paid hefty bribes to government officials who, in exchange for the bribes, made the national oil company (Petróleos de Venezuela, S.A.) take out loans from the boliburgueses in local currency (bolivars), while accepting repayment of the debts in US dollars. Both the bribes and the loan repayments were then laundered through US and Swiss bank accounts between 2012 and 2014, according to U.S. authorities.[124]

As exemplified by Table 21 below, Switzerland is the second country after the United States, to which Venezuela is most vulnerable about banking claims, and as opposed to the United States, Switzerland is part of the Common Reporting Standard. Thus, if Venezuela enters into automatic information exchange tax treaties with Switzerland, it could probably detect and counter more easily these kinds of money-laundering and corruption schemes which drain the country's own resources. The revenue implications of it are likely to be substantial: assuming that only 10 per cent of Venezuelan taxpayers' assets in Switzerland (US$2.7bn) are declared and that these assets yield a 5 per cent return, taxable income would increase annually by US$121m (=5 percent times 90 per cent times 2.7). If this revenue was indeed taxable in Venezuela at the top marginal personal income tax rate of 34 per cent[125], that would amount to approximately US$41.1m of missed tax revenue. Even if only half of this sum was collected, not implementing automatic information exchange still implies that substantial tax revenues are foregone.

2020), 38 <https://developmentfinance.un.org/sites/developmentfinance.un.org/files/FSDR_2020.pdf>.

124 Brian Orsak, 'Huge U.S. Money-Laundering Probe Targets Circle of Venezuelan Elites', *Https://Www.Riskscreen.Com/Kyc360/*, 28 February 2020 <https://www.riskscreen.com/kyc360/news/huge-u-s-money-laundering-probe-targets-widening-circle-of-venezuelan-elites/> [accessed 6 September 2020].

125 IBFD, *Tax Research Platform: Country Surveys, Country Analyses, Country Key Features*, 2020 <https://research.ibfd.org/>.

Table 21: Vulnerability of Venezuela's banking claims (derived) in 2018

Venezuela						
Rank	Jurisdiction	Secrecy Score	Vulnerability Share	Value of Banking Claims (derived) (billions) (USD)	Share of Banking Claims (derived)	Activated AEOI Relationship?[126]
1	United States	63	49.61%	10.6	48.47%	N
2	Switzerland	74	15.05%	2.7	12.49%	N
3	Panama	72	14.14%	2.6	12.09%	N
4	Spain	44	7.25%	2.2	10.14%	N
5	United Kingdom	46	5.60%	1.6	7.44%	N
6	Hong Kong	66	1.97%	0.4	1.82%	N
7	France	50	1.58%	0.4	1.95%	N
8	Italy	50	1.33%	0.4	1.62%	N
9	Chile	56	1.00%	0.2	1.10%	N
10	Germany	52	0.59%	0.2	0.70%	N
Overall vulnerability of derived banking claims: 60						

Colombia, in contrast, is one of the Latin American countries which is most actively engaged in the automatic exchange of information system. As can be seen from the last column of Table 22 below, it has activated exchange relationships with 9 out of the top 10 countries contributing to Colombia's vulnerability. The only exception is the United States, which, as mentioned earlier, has so far refused to engage in reciprocal information exchange under the Common Reporting Standard (CRS).[127]

[126] Organisation for Economic Co-operation and Development, 'Automatic Exchange Portal - Activated Exchange Relationships for CRS Information'.

[127] Janský and others, *Financial Secrecy Affecting the European Union: Patterns across Member States, and What to Do about It*.

Table 22. Vulnerability of Colombia's banking claims (derived) in 2018

Colombia						
Rank	Jurisdiction	Secrecy Score	Vulnerability Share	Value of Banking Claims (derived) (billions) (USD)	Share of Banking Claims (derived)	Activated AEOI Relationship?[128]
1	United States	63	58.68%	9.5	59.39%	N
2	Panama	72	28.81%	4.1	25.52%	Y
3	Switzerland	74	3.22%	0.4	2.77%	Y
4	United Kingdom	46	2.76%	0.6	3.80%	Y
5	Spain	44	2.21%	0.5	3.20%	Y
6	France	50	1.35%	0.3	1.72%	Y
7	Australia	50	0.94%	0.2	1.20%	Y
8	Germany	52	0.59%	0.1	0.73%	Y
9	Luxembourg	55	0.33%	0.06	0.38%	Y
10	Austria	56	0.28%	0.05	0.32%	Y
Overall vulnerability of derived banking claims: 61						

However, the existence of exchange relationships is no guarantee that illicit financial flows related to the foreign banking assets are effectively curtailed. Numerous loopholes, constraints on data usage, and low sanctions even in cases of wilful misreporting, for example, in case of Germany and Switzerland,[129] require that further steps are taken to mitigate illicit financial flows risks from banking claims, including public statistics about reporting practices and severe sanctions in case of wilful misreporting in reporting countries.[130]

[128] Organisation for Economic Co-operation and Development, 'Automatic Exchange Portal - Activated Exchange Relationships for CRS Information'.

[129] Knobel, 'Statistics on Automatic Exchange of Banking Information and the Right to Hold Authorities (and Banks) to Account'; Meinzer, 'Automatic Exchange of Information as the New Global Standard'; Andres Knobel, 'The Use of Banking Information to Tackle Corruption and Money Laundering: A Low-Hanging Fruit the OECD Refuses to Harvest', *Tax Justice Network*, 2019 <https://www.taxjustice.net/2019/04/30/the-use-of-banking-information-to-tackle-corruption-and-money-laundering-a-low-hanging-fruit-the-oecd-refuses-to-harvest/, https://www.taxjustice.net/2019/04/30/the-use-of-banking-information-to-tackle-corruption-and-money-laundering-a-low-hanging-fruit-the-oecd-refuses-to-harvest/> [accessed 27 June 2019].

[130] Andres Knobel, 'Germany's New Statistics on Exchange of Banking Information: A Trove of Useful Data and Clues', *Tax Justice Network*, 2020 <https://www.taxjustice.net/2020/08/21/germanys-new-statistics-on-exchange-of-banking-information-a-trove-of-useful-data-and-clues/,

7.3 Policy recommendations

Latin American countries that are not yet participating in the automatic information exchange framework (e.g. Bolivia, Cuba, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, Venezuela)[131] should carry out cost-benefit analyses to determine the potential additional tax revenues from engaging in the Common Reporting Standard. This might involve revisiting the scope of the personal income tax system and of wealth taxes, including considering the removal of remittance qualifications to worldwide income taxation as well as to consider applying or adapting the top marginal rates. The illicit financial flows risk analysis presented above can guide policymakers in prioritising negotiations for information exchange relationships with jurisdictions that are responsible for the greatest illicit financial flows risk in their economies.

Latin American countries already participating in the exchange system (i.e. Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Panama and Uruguay) might consider working towards a joint position for tweaking the parameters of the system to their needs. For example, requiring public statistics[132] could be an effective means to increase compliance of reporting obligations in major OECD controlled financial centres. In addition, the artificial legal constraints the OECD places on the use of data for criminal corruption and money laundering investigations could be revisited.[133] The Punta del Este declaration, "a call to strengthen action against tax evasion and corruption",[134] signed by participating ministers from Latin America in 2018, could provide a useful starting point for political international coordination towards a more efficient and ambitious data usage. Furthermore, options to achieve fully reciprocal information exchanges including with the United States, should be explored (see section 6.3 Policy recommendations).

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https://www.taxjustice.net/2020/08/21/germanys-new-statistics-on-exchange-of-banking-information-a-trove-of-useful-data-and-clues/> [accessed 11 November 2020].

131 Organisation for Economic Co-operation and Development, 'Automatic Exchange Portal - Activated Exchange Relationships for CRS Information'.

132 Knobel, 'Statistics on Automatic Exchange of Banking Information and the Right to Hold Authorities (and Banks) to Account'.

133 Knobel, 'The Use of Banking Information to Tackle Corruption and Money Laundering'.

134 'Punta Del Este Declaration: A Call to Strengthen Action against Tax Evasion and Corruption', 2018 <https://www.oecd.org/tax/transparency/Latin-American-Ministerial-Declaration.pdf> [accessed 14 August 2019].

8. Conclusions and policy recommendations

This report has presented an analytical framework that informs a holistic, whole-of-government approach in countering illicit financial flows. These illicit financial flows undermine domestic resource mobilisation, deepen poverty, distort the economy, allow organised crime to thrive, and enable grand corruption on the continent. The common denominator is that these illicit financial flows rely on secrecy in counterpart countries of cross-border economic transactions into and out of Latin American countries.

Across trade, foreign direct investment, portfolio investment, and banking, high levels of financial secrecy in cross-border transactions create a criminogenic environment. This demands a response by authorities. In order for countries to determine where to prioritise their efforts, this analysis argues that a review of the exposure and vulnerability of a country's entire economy to illicit financial flow risks is required. After identifying particularly important and risky economic channels of each economy, granular analysis of the vulnerabilities in each channel allows stakeholders to trace the origin of these risks. In turn, this would provide concrete leads for follow up for policymakers and operational staff in different governmental branches.

Latin America imports most of its risks to illicit financial flows from outside the continent. Yet there are some noticeable nuances to this overall pattern. While the vulnerability in trade is dominated by North America and Asia, the vulnerability in the investment channels (both portfolio and direct investment) as well as the banking channel is dominated by North America and Europe. A salient finding is the extraordinary share (above 90 per cent) of all vulnerability in the investment channels that originates from OECD member states and their dependencies. Finally, in banking liabilities, substantial vulnerability is originated in the Cayman Islands and the Bahamas.

The insights from this analysis provide policymakers with guidance for their next steps in countering illicit financial flows: where and how to start tackling the issues. The resultant policy recommendations are summarised below:

1. Enhance data availability

Broadening the availability of statistical data on bilateral economic relationships is a first step for enabling both in-depth and comprehensive analyses and meaningful regulation of economic actors engaged in cross-border transactions. In the process of collecting statistical data according to IMF standards, governments would need to build registration and monitoring capacity that likely helps improve overall economic governance.

2. Consider Latin American coordination on countering IFF risks

The bulk of illicit financial flows risks at the moment is imported into Latin America from outside the region. This finding could help stimulate joint negotiation positions among Latin American countries when engaging in multilateral negotiations around trade, investment or tax matters. Despite the lack of political organisation at the regional level, which makes coordination and joint action more difficult to achieve, Latin American countries might consider crafting alternative minimum standards for trade, investment, and financial services in order to safeguard against illicit financial flows emanating from secrecy jurisdictions and corporate tax havens controlled by European and OECD countries. Furthermore, Latin American countries should carefully evaluate their political representation at the OECD and the associated Inclusive Framework, and assess the potential for an enhanced role through a UN tax body and convention.

3. Embed IFF risk analyses across administrative departments

A holistic approach to countering illicit financial flows requires capacity to identify and target the areas of the highest risks for illicit financial flows. Illicit financial flows risk profiles can assist governments in prioritising the allocation of resources across administration departments and branches of government, including tax authorities and customs, the central bank, supreme audit institutions, financial supervisors, anti-corruption offices, financial intelligence units and the judiciary. Within these departments, the illicit financial flows risk profiles would support the targeting of audits and investigations at an operational level as well as the negotiation of bilateral and multilateral treaties on information exchange at a policymaking level. Whether on tax, data, trade or corruption related matters, capacity building strategies at a continental level should include illicit financial flows risk analysis.

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Annex A: Latin American States

The dataset includes the following Latin American states sorted in alphabetical order by the 3-letter code for country names (ISO3166-3). It includes all Latin American states that are members of the Financial Action Task Force of Latin America (GAFILAT), in addition to Venezuela and El Salvador— the only continental countries in the region with a population larger than 1 million not part of GAFILAT.

No.	ISO3166-3	ISO3166-2	Country
1	ARG	AR	Argentina
2	BOL	BO	Bolivia
3	BRA	BR	Brazil
4	CHL	CL	Chile
5	COL	CO	Colombia
6	CRI	CR	Costa Rica
7	CUB	CU	Cuba
8	DOM	DO	Dominican Republic
9	ECU	EC	Ecuador
10	GTM	GT	Guatemala
11	HND	HN	Honduras
12	MEX	MX	Mexico
13	NIC	NI	Nicaragua
14	PAN	PA	Panama
15	PRY	PY	Paraguay
16	PER	PE	Peru
17	SLV	SV	El Salvador
18	URY	UY	Uruguay
19	VEN	VE	Venezuela

Annex B: Data availability

The following table shows the Latin America reporter jurisdictions with data for at least one observation between 2009 and 2018, and the jurisdictions with coverage for 2018. Data on trade and inward banking positions contains only directly reported observations. Only Brazil, Chile and Mexico report to the BIS, and we manually added data from Panama. Data on outward banking positions contains only derived information based on the partner country. CPIS and CDIS data contains both directly reported and derived information—the maximum value of the two values was kept.

Flow	Trade (Imports and Exports) (COMTRADE)		Outward and inward FDI (CDIS)	Outward Portfolio Inv. (CPIS)		Inward Portfolio Inv. (CPIS)	Outward Banking Positions (BIS)	Inward Banking Positions (BIS)
No	2009-2018	2018	2009-2018 and 2018	2009-2018	2018	2009-2018 and 2018	2009-2018 and 2018	2009-2018 and 2018
1	Argentina	Argentina	Argentina	Argentina	Argentina	Argentina	Argentina	1
2	Bolivia	Bolivia	Bolivia	Bolivia	Bolivia	Bolivia	Bolivia	2
3	Brazil	Brazil	Brazil	Brazil	Brazil	Brazil	Brazil	3
4	Chile	Chile	Chile	Chile	Chile	Chile	Chile	4
5	Colombia	Colombia	Colombia	Colombia	Colombia	Colombia	Colombia	5
6	Costa Rica	Costa Rica	Costa Rica	Costa Rica	Costa Rica	Costa Rica	Costa Rica	6
7	Dominican Republic	Ecuador	Cuba	Cuba	Dominican Republic	Cuba	Cuba	7
8	Ecuador	El Salvador	Dominican Republic	Dominican Republic	Ecuador	Dominican Republic	Dominican Republic	8
9	El Salvador	Mexico	Ecuador	Ecuador	El Salvador	Ecuador	Ecuador	9
10	Guatemala	Nicaragua	El Salvador	El Salvador	Guatemala	El Salvador	El Salvador	10
11	Honduras	Paraguay	Guatemala	Guatemala	Honduras	Guatemala	Guatemala	11
12	Mexico	Peru	Honduras	Honduras	Mexico	Honduras	Honduras	12
13	Nicaragua	Uruguay	Mexico	Mexico	Nicaragua	Mexico	Mexico	13
14	Panama		Nicaragua	Nicaragua	Panama	Nicaragua	Nicaragua	14
15	Paraguay		Panama	Panama	Paraguay	Panama	Panama	15
16	Peru		Paraguay	Paraguay	Peru	Paraguay	Paraguay	16
17	Uruguay		Peru	Peru	Uruguay	Peru	Peru	17
18	Venezuela		Uruguay	Uruguay	Venezuela	Uruguay	Uruguay	18
19			Venezuela	Venezuela		Venezuela	Venezuela	19

Annex C: Share of secrecy supplied per region and channel (2016)

Based on the data set, the secrecy supplied by regions (based on UN classifications) has been calculated as a sum of all the secrecy supplied by jurisdictions per region to all Latin American countries in 2016.

Region	Inward Trade (Imports)	Outward FDI	Inward FDI	Outward Portfolio Investment	Inward Portfolio Investment	Outward Banking Positions	Inward Banking Positions	Outward Trade (Exports)
Africa	1.53%	1.18%	0.39%	0.19%	0.03%	0.07%	0.02%	0.08%
Asia	23.98%	35.35%	2.30%	4.94%	4.14%	6.97%	3.60%	4.26%
Caribbean and American islands	0.46%	0.31%	25.89%	4.80%	6.43%	7.86%	0.00%	23.67%
Europe	10.89%	13.43%	23.66%	48.81%	30.42%	36.10%	31.24%	25.54%
Latin America	14.01%	13.70%	28.96%	10.48%	6.32%	1.88%	6.77%	8.51%
Northern America	48.81%	35.75%	18.74%	30.35%	52.34%	46.55%	58.21%	37.93%
Oceania	0.32%	0.28%	0.06%	0.43%	0.31%	0.56%	0.17%	0.02%

Annex D: Dependencies of countries in the European Union and OECD

		Country	Dependency
OECD	European Union	The Netherlands	Aruba
			Curacao
			St Maarten
		United Kingdom	Anguilla
			Bermuda
			British Virgin Islands
			Cayman Islands
			Gibraltar
			Guernsey
			Isle of Man
			Jersey
			Montserrat
			Turks and Caicos
		United States of America	Puerto Rico
			U.S. Virgin Islands

Annex E: Examples of documented cases of illicit financial flows – trade

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
Independent Party Trade, Related Party Trade, Intra Group Trade.	Pricing, Quantity, Quality of traded goods in customs declaration forms.	Tax	Manipulations of price, quantity, quality can take the form of re-invoicing (routing trade on paper through third jurisdictions, resulting in two different invoices for one trade transaction), same invoice mispricing, fake transactions (extreme case of no trade taking place), and transfer mispricing (or abusive transfer pricing; intra-group trade).	The Mexican tax administration began legal action for tax fraud in 2020 against a Canadian mining company. This company was accused of having undervalued its silver exports out of Mexico via a subsidiary in Barbados in 2015, resulting in total additional tax claims of ca. US$20m.[135]
		Money Laundering	Trade based money laundering schemes such as derivations of the Black Market Peso Exchange.	A Brazilian company used offshore companies it controlled for purchasing syrup for soft drinks at highly inflated prices with cash that was smuggled out of Brazil previously.[136] In the black market peso exchange scheme, Colombian drug cartels manipulated prices and imports from the US to Colombia to repatriate and launder drug proceeds from US drug sales.[137]
		Corruption	Corruption by or of (multinational) companies: by mispricing trade, staff of companies create and control slush funds for bribery and/or conspicuous consumption (embezzlement).	A Korean steel importer created a slush fund through a subsidiary shell company in Hong Kong and embezzled approx. US$6.6m.[138]
	Bribing or putting pressure on custom officials.	Corruption, Money Laundering	Bribery of custom officials or extortion, e.g. through drone surveillance in port areas by criminals to identify custom officials opening containers with illegal goods.	Four German custom officials received bribes for 10 years in exchange for lenient or no controls of exported goods, incl. fake transactions.[139]

[135] https://www.elcontribuyente.mx/2020/08/mexico-y-el-sat-se-enfrentan-a-demandas-y-arbitrajes-internacionales/; https://www.elcontribuyente.mx/2020/08/ex-funcionario-del-sat-ayudo-a-minera-canadiense-en-fraude/; https://www.milenio.com/negocios/first-majestic-va-a-juicio-contra-mexico-por-impuestos; https://www.elcontribuyente.mx/2020/07/grandes-contribuyentes-pagan-30-mil-mdp-para-evitar-accion-penal/; 2.9.2020.

[136] Financial Action Task Force (FATF), *Trade Based Money Laundering*, 20.

[137] Pages 13-15, 20, in: Financial Action Task Force (FATF) 2006: Trade Based Money Laundering, Paris, in: http://www.fatf-gafi.org/media/fatf/documents/reports/Trade%20Based%20Money%20Laundering.pdf; 28.11.2018.

[138] Chang-Ryung Han, 'Combating Illicit Financial Flows: Practice of Korea Customs Service', in *Illicit Financial Flows via Trade Mis-Invoicing. Study Report 2018*, ed. by Yeon Soon Choi and Rachel McGauran, World Customs Organization (Brussels, 2018), 143.

[139] Ulrich, 'Korruption'.

Annex F: Examples of documented cases of illicit financial flows – inward* and outward* direct investment

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
Inward direct investment				
Foreign investor owns or controls at least 10 per cent of domestic business, including through debt instruments.	Diverse and complex intra-group profit shifting and base erosion techniques, filing of questionable positions in tax returns.	Tax	OECD's Base Erosion and Profit Shifting project provides an overview of various BEPS techniques, including thin capitalisation, transfer mispricing, inflated royalty, insurance and service payments, avoidance of permanent establishments, treaty shopping, etc. Many of these are routinely combined in complex tax avoidance schemes.	A Coca-Cola subsidiary in Manaus (Brazil*) was alleged to engage in a tax avoidance scheme resulting in an estimated tax loss of US$2bn each year. The subsidiary is owned by two companies registered in the US state of Delaware*, a corporate tax haven and secrecy jurisdiction. The prices charged for the syrup within the group and to independent bottlers may have been manipulated for tax avoidance purposes, and tax credits have been taken for which no tax has ever been paid.[140]
	Hiding origin of proceeds of crime and/or identities of investors.	Money Laundering	Organised crime groups (domestic and/or foreign) use their proceeds of crime to invest in the domestic economy to launder proceeds of crime.	A Colombian fraudster and drug dealer laundered millions of dollars of illicit funds including from drug trafficking by investing in real estate in Panama.[141]
	Omission of identities behind foreign investor.	Corruption	Fraudulent public procurement processes, including in extractive exploitation or mineral licencing and contracting, whereby public officials hide their control of foreign investors who are granted public contracts, resulting in embezzlement of state funds and/or highly unfavourable contracts.	US asset and hedge fund manager Och-Ziff (Delaware LLC) conspired to pay over US$100m in bribes between 2005 and 2015 to officials in the Democratic Republic of Congo in order to buy copper mine assets in the DRC at very low, preferential prices.[142]

140 https://ojoioeotrigo.com.br/2018/10/coca-colas-tax-planning-is-international/; https://ojoioeotrigo.com.br/2018/01/cocas-happiness-factory-is-in-the-brazilian-amazon-and-is-not-cool/; https://news.bloombergtax.com/daily-tax-report/coca-cola-tax-court-loss-reminds-companies-to-watch-ip-valuation; 4.12.2020.

141 Global Witness, *Narco-a-Lago*.

142 *United States of America v. Och-Ziff Capital Management Group LLC, Deferred Prosecution Agreement*, 29 September 2016, 39, para. 51 <https://www.justice.gov/criminal-fraud/file/900261/download> [accessed 17 June 2019].

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
Outward direct investment				
Domestic investor owns or controls at least 10 per cent of foreign business, including through debt instruments.	Diverse and complex intra-group profit shifting and base erosion techniques, filing of questionable positions in tax returns.	Tax	OECD's Base Erosion and Profit Shifting (BEPS) project provides an overview of various BEPS techniques, including harmful tax regimes (headquarters, etc), thin capitalisation, transfer mispricing to low/no taxed controlled foreign companies (CFC) and/or to Special Economic Zones, inflated royalty, insurance and service payments, avoidance of permanent establishments, treaty shopping, etc.	US or South African headquartered corporations such as MTN[143], Amazon[144] or Apple[145] create intermediate holdings (subsidiaries) in Ireland and other corporate tax havens (e.g. Mauritius, Netherlands, Luxembourg) which then collect the (largely tax free) profits of operating companies in European or African countries by avoiding a permanent establishment (Apple in Italy & in African countries) or through commodity transfer mispricing (Starbucks coffee beans) or interest, royalty or management fee payments (MTN Mauritius and Nigeria, Ghana, Uganda).
	Hiding origin of proceeds of crime, incl. by false statements about the nature of relationship with, identities behind, and/or annual accounts of foreign businesses, incl. in tax returns.	Money Laundering	Organised crime groups use their proceeds of crime to invest abroad to launder proceeds of crime.	In 2019, Joaquín Guzmán Loera (a.k.a. "El Chapo") was found guilty by a District Court in Brooklyn, United States. He was accused of drug trafficking, money laundering and murder. According to the United States Drug Enforcement Administration, "Guzman Loera then used various methods to launder billions of dollars of drug proceeds, including bulk cash smuggling from the United States to Mexico, U.S. based insurance companies, reloadable debit cards and numerous shell companies, including a juice company and a fish flour company".[146]
	False statements about the nature of relationship, identities behind, and/or annual accounts of foreign businesses, incl. in tax returns.	Corruption	Corrupt operators and/or their network invest in businesses abroad, possibly for round-tripping purposes, i.e. only nominally investing abroad with ultimate destination in the domestic economy, or for paying kickbacks for securing contracts.	São Paulo stock market-listed meat processor JBS (which is owned by the Brazilian Batista brothers) used illicitly obtained public funds to acquire companies and assets in the US (for example a Delaware company) and to acquire Brazilian competitor Bertin in a "sham merger". The transaction, through a share swap, allegedly overvalued the rival company and then recouped the overpayment through a secret "off-the-record contract" that transferred shares in the newly formed Delaware based

[143] Turner, *Finance Uncovered Investigation*.

[144] Picciotto, 'Why Is Amazon Still Paying Little Tax in the UK?'; Meinzer, *Steueroase Deutschland. Warum Bei Uns Viele Reiche Keine Steuern Zahlen*.

[145] Permanent Subcommittee on Investigations of the Committee on Homeland Security and Governmental Affairs, United States Senate, *Offshore Profit Shifting and the U.S. Tax Code - Part 2 (Apple Inc.)*; Rougé, 'The Globar War', 14–35; Brehm Christensen and Clancy, *Exposed: Apple's Golden Delicious Tax Deals. Is Ireland Helping Apple Pay Less than 1% Tax in the EU?*

[146] https://www.dea.gov/press-releases/2019/07/17/joaquin-el-chapo-guzman-sinaloa-cartel-leader-sentenced-life-prison-plus; 4.12.2020.

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
				company for a nominal amount. Thereafter, the new company transferred a significant portion of the money back to the Batistas brothers through two offshore insurance companies, Cayman Islands-based and Puerto Rico-based US Commonwealth Life, and two other entities located in the Bahamas.[147]

*Note: to help identify the direction and pattern of investment, we have marked in red the country where the investment originated (outward), and in blue the country receiving the investment (inward).

[147] https://www.caymancompass.com/2020/01/13/suit-to-recover-public-funds-seeks-info-on-brazilian-meat-tycoons-cayman-links/; https://www.earthsight.org.uk/news/idm/beef-firms-centre-brazilian-corruption-scandal-tax-havens; https://competitivemarkets.com/wp-content/uploads/2020/01/Lawsuit-Discovery.pdf; 4.12.2020.

Annex G: Examples of documented cases of illicit financial flows – inward* and outward* portfolio investment

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
End investors (households, banks, investment funds, insurance companies, etc.) are usually legally unrelated to entities issuing securities, but might be legally related (or congruent) to custodian entities.	Outward portfolio assets			
	Omission of transfers and/or foreign assets and/or income in tax returns.	Tax	Resident investors in foreign financial securities evade income taxes on these assets and/or resulting income (incl. capital gains) by not or falsely declaring them in their tax returns ("offshore tax evasion"). Resident brokers can assist in transferring funds abroad.	A US* resident held undisclosed bank accounts including stock in German companies at Swiss banks* Credit Suisse and UBS, totalling undisclosed assets worth US$3m.
	Money laundering by abusing the currency exchange system.	Money Laundering	Laundering money and siphoning it out of a country by engaging a hidden parallel currency exchange market to exploit the official currency exchange system. The money can be laundered by using a company which invests in securities in other countries. Banks and investment firms can assist in creating fictional investment funds which are used to transfer the money.	A group of Venezuelan ex-officials allegedly siphoned off US$1.2bn from a company named PDVSA to the US, exploiting the country's currency exchange system. A large part of the money first went to shell companies in Malta, which had 'nominee shareholders,' strawmen to whom the companies belonged – but only on paper. From Malta, the money was invested in different ways, including in bonds issued by a company, or transferred through many layers of banks (that the sender was no longer recognisable) with the assistance of investment firms that used fictional investment funds in the US— the final phase in the laundering scam.
	Bribing bank officials to approve fraudulent round-trip trades	Corruption	By approving fraudulent round-trip trades, bond trading work was directed from one country to another through the trades of a state-owned bank. Investors can bribe officials in banks and pay commission to registered broker-dealers in order to siphon the money.	Company executives paid at least $5 million in bribes to a vice president at state-owned Banco de Desarrollo Economico y Social de Venezuela (Bandes). In return for bribes from 2008 to 2012, they directed bond trading work to an SEC registered broker-dealer and approved fraudulent round-trip trades. The brokers collected a share of the commissions from the Bandes trades. The executives generated more than US$60m in revenue from the Bandes trading business.
	Inward portfolio liabilities			
	Falsely claiming non-residency investor status and omitting domestic assets from tax return.	Tax	Residents engage in round tripping to access tax exemptions targeted at foreign investors, but not available for domestic investors. The invested domestic financial assets and income are omitted from the resident investor's tax return, and are booked in the statistics as a cross-border liability because a foreign shell	In the so-called cum-ex and cum-cum tax evasion cases, non-resident investors, funds and banks colluded with resident banks in reaping undue tax benefits (refunds or exemptions) by engaging in complex offshore trading schemes of equity securities, depriving at least 11

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
			company or similar is used to disguise the investment. Alternatively, non-resident investors collude with residents to access tax privileges.	European jurisdictions of at least €55bn in tax revenue.[148]
	Hiding origin of proceeds of crime and/or identities of investors.	Money Laundering	Organised crime groups (domestic and/or foreign) use their proceeds of crime to invest in the domestic financial market, incl. the securitised real estate sector ("REITs"), to launder the proceeds of crime. Resident wealth or investment managers collude in tax evasion by non-residents by wilfully misreporting under automatic exchange of tax information mechanisms ("Common Reporting Standard" - "tax driven money laundering").	An Australian resident company purchased shares in a UK company via a secrecy jurisdiction shell company and failed to declare the capital gains in the tax return, repatriating some of the profits through false invoices issued by the Australian company.[149]
	Hiding origin of proceeds of corruption.	Corruption	Corrupt operators and/or their network (domestic and/or foreign) invest in securities issued domestically.	A US investment firm assisted a foreign politically-exposed person in establishing brokerage accounts in the name of foreign shell companies to launder the bribes obtained by the politically-exposed person from drug traffickers.[150]

*Note: to help identify the direction and pattern of investment, we have marked in red the country where the investment originated (outward), and in blue the country receiving the investment (inward).

[148] *The CumEx-Files – How Europe's Taxpayers Have Been Swindled of €55 Billion. A Cross-Border Investigation | CORRECTIV*; Hanlon, Maydew and Thornock, *Taking the Long Way Home*.

[149] Financial Action Task Force (FATF), *Money Laundering and Terrorist Financing in the Securities Sector*.

[150] Financial Action Task Force (FATF), *Money Laundering and Terrorist Financing in the Securities Sector*, 45–46.

Annex H: Examples of documented cases of illicit financial flows – inward* and outward* banking deposits

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
(Derived) Assets held in foreign banks by resident banks comprise intra-group claims. Otherwise legally unrelated.	Outward banking claims			
	Omission of transfers and/or foreign assets and/or income in tax returns.	Tax	Resident banks or lawyers can assist in covertly transferring assets abroad via "tunnel" or "tube" or "escrow" accounts through correspondent banking relationships.	German* prosecutors documented illegal transfers on behalf of clients through pipeline accounts from resident banks to related non-resident banks in Luxembourg, Switzerland and Gibraltar. The value documented until 1999 amounted to DM19.4bn (approx. €10bn) with just one German bank (Commerzbank), and most of the transfers were undertaken for tax evasion purposes.[151]
		Tax	Foreign law firms assist in opening offshore bank accounts and in creating elaborate schemes to conceal the accounts and financial transfers.	Four U.S. residents conspired to evade U.S. taxes through the services of the former Panamaian law firm Mossack Fonseca. The related offshore banking accounts were held at banks in the Isle of Man and in Hong Kong, and the structures used to conceal the beneficial ownership included foundations and shell companies. In order to covertly repatriate funds to the United States, clients were instructed to use debit cards and fictitious sales.[152]
		Money laundering	Organised crime groups shift their proceeds of crime abroad by investing in foreign bank accounts either directly, or through domestic banks via correspondent banking.	Mexican drug cartels were able to launder billions of dollars through HSBC due to weak internal controls and a lack of action by US regulators. The HSBC's Mexican affiliate moved US$7bn to the US, despite signs that the money could be coming from Mexican cartels.[153] According to the US Department of Justice, S$85 bn in drug money is laundered through US banks from Mexico per year.[154]

[151] Meinzer, *Steueroase Deutschland. Warum Bei Uns Viele Reiche Keine Steuern Zahlen*, 222–25.

[152] https://www.justice.gov/opa/pr/four-defendants-charged-panama-papers-investigation-their-roles-panamanian-based-global-law; https://www.justice.gov/opa/pr/us-accountant-pleads-guilty-panama-papers-investigation; https://www.irs.gov/compliance/criminal-investigation/us-taxpayer-in-panama-papers-investigation-sentenced-to-four-years-in-prison; https://www.justice.gov/opa/press-release/file/1117191/download; 2.12.2020.

[153] Edward Fox, 'HSBC Exposed US to Mexican Drug Money: Senate', *InSight Crime*, 2012 <https://www.insightcrime.org/news/brief/hsbc-exposed-us-to-mexican-drug-money-senate/> [accessed 6 September 2020].

[154] Christopher Looft, 'Traffickers Launder $85bn a Year in US', *InSight Crime*, 2012 <https://www.insightcrime.org/news/brief/traffickers-launder-85b-a-year-in-us/> [accessed 6 September 2020].

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
		Money laundering/ corruption	Large scale embezzlement of state funds requires collusion by financial service providers for transferring assets into foreign bank accounts.	Four members of Venezuela's young business elite — known as "boliburgueses" - are suspected of paying hefty bribes to government officials. Allegedly, in exchange for the bribes, the officials then made the national oil company (Petróleos de Venezuela, S.A.) take out loans from the boliburgueses in local currency (bolivars), while accepting repayment of the debts in US dollars. Both the bribes and the loan repayments were then laundered through US and Swiss bank accounts between 2012 and 2014, according to U.S. authorities.[155]
		Corruption	Grand corruption relies on banking systems to funnel monies from corruption abroad by investing in foreign bank accounts directly, or through domestic banks via correspondent banking.	Mr. Pinochet, former president of Chile, used the assistance of several banks to conceal and move his funds while he was under investigation and the subject of a Spanish court order directing a worldwide freeze of his assets. Several banks assisted him in opening multiple accounts in various countries like the Bahamas, Cayman Islands, Gibraltar, and Switzerland. Among others, the banks accepted millions of dollars in deposits with no serious inquiry into the source of his wealth; set up offshore shell corporations and opened accounts in the names of different corporations to disguise Mr. Pinochet's ownership of the account funds.[156]
Liabilities of resident banks to non-resident non-banks are legally unrelated. Liabilities to non-resident banks	Inward banking liabilities			
	Thin capitalisation through intra-group banking loans, or back-to-back loans.	Tax	Domestic bank accounts allegedly controlled by non-resident entities are in reality owned and controlled by domestic tax evaders.	An Australian resident hid his control over a Hong Kong resident company with an Australian bank account. This HK company issued false invoices to the Australian's other companies, resulting in tax evasion totalling over A$2m.[157]

155 https://www.riskscreen.com/kyc360/news/huge-u-s-money-laundering-probe-targets-widening-circle-of-venezuelan-elites/; 2.12.2020.

156 United States Senate, *Money Laundering and Foreign Corruption: Enforcement and Effectiveness of the Patriot Act.*

157 Financial Action Task Force (FATF), *Concealment of Beneficial Ownership*, 2018, 44 <http://www.fatf-gafi.org/media/fatf/documents/reports/FATF-Egmont-Concealment-beneficial-ownership.pdf> [accessed 11 December 2018]; A back-to-back loan is explained on page 82 of Financial Action Task Force, *Money Laundering & Terrorist Financing Typologies 2004-2005*, 10 June 2005 <http://www.fatf-gafi.org/media/fatf/documents/reports/2004_2005_ML_Typologies_ENG.pdf> [accessed 26 June 2019].

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
comprise intra-group liabilities.	Hiding the origin of proceeds of crime.	Money laundering	Foreign organised crime groups deposit their proceeds of crime either directly with domestic banks, or through foreign banks via correspondent banking, to launder the proceeds of crime.	Commissions totalling US$16m for granting oil licenses in Nigeria were invested by a Nigerian resident in bank accounts in banks in Switzerland, Gibraltar and French territory, where the individual was sentenced in France for money laundering to three years imprisonment and a fine of €300,000.[158]
	Hiding the origin of proceeds of corruption.	Corruption	Foreign corrupt operators and/or their network deposit ill-gotten gains either directly with domestic banks, or through foreign banks via correspondent banking.	A Chinese company corruptly won tenders in China and transferred the proceeds to Hong Kong bank accounts, from where they were transferred back later to China using underground banking.[159]

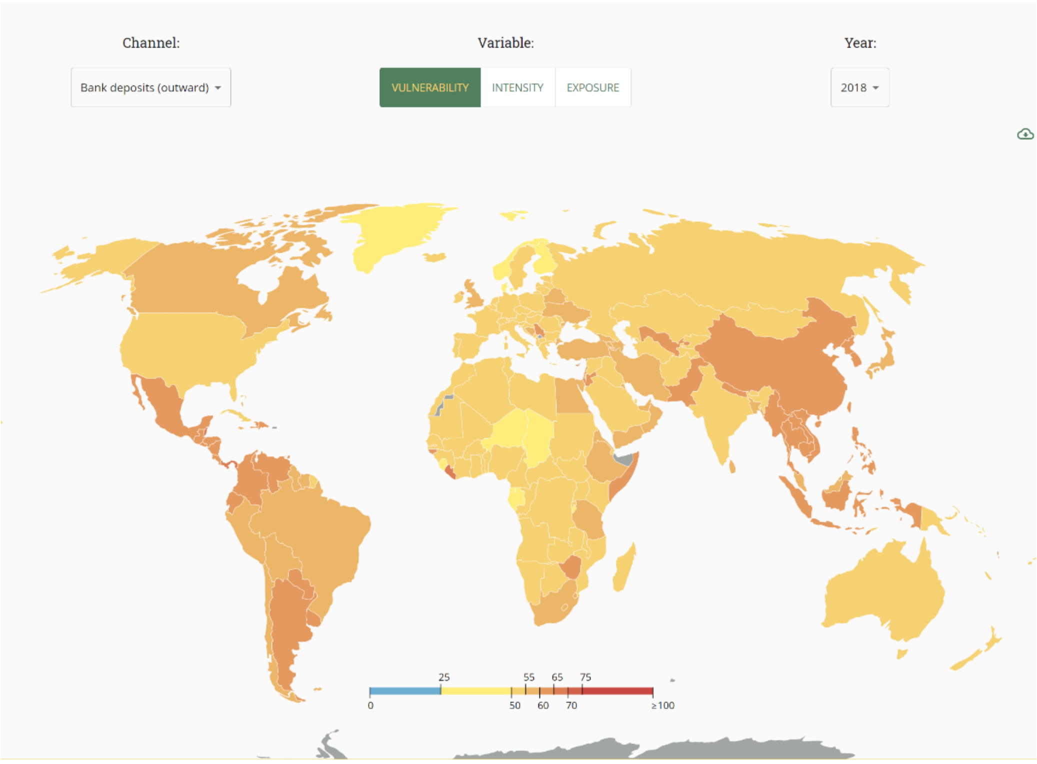
*Note: to help identify the direction and pattern of investment, we have marked in red the country where the deposit originated (outward), and in blue the country receiving the deposit (inward).

[158] https://sherloc.unodc.org/cld/case-law-doc/moneylaunderingcrimetype/xxx/2010/nigerian_ministry_of_oil_and_gas_.html?lng=en&tmpl=sherloc; 2.12.2020.

[159] Financial Action Task Force (FATF), *Concealment of Beneficial Ownership*, 120.

Annex I: Top 10 secrecy jurisdictions for Latin America states between 2009 - 2018 across all economic channels

The risk profiles for every Latin America state can be accessed at the Illicit Financial Flows Vulnerability Tracker. These show the vulnerability, intensity, and exposure of each country to illicit financial flows between 2009 and 2018 for the economic channels where data is available. A video on how to access risk profiles of each country is available here.



The risk profiles show the top ten jurisdictions that are most responsible for a country's vulnerability to illicit financial flows across the economic channels where data is available in 2018. The secrecy scores, share of vulnerability, and volume of cross-border transactions are all presented.

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