Latindadd

Red Latinoamericana por Justicia Económica y Social

Illicit financial flows in Peru and their impact on the guarantee of human rights

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Illicit financial flows in Peru and their impact on the guarantee of human rights

Main findings

- False invoicing or price manipulation in commercial invoicing is one of the main sources of illicit financial flows (IFF), which undermines the tax base of countries, especially the least developed, and ends up affecting their ability to comply with the SDGs and to guarantee the human rights.

- Approximately 10 billion dollars enter and leave Peru annually in terms of IFF related to trade, which is equivalent to 4.5% of GDP. Some critical items of the national budget could be covered with that amount, such as: 118% of spending on education, 183% of spending on health and 512% of spending on social protection.

- Improper trade invoicing is one of the pending challenges for countries like Peru, which is highly vulnerable to bilateral trade with countries with which free trade agreements have been signed, such as: the United States, China and some European countries.

- This is a global problem and it is necessary to adopt national and international measures in a coordinated way to reduce and eliminate false invoicing in trade and even more, all forms of illicit financial flows.

- Some national policy recommendations would include: strengthen the entities that fight against customs fraud, tax evasion and other financial crimes, such as, customs, financial intelligence units and tax administrations; adopt legislation that clearly defines this type of crime and the sanctions that must be applied to those responsible.

- At an international level, countries are encouraged to: improve their records and to properly monitor their bilateral economic relations; to adopt or improve measures aimed at making financial and corporate information transparent; to hold joint negotiating positions in multilateral negotiations where they address: trade, investment or tax matters; and to commit themselves to a new regional and global tax governance.

Content

Presentation

In times of crisis in which our countries require significant resources to face the pandemic and associated social and economic problems, it is urgent to take measures so that the States recuperate the resources that leaked through different channels, known as illicit financial flows (IFF). One of these channels refers to international trade operations between countries, giving rise to fiscal abuse linked to improper invoicing, either due to underinvoicing or overinvoicing of exports and imports, thanks to a network of tax hideouts and financial and corporate opacity.

The present document attempts to estimate the revenue losses through the main source of IFF: false commercial invoicing, taking Peru as a case of study, and analyzing the way in which the capacity of the Peruvian State is adversely affected to respond to the pandemic and to guarantee human rights. In Latindadd, we consider that it is essential to have enough evidence that proves the need to combat all pernicious practices carried out by corporations and individuals, which may affect the tax systems of developing countries and, especially, of Latin American countries. A series of appropriate policy measures and the implementation of a global system with greater transparency and fairer tax, commercial and financial rules will allow our States to recuperate those much-needed resources to invest in people and their well-being.

Introduction

As globalization and technology advance, capital and financial flows cross borders with increasing ease, and the vehicles and facilitators needed to carry out these cross-border transactions are becoming more sophisticated and complex, making it increasingly difficult to detect those movements that seek to bypass legal barriers. This is happening all over the world and there is hardly a country that is not exposed to maneuvers that seek to exploit the weaknesses of a system that is still governed by antiquated and very permissive rules.

In recent years, greater attention has been paid to these financial flows given the large sums of money that are moved from one place to another, mainly to offshore financial centers and low or no tax jurisdictions (or tax havens). This phenomenon is called Illicit Financial Flows (IFF) and is increasingly present on the international agenda when discussing issues related to mobilizing resources for development financing.

One of the pioneers in defining and measuring IFF has been Global Financial Integrity (GFI). GFI is a think tank that has been working over several years to shed light on this problem that affects all of society, not only because of its implications to and links with criminal activities, but also because it undermines countries' tax systems by taking advantage of legal loopholes and the lack of control in commercial and financial transactions. Illicit financial flows (IFF) are defined as illegal movements of money or capital from one country to another; that is, funds that are illegally obtained, transferred and/or used across an international border (GFI, 2020).

Some examples commonly presented as part of IFF are: false commercial invoicing to evade customs duties, value added tax (VAT) or income taxes; use of front companies to transfer assets or money resulting from the corruption of officials to foreign bank accounts; laundering of assets of a drug cartel; hiding income or wealth in "tax lairs" by companies and individuals to escape the control of tax authorities; money transferred abroad by a human trafficker or to finance terrorist activities.

However, this definition developed by the GFI, and taken by many official agencies, focuses on illegality (evasion) and does not incorporate other elements such as tax abuse (avoidance) that also constitute a form of tax fraud. For this reason, it is not yet possible to state that there is a consensus on the definition of IFF, but for us it is clear that not only the legality of the agents' behavior must be considered, but also the entire structure and actors that surround them and allow them to exist. In other words, the issue must be addressed in a comprehensive manner, using an approach based on values, policies and institutions that have a single objective, which is to foster a system rooted in financial integrity for sustainable development. (United Nations, 2021).[1]

In this sense, a more accurate definition of IFF is that proposed by the FACTI panel as those arising from tax abuse, cross-border corruption and transnational financial crime, which drain resources needed for sustainable development; all within the framework of a "Financial Integrity for Sustainable Development" approach.

In terms of estimates, GFI is the most advanced and widely published. Evidence from various studies and documents show that the most important source of IFF is international trade (65% of total IFF corresponds to commercial tax evasion, while 30% comes from criminal activities and 5% from corruption)[2], given the number of transactions that take place daily and the ease with which the invoicing of exports and imports can be manipulated.

For this reason, this paper focuses on the quantification of the IFF related to international trade, using the case of Peru for analysis. This is a country considered middle-income and quite well connected to worldwide international trade, but which also suffers from large economic and social gaps, as well as many shortcomings in terms of basic rights for its population.

The first part of the document reviews the different definitions and methodologies for measuring the most commonly used IFF, and then

1. https://uploads-ssl.webflow.com/5e0bd9edab846816e263d633/602e91032a209d0601ed4a2c_FACTI_Panel_Report.pdf
2. https://gfintegrity.org/press-release/follow-money-krishen-mehta-capital-flight/

makes estimates corresponding to inward and outward IFF flows for the Peruvian case, whose valuation will be contrasted with the main economic and social indicators that allow us to have an idea of the dimension of resource leakage and how this affects people's rights. The third section summarizes the country's progress in implementing the main tools for improving transparency and information exchange and, finally, lists some recommendations for making progress in the fight against IFF.

1. Conceptual framework

All countries are susceptible to IFF, but the most affected are developing countries, given their greater vulnerability to the loss of billions of dollars in tax revenues and the structural weaknesses that have worsened over decades. The enormous financing needs related to the social and economic inequalities that exist in the countries of the region are unresolved challenges and become even more urgent in times of crisis, such as the one being experienced due to the Covid-19 pandemic.

These resources that are no longer received by states due to illicit movement of money that can be of great importance to reduce poverty and inequality levels that plague developing countries, especially in Latin America, as well as to make progress in achieving the Sustainable Development Goals (SDGs). Based on this premise, the need to attack illicit flows is included as one of the development goals agreed within the UN towards the year 2030, in particular target 16.4.1 on the reduction of IFF.[3]

The definition and quantification of IFF is important for measuring progress on the SDGs and has been developing in recent years given the magnitude of the problem on a global scale and the awareness that it affects both developing and developed countries. Various official and non-official organizations have paid attention to this issue and have been studying how it works, in order to better understand the dynamics of IFF and the elements and context that support them, as well as propose possible solutions.

Below, we take a look at the main efforts that have been made in the world and in the region to understand and measure IFF, especially those linked to international trade.

1.1. Global Financial Integrity (GFI)

GFI defines fraudulent invoicing, or misinvoicing, as the act of deliberately manipulating the value of a commercial transaction by falsifying, among other things, the price, quantity, quality and/or country of origin of a good or service by at least one of the parties to the transaction. Fraudulent invoicing is the method used to conceal illicit financial flows within the international trade system, as well as to evade and/or exploit customs and tax regimes.

3. https://sdgs.un.org/goals/goal16

A recent GFI report (2020) focusing on trade-related IFF states that, according to the WTO, the value of world trade in goods is about USD 18 trillion, but less than 2% of all containers are verified for the veracity of customs invoicing, which facilitates illicit activities. In other words, as the volume of global trade grows, so do the opportunities for trade misinvoicing.

Thus, thanks to weak customs control and financial opacity, value can be illicitly moved out of countries (outward flows) by over-invoicing imports or under-invoicing exports, while value can be moved into countries (inward flows) by over-invoicing exports or under-invoicing imports.

In its latest estimates of trade-related IFF, GFI found that the sum of the differences in values identified in the trade exchange carried out between 135 developing countries and 36 advanced economies was USD 8.7 trillion between the years 2008-2017, while for 2017 alone this value was USD 817.6 billion. Among the countries in the region with the largest trade gap are Mexico (third in the world in terms of absolute value) and Paraguay (sixth in the world in relation to total trade). Peru ranks 27th in the world with an annual average trade gap value of USD 8,736 million, equivalent to 18.9% of Peru's total trade with the rest of the world.

1.2. Economic Commission for Latin America and the Caribbean (ECLAC)

ECLAC defines IFF as "... movements, from one country to another, of money that has been illegally earned, transferred or used. In general, these funds originate from commercial activities (falsification of trade invoicing and abusive transfer prices), criminal activities and corruption."[4] This definition is in line with that of the GFI and also takes into account the progress made by the High Level Panel that reviewed IFF in Africa (Mbeki panel).[5]

In 2017, ECLAC published a document entitled "Illicit Financial Flows in Latin America and the Caribbean" where is analyzed and quantified trade-related IFF for all countries in the Latin American region. Based on the same methodology of the high-level panel in Africa,[6] it found that outflows due to price manipulation of international trade in LAC totaled USD 765 billion cumulatively in the period from 2004 to 2013, representing 1.8% of regional GDP and 3.1% of the total value of foreign trade. According to estimates, two thirds of outgoing IFF are due to over-invoicing of imports and one third to under-invoicing of exports.

Data from the last year of the series analyzed by ECLAC show that illicit outflows for this type of operations exceeded USD 100 billion in 2013 in the region, of which Mexico accounts for the largest share with USD 48 billion, followed by Brazil with USD 18 billion. However, when these IFF are measured with respect to each country's GDP, ECLAC finds that Costa Rica is the most affected, with 15% of GDP in 2013, followed by Guyana and Mexico, whose illicit outflows represented 5.3% and 3.8% of GDP, respectively. Likewise, Peru ranks seventh in the region, with

4. https://repositorio.cepal.org/bitstream/handle/11362/40921/1/S1601230_es.pdf
5. https://repository.uneca.org/bitstream/handle/10855/22695/b11524868.pdf?sequence=3&isAllowed=y
6. The estimate of illicit financial flows is based only on gross outflows due to counterfeit invoicing of international trade in goods. Trade in services is not included due to lack of data availability.

USD 2,869 million of IFF outflows calculated for 2013, equivalent to 1.4% of its GDP. An important fact is that the main trading partner with which the largest capital outflows occur in Peru, as in the region as a whole, is the United States, followed by China. These countries are also Peru's main trading partners.

1.3. Tax Justice Network (TJN)

For TJN, illicit financial flows are transfers of money from one country to another that are prohibited by law, regulation or custom, which affect the availability of resources for public budgets, forcing countries to rely on foreign investment and resort to loans, violating the realization of human rights and perpetuating inequalities in countries.

The document "The State of Tax Justice" published by TJN (2020), highlights the magnitude of the annual tax losses suffered by countries as a result of tax abuse by individuals and companies, which are estimated at some USD 427 billion, of which USD 43 billion correspond to Latin American countries, an amount equivalent to 20% of national public health budgets in the region. According to the report, these losses are closely linked to trade exchanges, as well as capital and banking movements made by agents from one jurisdiction to another, mainly driven by financial secrecy that could act as a facilitator for wealth to be hidden and transferred to certain territories. The losses in tax revenues in the case of Peru are estimated at some USD 1,206 million per year, which is equivalent to almost 20% of public spending on health and, money with which, according to the report, the annual salaries of more than 237,000 nurses could be paid.[7]

In another recent document entitled "Vulnerability and Risk Exposure of Illicit Financial Flows in Latin America" (Cobham, 2021), TJN exposes and analyzes the risks of Latin American countries with respect to illicit financial flows, based on a series of indicators for each country and cross-referencing data related to trade, stock and flows of commercial and investment banking, combined with the level of financial secrecy that exists in the partner country. According to the report, most of the tax losses in the region are due to vulnerabilities in trade with North American and Asian countries, but also significant are the investment channels (both portfolio and direct investment) and banking, which are dominated by North American and European jurisdictions, while the Cayman Islands and the Bahamas cause significant vulnerability in terms of bank liabilities. In the case of Peru, vulnerability to trade-related IFF is at a medium level within the region, with a score of 58 - for both exports and imports-, when the average in the region is 60.

7. https://taxjustice.net/wp-content/uploads/2020/11/The_State_of_Tax_Justice_2020_ENGLISH.pdf

1.4. United Nations

The United Nations Office on Drugs and Crime (UNODC) and the United Nations Conference on Trade and Development (UNCLAD) joined forces to establish a Conceptual Framework for the Statistical Measurement of Illicit Financial Flows.[8] This framework seeks to develop definitions and statistical methods for measuring different types of IFF to obtain an indicator in line with the framework of indicators for the Sustainable Development Goals, specifically indicator 16.4.1, *"Total value of illicit inward and outward financial flows (in current US dollars)"*, which measures countries' progress towards target 16.4. After a series of meetings and consultations with experts, a conceptual framework was developed, as well as statistical definitions, typology and methodologies.

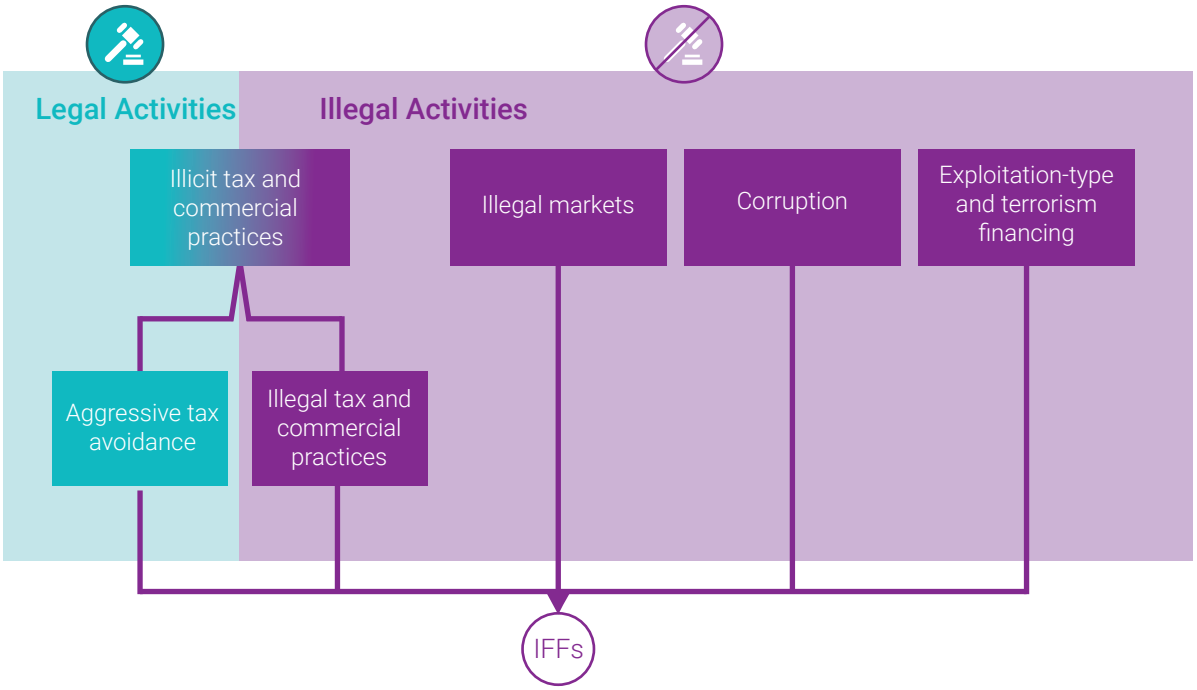
The established definition of IFF in the framework is given as "Financial flows of illicit origin, transfer or use, reflecting an exchange of value and crossing national borders", which can be classified according to various criteria, such as source, channel, impact, actors involved and motives.

The typology defined by consensus in this framework can be divided into four categories:

- **Illicit commercial and tax IFF.** They include illicit practices by legal entities, agreements and individuals with the objective of hiding income and reducing the tax burden by evading controls and regulations. This category can be divided into two components: i) illegal commercial and tax IFF; and ii) IFF due to abusive tax evasion.
- **Illegal market IFF.** These include trade in illicit goods and services when the corresponding financial flows cross borders.
- **IFF due to corruption.** These include bribery, embezzlement, abuse of functions, influence peddling, illicit enrichment, etc.
- **IFF due to exploitation-type activities and financing of crime and terrorism.** The exploitation-type activities are illicit activities involving a forced and/or involuntary transfer of economic resources between two actors.

8. https://www.unodc.org/documents/data-and-analysis/statistics/IFF/IFF_Conceptual_Framework_for_publication_ESP_FINAL.pdf

Categories of activities that may generate illicit financial flows



Source: UNCTAD and UNODC (2020)

In March 2021, the results of several pilot studies conducted in Latin America on the measurement of IFF were presented to validate the methodology proposed by these UN agencies. The studies addressed cases of drug trafficking in Colombia, Peru and Mexico, as well as migrant smuggling in Ecuador. In the case of Peru, it was found that drug trafficking organizations use sophisticated cocaine trafficking networks to ship drugs to markets in North America, Europe and Asia, and derive revenue from delivering cocaine shipments to non-resident drug trafficking organizations that export it extra-continentally. The study estimates that between 2015 and 2017, on average, some USD 1.48 billion entered Peru.[9]

1.5. Financial Transparency Coalition (FTC)

The FTC attempts to go beyond the mere illegality of IFF and adds elements that are highlighted and studied by social organizations and academia, especially in the global south, working on issues of tax justice and financial transparency.

9. https://www.unodc.org/mexicoandcentralamerica/es/webstories/2020/2021_03_29_unodc-presenta-los-resultados-de-medicin-de-flujos-financieros-ilcitos-en-amrica-latina.html

Within this framework, a more "political" definition of IFF is sought, highlighting that this phenomenon prevents resources from being redistributed in a fairer way, widening financing gaps and affecting developing countries to a greater extent. Illicit Financial Flows are defined as cross-border financial flows derived from a transaction that is illegal or abusive in nature, origin, transfer, use or destination (FTC, 2020).[10]

In other words, this definition broadens the spectrum of activities that give rise to IFF, considering not only illegal activities, but also including abusive financial activities and elusive in nature, such as: tax abuse, exploitation of bilateral or multilateral tax, trade and investment agreements, harmful tax incentives, abusive transfer pricing, odious debt, improper commercial invoicing, crimes, bribery, corruption, among others.

10. https://financialtransparency.org/wp-content/uploads/2020/03/Module_1_Politics_of_Defining_Illicit_Financial_Flows-1.pdf

2. Estimation

of Illicit Financial Flows and their impact on rights

After analyzing the methodologies and concepts used by various organizations in the definition and calculation of IFF in the region and the world, it has been decided to take as reference the most recent measurements made by the GFI in its latest reports. These measure the inflows and outflows of IFF related to trade, using the methodology for measuring the value of gaps of bilateral trade transactions, which is an approximation to the quantification of incoming and outgoing flows in Peru's trade exchange with partner countries around the world.

Trade gaps are the product of over-invoicing or under-invoicing of trade values, giving rise to illicit inward or outward financial flows, each of which has a motivation for some type of behavior by exporting and importing agents, altering prices and/or falsely invoicing, as the case may be, to achieve certain tax objectives. This can be seen in the following table, which details the purposes sought by over-invoicing or under-invoicing in trade.

Types and main purposes of false commercial invoicing

IFF Outflows	Import over-invoicing	• To move money abroad (evade capital controls, exchange wealth into hard currency, etc.); • To exaggerate the cost of imported inputs to reduce income tax liability; • To avoid anti-dumping taxes
	Export under-invoicing	• To move money abroad (evade capital controls, • exchange wealth into a stronger currency, etc.); • To avoid income taxes (lower taxable income levels); • taxable income); • To avoid export taxes
IFF Inflows	Import under-invoicing	• To avoid customs duties or VAT taxes; • To avoid regulatory requirements for imports over a certain value
	Export over-invoicing	• To exploit export subsidies; • To exploit drawbacks (bonuses) on exports.

Source: GFI and Cedetrabajo (2019)

2.1. Methodology

The UN Comtrade database,[11] which contains the values of exports and imports reported by all the countries of the world, has been used to calculate the trade gap. For the purposes of this analysis, only trade in goods will be taken into account, but not trade in services, since the latter does not have complete information.

What will be done is to compare the value of trade flows of goods reported by Peru and its trading partners for a given period that will allow us to see the trends in recent years and to point out which countries have been the ones with which trade exchange represents a greater risk of IFF due to fraudulent invoicing. The calculation has been made based on the annual reported values of exports and imports in the last five years available in the database.[12] Since exports are measured by FOB value (Free On Board, which is the price of the product as it leaves customs) and imports are reported in CIF values (Cost, Insurance and Freight: in addition to the cost of the goods in the country of origin, it incorporates the cost of insurance and freight to the port of destination), a conversion factor must be applied to approximate the FOB and CIF values, thus making them comparable. For this purpose, it is assumed that freight and insurance costs are on average 10% of the FOB value.[13]

After filtering the data according to the GFI methodology, excluding those trading partners that do not show movements in any of the years or that have no counterpart in the flows, it was possible to establish the values of exports and imports reported both by Peru and by the trading partners as a whole. This allows us to see, roughly speaking, the existing differences and gives us a clue as to the existence of IFF.

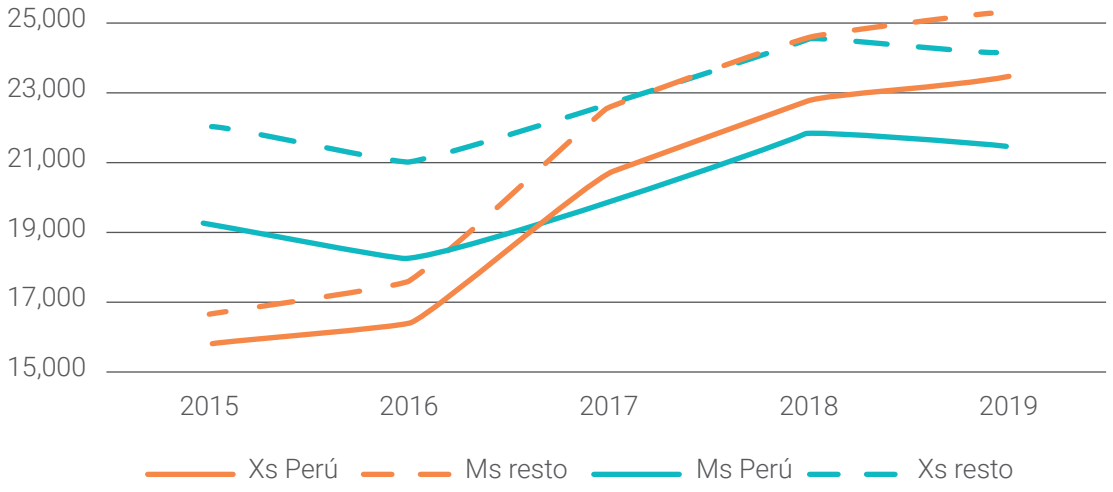
2.2. Results

A first approach to the IFF problem can be obtained from the comparison of global trade flows between Peru and its partners, where the discrepancies found in the reporting of the value assigned to both exports and imports are measured.

As shown in the graph, total imports reported by Peru's trading partners have always been above Peru's reported exports to the rest of the world. Likewise, imports reported by Peru have always been below the exports reported by its trading partners to the Andean country. Throughout the five years analyzed, it can be seen that the gaps are maintained over time, and actually widen as the value of trade also grows.

11. https://comtrade.un.org/data/
12. Information for 2020 is not yet available in the Comtrade database.
13. CIF value = 1.1*FOB value

Value of exports and imports reported by Peru and the rest of the world, 2015-2019 (USD millions)



Source: Own based on Comtrade data.

For 2019, a gap in Peruvian exports is estimated at USD 1,922 million, while the differential in imports is USD 2,722 million. However, these measurements are on a global scale and do not allow discriminating the gaps that may exist at a more disaggregated level, as will be seen below.

Calculation of trade value gaps by trading partner

A first estimate is presented by comparing the exports reported by Peru to its trading partners versus the imports reported by them. As shown in the following table, the negative gap resulting from the under-invoicing of exports, which represents the outflow of IFF from the country, is around USD 7,816 million for the five years, equivalent to USD 1,563 million on average per year.

China is the country with the largest negative trade gap in Peruvian exports, with an average annual value of USD 275 million. China is also Peru's main trading partner, accounting for almost 30% of Peruvian exports. In the last five years, the trade gap with China has totaled USD 1,374 million, which represents 17.6% of the total outflow of financial flows related to Peruvian exports. The next countries with the largest trade gap are Spain (15.1%), Germany (14.0%) and France (13.8%). The 10 countries with which there is the largest negative export trade gap total USD 6,994 million for the entire period analyzed and represent 85.6% of the total.

The lower part of the table shows the countries with the largest positive difference between the exports reported by Peru and the imports made by each of the partners, i.e., the amounts identified as inward IFF to Peru due to over-invoicing of exports. As for the partners with which these flows have originated, in first place is Panama, with which there is an average gap of 465 million per year and a total of USD 2,325 million for the five years shown, which represents 15.6% of total inward flows. It is followed in importance by the Netherlands (12.9%), Belgium (11.9%) and Bulgaria (6.8%). The 10 countries with the largest positive gap total USD 11,851 million, which is equivalent to almost 80% of the total positive gap calculated for the five-year period.

Top 10 countries with the largest trade gaps relative to Peruvian exports with its trading partners, 2015-2019 (USD millions)

	Commercial partner	Trade gaps						
		2015	2016	2017	2018	2019	Yearly average	Total
	Total outflows	**-838**	**-1,155**	**-2,026**	**-1,876**	**-1,922**	**-1,563**	**-7,816**
1	China	164	-136	-526	-593	-283	-275	-1,374
2	Spain	-114	-260	-442	-212	-152	-236	-1,181
3	Germany	-180	-149	-292	-218	-255	-219	-1,095
4	France	-151	-197	-222	-214	-290	-215	-1,075
5	Norway	-180	-177	-140	-142	-155	-159	-794
6	Austria	-58	-68	-83	-94	-94	-79	-396
7	Japan	-10	63	-16	16	-280	-45	-227
8	Finland	-48	-28	-47	-55	-37	-43	-214
9	Poland	-25	-22	-32	-52	-60	-38	-192
10	Mexico	-66	-32	-44	14	-17	-29	-144
10	India	-2	32	89	250	189	112	558
9	Philippines	33	134	207	109	189	134	672
8	Chile	78	105	187	177	224	154	771
7	Korea	55	218	198	218	171	172	859
6	United States	185	370	7	581	-174	194	969
5	United Kingdom	252	288	313	222	-84	198	992
4	Bulgaria	136	143	267	261	197	201	1,005
3	Belgium	290	407	344	405	329	355	1,775
2	Netherlands	302	304	401	530	388	385	1,925
1	Panama	426	540	786	138	436	465	2,326
	Total inflows	**2,339**	**2,878**	**3,413**	**3,563**	**2,670**	**2,973**	**14,864**

Source: Own, based on Comtrade data. For further details, see Annex 1.

On the import side, we see in the table below that the total positive gap of Peru's imports with its trading partners amounts to USD 13,749 million for the five-year period from 2015 to 2019, i.e., USD 2,750 million per year on average of illicit outflows from the country related to the over-invoicing of imports. The country with which there is the largest positive gap in import reports is China, with USD 5,973 million for the entire period, equivalent to 43.4% of the total of these flows. It is followed in importance by Japan (7.8%), Mexico (5.0%), Colombia (4.6%) and Ecuador (3.7%). The 10 countries with the largest gaps account for 77% of the total for the five years analyzed.

The second part of the table shows a total negative gap of USD 13,741 million, i.e., USD 2,748 million per year on average of incoming IFF due to the under-invoicing of imports, with the United States accounting for 54.0% of these flows, followed by Chile (20.0%), China Hong Kong (15.8%) and the Netherlands (4.3%). The 10 main countries with the largest gap accumulate a total of 99.3% of the total financial flows into the country in the five years analyzed.

Top 10 countries with the largest trade gaps relative to Peruvian imports with its trading partners, 2015-2019, (USD millions)

	Commercial partner	Import gap						
		2015	2016	2017	2018	2019	Yearly average	Total
	Total outflows	**2,816**	**2,905**	**2,674**	**2,631**	**2,722**	**2,750**	**13,749**
1	China	1,516	1,489	1,097	1,049	823	1,195	5,973
2	Japan	181	224	178	222	271	215	1,076
3	Mexico	75	135	118	102	252	136	682
4	Colombia	27	20	234	280	66	125	627
5	Ecuador	-47	66	130	148	212	102	509
6	Thailand	101	108	58	49	86	80	402
7	Vietnam	72	67	35	71	106	70	351
8	Indonesia	42	53	153	38	57	69	343
9	Others in Asia	103	77	67	26	69	68	342
10	Australia	59	47	79	65	41	58	292
10	Italy	-143	77	-31	18	27	-10	-52
9	Brazil	-59	-14	-16	40	-7	-11	-56
8	Morocco	-14	-11	-20	-24	-5	-15	-74
7	Nigeria	48	-7	-84	-74	27	-18	-90
6	Switzerland	-14	-25	-39	-41	-16	-27	-135
5	Spain	-19	-70	-49	-63	-48	-50	-249
4	Netherlands	-123	-95	-132	-119	-116	-117	-585
3	China, Hong Kong SAR	-408	-490	-418	-480	-377	-435	-2,173
2	Chile	-516	-502	-656	-489	-602	-553	-2,766
1	United States	-1,588	-1,471	-1,331	-1,391	-1,679	-1,492	-7,461
	Total inflows	**-2,817**	**-2,609**	**-2,823**	**-2,650**	**-2,842**	**-2,748**	**-13,740**

Source: Own based on Comtrade data. For further details, see Annex 2.

As mentioned above, there are four types of flows resulting from the trade exchanges analyzed, which can be grouped into: i) outward financial flows, both those resulting from under-invoicing of exports and those resulting from over-invoicing of imports; and ii) inward flows resulting from over-invoicing of exports, added to those resulting from under-invoicing of imports.

The following table shows that outgoing IFF accumulate a total of USD 21,565 million for the five years of the series, while incoming IFF reach USD 28,604 million. For the year 2019 alone, the calculations show that outflows total USD 4,644 million and inflows reach USD 5,512 million.

Illicit financial flows related to trade gaps, 5-year cumulative total (USD millions)

	Cumulative total 2015-2019	2019
Outward flows	**21,565**	**4,644**
Under-invoicing of exports	7,816	1,922
Over-invoicing of imports	13,749	2,722
Inward flows	**28,604**	**5,512**
Over-invoicing of exports	14,863	2,670
Under-invoicing of imports	13,741	2,842
Total	**50,169**	**10,156**

Source: Own based on Comtrade data.

In summary, total IFF (outgoing plus incoming) for 2019 in Peru is estimated at just over USD 10 billion – USD 4,644 million due to under-invoicing of exports and over-invoicing of imports and USD 5,512 million because of over-invoicing of exports and under-invoicing of imports - which is 11.5% of the country's total trade value with the rest of the world.

Gaps by type of traded goods

Regarding the types of goods exchanged by Peru and its trading partners, we see a significant gap in primary goods in terms of Peruvian exports, while the most important differences in imports are concentrated in intermediate products and manufactures. Next, we will see the estimates for the values of the gaps in Peruvian exports and imports for the year 2019, for which the two-digit classification of the harmonized system of trade in goods (HS).[14]

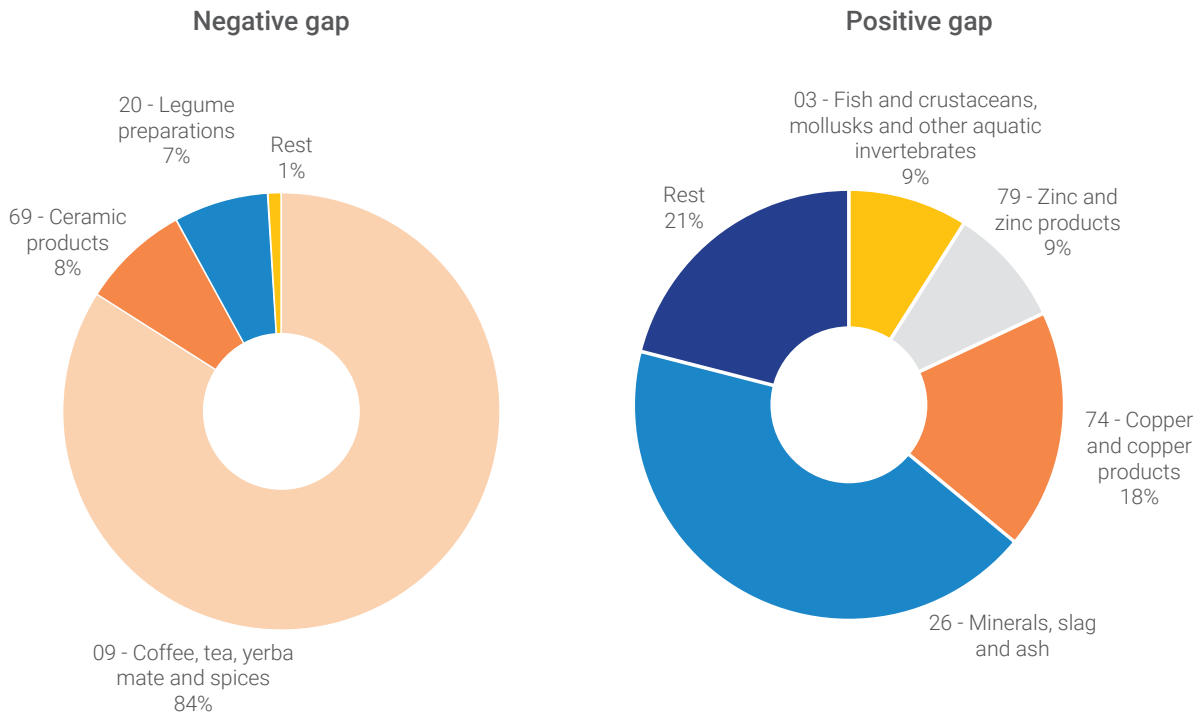
As for the gaps in the reports of exports from Peru and the respective imports from the rest of the world for 2019, a negative gap of USD 32 million has been calculated, while the positive gap is in the order of USD 1,480 million.

14. The Harmonized Commodity Description and Coding System, generally referred to as the "Harmonized System" (HS), is an international multi-purpose commodity nomenclature developed by the World Customs Organization (WCO). It comprises more than 5,000 commodity groups and is used by more than 200 countries worldwide.

Regarding the first estimate, a greater negative export gap is observed in products such as *Coffee, tea, yerba mate and spices* (HS 09 of the harmonized system), which presents an amount of 27 million dollars of difference and represents 84% of the outflows of illicit flows. Other goods such as those grouped under *Legume and vegetable preparations* and *Ceramic products* represent 7% and 8%, respectively.

Regarding the positive gap (IFF inflows), the largest value represents goods classified as *Minerals, slag and ashes*, where there is a difference of USD 640 million (43% of the total), followed by *Copper and manufactures* (18%), *Zinc and manufactures* (9%) and *Fish and crustaceans* (9%). The remaining tariff items account for one-fifth of the total estimated positive gap.

Peru's export gap by tariff item, 2019

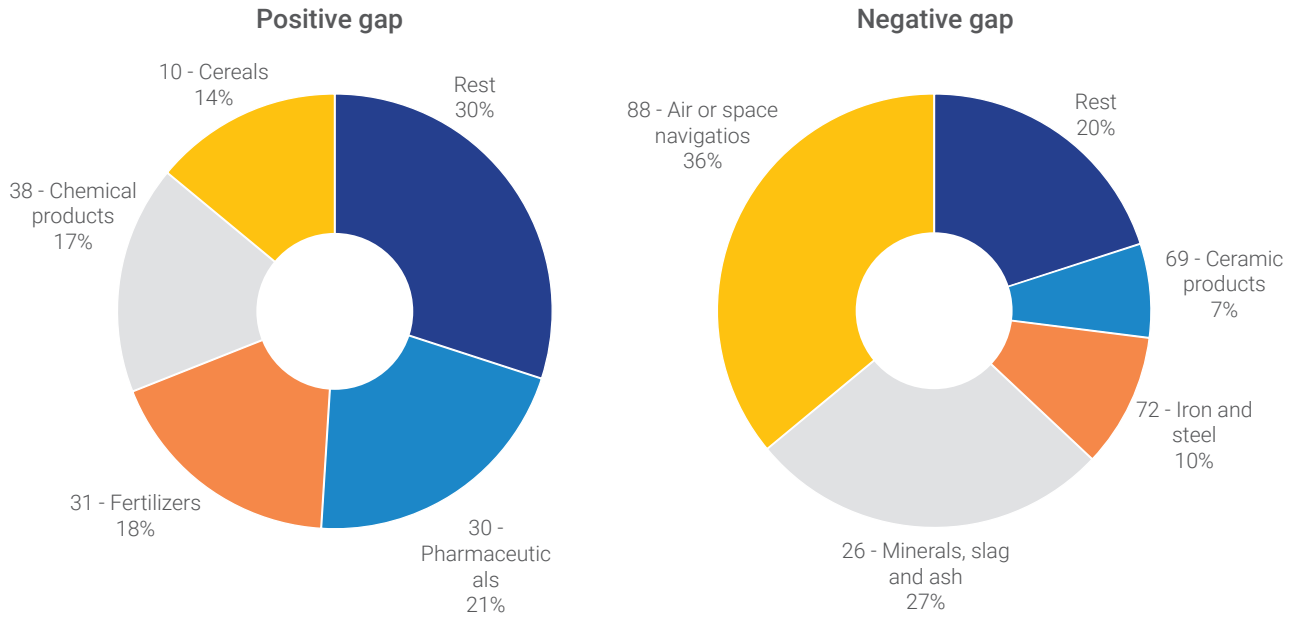


Source: Own, based on Comtrade data.

On the other hand, we have the gaps calculated for the goods that have been reported by Peru as imports from its trading partners and what has been reported as exported by the latter to Peru. Taking the same year 2019, the total positive gap (IFF outflows) is estimated at USD 820 million, of which 21% corresponds to *Pharmaceuticals*, followed by *Fertilizers* (18%), *Chemicals* (17%) and *Cereals* (14%).

On the side of the negative gaps (IFF inflows), the total is estimated at about USD 739 million, the main items being *Air or Space Navigation* (36%), *Minerals, slag and ashes* (27%), *Iron and steel* (10%), and *Ceramic products* (7%).

Peru's import gap by tariff item, 2019



Source: Own, based on Comtrade data.

In sum, grouping the IFF identified in exports and imports with respect to the types of goods traded, we can estimate a total IFF outflow equivalent to USD 852 million, while total IFF inflows are estimated at USD 2,220 million. These figures differ from previous calculations where the flows were analyzed for each of the partner countries due to the data cleaning performed at the time of contrasting the reported values.[15]

15. The methodology requires that data that do not correspond to a specific tariff heading, either due to human error in the typing of the codes or in the definition of the goods classification, or that do not find a counterpart in the reports of the partner countries, be eliminated to avoid alterations in the results (GFI, 2020).

Gaps by type of merchandise traded between Peru-China

Since China is Peru's largest trading partner, accounting for 29.4% of total Peruvian exports to the world and 24.2% of total imports from the world to Peru, and the country with which the largest IFF outflow gaps exist, both in terms of exports and imports, it is interesting to analyze the type of goods with which the largest trade gaps exist with this country.

The calculations show that, on the export gap side, the item that causes the largest amount of outbound FFI from Peru is minerals, with 165.3 million for 2019, while on the import side, the item with the largest gap is chemicals with 27.8 million for the same year.

As for the gap related to incoming IFF to Peru, on the export side, there are items related to copper, fish, zinc and iron; while on the import side we have iron, ceramics and glass.

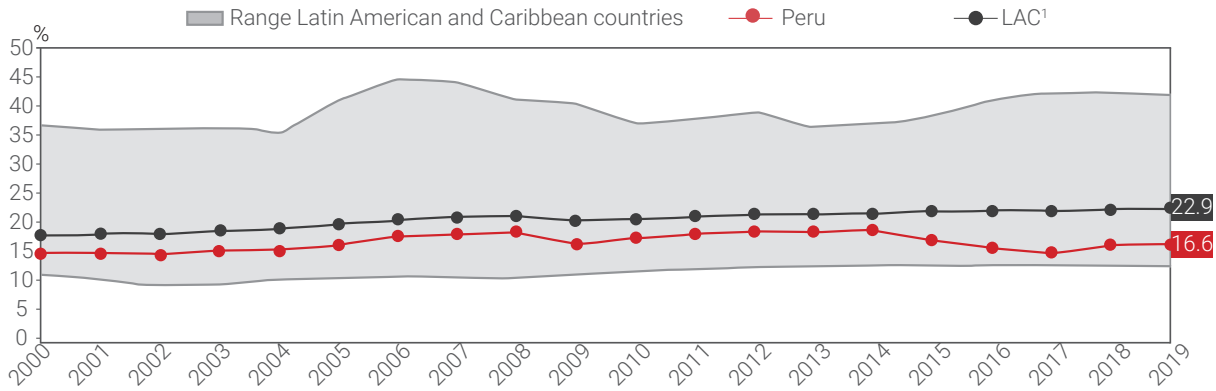
For more details, see the table in Annex 3.

2.3. IFF in the economy and the budget

The Peruvian economy has remained stable in recent years with an average annual output growth of 3%, except for the year 2020 when the health crisis ended up affecting the production of various sectors (with a drop in GDP of 11% in that year), especially in the services sector. This left hundreds of thousands of people unemployed and bringing tax collection to the lowest levels in recent years.

Before the pandemic, Peru's tax collection was already below the average for the region, with a tax burden of 16.6% of GDP by 2019, while the average in LAC is 22.9% In addition is the regressive nature of the tax regime, since almost half of what is collected comes from indirect taxes (OECD et al., 2021).

Peru and LAC average: tax revenues (% GDP)



Source: OECD (2021).

The low levels of tax collection have their origin in structural problems related to the high level of informality in the economy and the "culture of non-payment", but it is also the result of the indiscriminate use of tax benefits in different sectors and under different modalities -such as exemptions, deductions, rate reductions, refunds, among others-. Many of these are no longer justified and instead become subsidies that constitute a significant tax expenditure for the country.

According to National Superintendency of Customs and Tax Administration (SUNAT) estimates,[16] tax non-compliance in the country has an estimated annual cost of S/. 56,200 million, which is equivalent to almost 7% of the GDP. The greatest losses due to tax evasion and avoidance are in the area of Income Tax, where non-compliance is 51.6%, while in the General Sales Tax (IGV) what is lost is 36.3% of what is collected from this tax. On the other hand, the tax expenditure generated by tax benefits amounts to 17 billion soles, equivalent to 2% of the GDP.

In other words, due to tax evasion and avoidance, as well as tax expenditure, the State fails to collect an amount equivalent to S/ 73 billion (9% of GDP). This means that, if the appropriate policies to fight tax evasion and avoidance are implemented and tax benefits are eliminated, we could collect 66% more than the current amount and thus raise the tax burden to 24%.

The implementation of policies aimed at improving access to basic services and social protection requires the formulation and execution of an adequate public budget to cover the minimum needs of the population. In recent years, the spending budget in important sectors such as education and health has been improving in terms of absolute value, although not necessarily in relation to other budget items and not necessarily in relation to ideal spending levels according to international standards.

16. https://elcomercio.pe/economia/peru/incumplimiento-tributario-cuesta-4-veces-exoneraciones-noticia-578449-noticia/?ref=ecr

For example, public spending on education has remained at a level of 17% of total spending on average in recent years, although with a significant drop in 2020 (two percentage points less than in 2019) due to the fact that spending in absolute levels of this item remained at the same level as in the previous year. Similarly, spending on social welfare (pensions) fell in 2020 to 8.7% of the total after having been at 10% on average.

On the other hand, the health sector has seen an improvement in relative (and absolute) terms, going from an average of 11% in recent years to 13.2% of total spending in 2020, mainly due to increased resources allocated to address the pandemic. The same happens with the social protection item, which has doubled proportionally in 2020 compared to previous years, mainly due to the resources allocated to monetary subsidy and food delivery programs.

Peru: structure of executed public expenditure, 2015-2020

Function	2015	2016	2017	2018	2019	2020
Education	16.9%	17.4%	17.8%	17.0%	17.8%	15.8%
Health	10.7%	10.8%	10.6%	11.2%	11.5%	13.2%
Social Welfare	9.8%	9.8%	9.5%	9.1%	10.1%	8.7%
Social protection	3.9%	3.8%	3.9%	3.8%	4.1%	7.7%
Others	58.8%	58.1%	58.2%	58.9%	56.5%	54.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

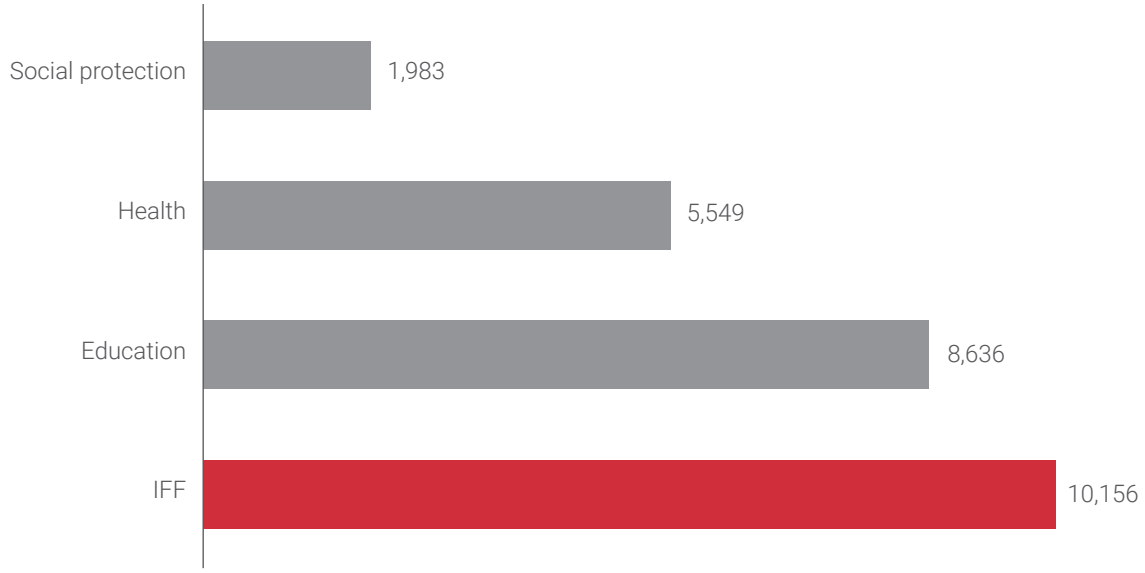
Source: Own, based on MEF.

Although health spending has improved in the last year thanks to the pandemic, we are still far below ideal levels of funding for this sector. Health spending in Peru is around 3% of GDP, while the average spending in the Latin American region is close to 6% of GDP,[17] a ratio established by the WHO as the minimum to be reached by countries in order to achieve an adequate provision of resources. In other words, we are still far from reaching the minimum level of spending, for which it would be necessary to double the current resources.

In this context, the IFF constitute an option to be able to recover important resources for Peruvian economy and for the good of its population. According to the estimates made in the previous section, IFF in Peru total some USD 10 billion, which represents approximately 4.5% of GDP in 2019, a not insignificant amount that could contribute to the achievement of the SDGs. In addition, IFF account for 118% of education spending, 183% of health spending and 512% of social protection spending.

17. https://elperuano.pe/noticia/100391-presupuesto-historico

Peru: comparative value of IFF and spending in social sectors, 2019 (USD millions)



Source: Own, based on MEF.

2.4. Tax abuse and rights

The poverty and inequality that plague our countries is the result of multiple factors, including the way in which fiscal policy is designed and implemented, which plays a fundamental role not only in raising the resources needed to finance people's rights, but also in the possibility of improving equity and redistributing wealth. This, however, as we have already seen, is not something that is applied in the region and much less so in Peru, where very little is collected and the tax burden falls mainly on those who have the least.

With the Covid-19 pandemic, social and economic gaps have widened even further and a large sector of the population has fallen into poverty and extreme poverty, which has forced governments to allocate greater resources to sustain protection policies and try to reactivate the economy with subsidies to the hardest hit sectors. With lower tax revenues and higher public spending, the fiscal deficit has become a problem that cannot be solved by borrowing alone, since this creates greater financial commitments for future debt service payments, even though many countries in the region were already over-indebted before the pandemic.

In this scenario, the only viable and sustainable option is to apply measures that allow for greater collection and progressiveness of tax systems, affecting those sectors that do not contribute according to their capacity to pay and recovering the resources lost through tax evasion and avoidance.

At the international level, fiscal and financial transparency is one of the tools that can help combat IFF and, therefore, obtain resources that contribute to the fulfillment of human rights obligations and fairer taxation in our societies. Realizing economic, social and cultural rights,

which are part of the fundamental agreements of countries within the framework of the United Nations, is closely linked to tax abuse by corporations and individuals (Nelson, 2021)[18].

Tax losses compared to some figures related to essential public services provided by States, allow us to better measure the impact of tax non-compliance on people's rights. TJN has calculated global tax losses at USD 427 billion annually due to evasion and avoidance by companies and individuals, which could cover the annual salary of 34 million nurses (TJN, 2020). In Latin America, annual losses total USD 43 billion and are equivalent to 4.2% of tax revenues.

In the case of Peru, the losses total just over USD 1.2 billion, equivalent to 3.7% of tax revenues, which could be used to pay the salaries of 237,000 nurses. In addition, these tax losses are equivalent to 19.8% of the health budget and 16.2% of education spending.[19]

Latin America: estimated annual tax losses

Country	Total tax losses (USD million)	Losses / Tax revenues	Losses / Health expenditure	Number of nurses' salaries per year	Losses / Expenditure on education
Brazil	14,911	3.2%	20.1%	2,059,104	12.5%
Colombia	11,775	18.2%	71.8%	2,465,001	78.5%
Mexico	9,067	6.4%	24.7%	581,552	14.6%
Argentina	2,685	2.2%	8.6%	421,431	9.8%
Peru	1,206	3.7%	19.8%	237,894	16.2%
Panama	683	12.6%	29.2%	63,549	39.8%
Venezuela	642	1.4%	11.7%	65,523	N/A
Chile	575	1.3%	5.6%	17,817	4.4%
Honduras	329	8.4%	43.6%	91,679	22.7%
Ecuador	303	2.1%	7.0%	61,678	6.0%
Costa Rica	209	2.8%	6.5%	18,748	5.3%
Uruguay	143	1.3%	4.3%	12,047	5.6%
Bolivia	136	1.2%	9.8%	25,215	N/A
Dominican Rep.	123	1.2%	5.8%	32,384	N/A
El Salvador	107	2.6%	8.9%	25,759	11.3%
Paraguay	99	2.8%	8.9%	15,580	7.3%
Nicaragua	79	3.8%	14.7%	21,778	15.5%
Guatemala	37	0.5%	2.5%	8,817	1.8%
Cuba	1	0.0%	0.0%	176	N/A
Latin America	**43,111**	**4.2%**	**20.4%**	**6,225,731**	**15.7%**

Source: Own, based on TJN (2020).

18. https://taxjustice.net/wp-content/uploads/2021/07/Tax-Justice-Human-Rights_Report_July_2021.pdf
19. https://iff.taxjustice.net/#/profile/PER

Some other basic services related to people's rights that can be covered with tax losses are:[20]

- Annual salaries for 125 thousand public school teachers.
- Universal Family Bonus (USD 217 monthly) for 463 thousand people for one year.
- 117 thousand ICU (Intensive Care Unit) beds.

20. Average exchange rate for 2020 of 3.5 soles per dollar.

3. Progress

in the fight against IFF

One of the most important factors leading to the existence of IFF is the lack of transparency or opacity in financial systems, something that is present almost everywhere in the world, although with different degrees of presence depending on the jurisdiction. Secrecy always goes hand in hand with little control over the movements and transactions that agents can carry out. This allows individuals and companies to move amounts of money from one place to another, in order to hide wealth and move money from illicit activities, as well as to avoid paying the taxes that should be paid. All this is possible thanks to the complex system of international financial and fiscal opacity made up of a wide network of tax havens or jurisdictions with low or no taxation, where the use of front companies is legalized and banking and tax secrecy is normalized.

In this sense, transparency and information sharing are the indispensable tools to counteract the possibilities of IFF continuing to exist and, therefore, to be able to recover those resources that are important to achieve the development objectives of nations.

Some progress has been made in this area through the promotion of global initiatives that seek to improve financial transparency standards and promote the exchange of information between countries for tax purposes. Peru, as well as several Latin American countries, has joined these processes and has been implementing measures aimed at attacking tax evasion and avoidance; however, there is still much to be done taking into account the persistent existence of considerable losses due to IFF.

The Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) is the largest, though not the most legitimate, international forum that drives the process of implementing standards for transparency and exchange of information, with the aim of facilitating global cooperation among tax authorities to combat tax evasion and avoidance, as well as illicit financial flows.

The Global Forum has been incorporating more and more countries from around the world and the Latin American region into its ranks, and currently has 162 members, of which 15 are from Latin America, including Peru. The Forum's most recent annual report (OECD, 2020),[21] highlights the progress made by Peru in terms of compliance with security standards and confidentiality of information for the automatic exchange of information with other members, leaving everything ready to start the first automatic exchanges of information for tax purposes.

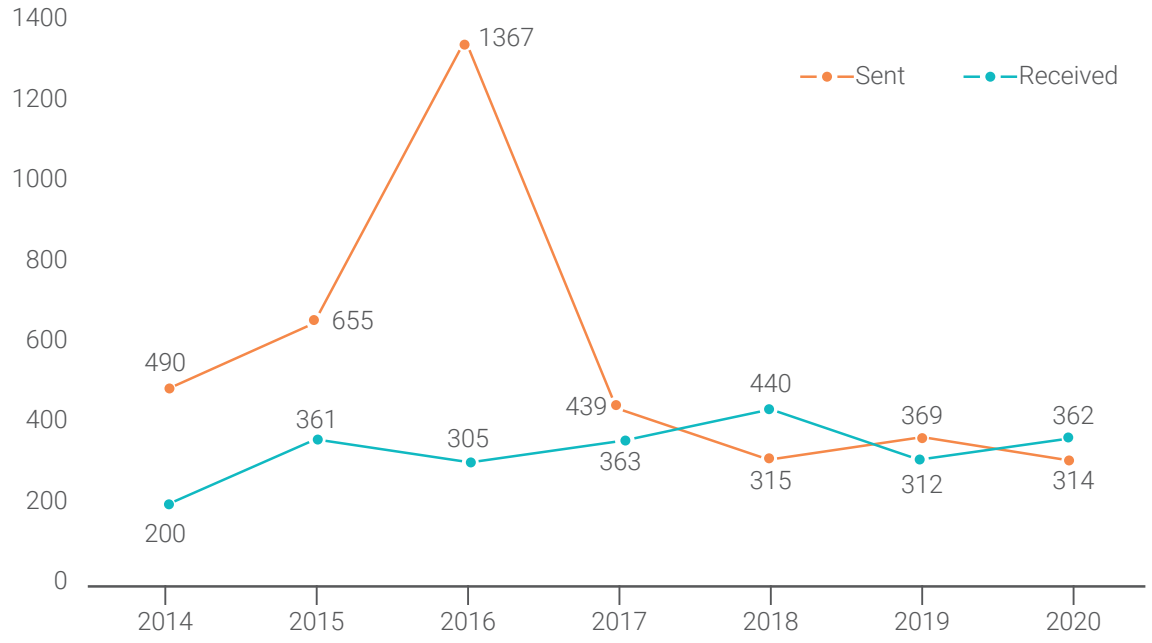
21. https://www.oecd.org/tax/transparency/documents/global-forum-annual-report-2020.pdf

It is worth mentioning that this Forum operates within the OECD, so the actions and interests of this organization do not necessarily respond to the needs of developing countries. In 2018, during the Global Forum meeting in Punta del Este (Uruguay), a group of Latin American countries decided to create a program focused on Latin America, which resulted in the "Punta del Este Declaration", which seeks to create synergies and foster cooperation between countries in the region to improve transparency and information exchange.

In July 2021, the member countries of the Declaration[22] prepared and published the report "Fiscal Transparency in Latin America 2021",[23] which evaluates the progress made by the member countries of the initiative. In general, the document states that the countries are giving priority to fiscal transparency and information exchange, creating information exchange units and providing them with human resources and technical tools. However, it also notes that there is a need to further develop the capacities of tax administration staff and expand exchange networks.

According to the report, by 2020, there are already 9 Latin American countries exchanging financial account information: Argentina, Colombia, Mexico (2017); Brazil, Chile, Costa Rica, Panama, Uruguay (2018); and Peru (2020). Ecuador has committed to start exchanges in 2021. However, disparities in information exchange requests remain very large among LAC countries: requests from four countries in the region account for 91% of total requests (only one country 61.5%).

Number of EOI requests sent and received by Latin American countries



Source: OECD (2021)

22. Members: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Panama, Paraguay, Peru, Dominican Republic and Uruguay. Observers: El Salvador y Mexico. Technical partners: IDB, CIAT y World Bank Group

23. https://www.oecd.org/tax/transparency/documents/Transparencia-Fiscal-en-America-Latina-2021.pdf

Peru begins to exchange information automatically

In the case of Peru, once everything was ready for the exchange of information, the government approved the regulation that empowers SUNAT to access bank account information of individuals and companies,[24] so that it can be exchanged with other countries. Thus, the automatic exchange standard provides financial information of Peruvians who have bank accounts abroad, which complements SUNAT's tax information and helps to identify undeclared income.

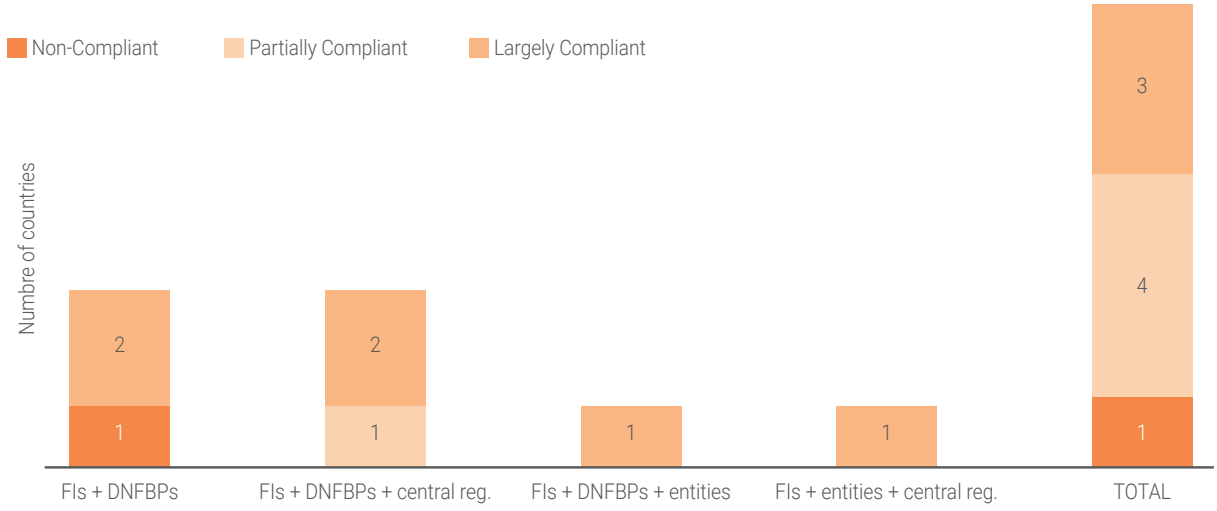
According to the first reports of the tax administrator, as of March 2021, Peru received information on bank accounts and commercial operations of some 43 thousand high net worth individuals and national companies with branches abroad, from the tax administrations of 13 jurisdictions -Cayman Islands, Switzerland, Belgium, Slovenia, Italy, Japan and the Netherlands, among others- for a value of more than USD 12 billion.[25]

The exchanges of information have resulted in additional revenue, both those on request and those given automatically. Thus, 6 Latin American countries reported additional revenues totaling 298 million euros during the years 2014-2020, as a result of on-demand exchanges. Meanwhile, additional revenues in the region on account of automatic exchanges have been in the order of €12 billion since 2014. Complementary to the financial information exchanges, the automatic exchange of Country-by-Country Reports (CbC) allows Peru to have a better risk assessment of multinational groups with a presence in the country, so that it is known where and what activities these corporations carry out and how much revenue is generated in each jurisdiction.

On the issue of beneficial ownership, the report highlights those six countries in the region have already made progress in the centralization of registries, including Argentina, Brazil, Costa Rica, Paraguay, Peru and Uruguay that have already defined it; while Colombia and Ecuador are still in the legislative process for approval. In the case of Peru, it is SUNAT that centralizes the registry information.

24. https://busquedas.elperuano.pe/normaslegales/reglamentan-la-informacion-financiera-que-las-empresas-del-s-decreto-supremo-n-430-2020-ef-1916565-3/
25. https://www.sunat.gob.pe/salaprensa/2021/marzo/NotaPrensaN0222021.doc

Sources of beneficial ownership information in the 8 Latin American countries reviewed and Element A.1 rating



Source: OECD (2021)

Despite all the progress reported in the previous paragraphs, the information on how much progress is being made in the fight against evasion and IFF is still quite scarce. It is necessary that SUNAT and other tax administrations make public the information on the achievements in terms of collection and details on the sectors, large taxpayers and jurisdictions with greater risk of opacity and IFF.

Other international initiatives, such as the Financial Action Task Force (FATF) and the Extractive Industries Transparency Initiative (EITI), have been advancing in a complementary way -although not necessarily articulated with the OECD processes- in the search for greater transparency, but they only seem to touch the surface of a system that promotes opacity and tax secrecy. As long as there are networks of tax havens and banking and tax secrecy, any initiative will fall short in achieving fair tax collection, so the existence of these networks must be ended, but this is a job that must be done globally (Coronado and Bejarano, 2019).[26]

At the regional level, it is necessary to advance in a true coordination between our countries, not only to promote transparency and exchange, but also to establish a joint position that can be taken to international forums on a change in global fiscal governance. The space created in the Punta del Este Declaration is an important step, but we must think of a regional body that does not depend on the OECD and that also articulates civil society organizations, academia and experts.

26. https://pop-umbrella.s3.amazonaws.com/uploads/6a747ec6-1cff-4c13-818f-1d8171ad7833_PSI_Publicacao_Cartilha_Transparencia_Fiscal_Internet_Simples_ESP.pdf

4. Conclusions

and recommendations

False invoicing or price manipulation in commercial invoicing is one of the main sources of illicit flows and especially affects developing countries. Peru is one of these countries and, this report shows that there are significant amounts of capital that leave and enter our country. This undermines the tax base and affecting the possibility of mobilizing national resources to meet the Sustainable Development Goals (SDGs) in the framework of the 2030 Agenda, as well as the vision of national development Peru intends to build in the long term.

Although estimates of false invoicing in trade may not be accurate, the figures give us an idea of the magnitude of the problem and the most important channels through which these flows occur. This paper has estimated that approximately USD 10 billion in trade-related IFF flows in and out of Peru annually, which is equivalent to 4.5% of GDP.

The data indicates that trade misinvoicing is one of the unresolved challenges for countries such as Peru, which, as we have seen, is highly vulnerable to bilateral trade with countries with which it has consolidated trade relations, including through the signing of free trade agreements, such as the United States, China and some European countries.

The methodology and results presented in this report may be useful to contribute to successive IFF measurement and monitoring reports in Peru, which may in turn serve to feed the Sustainable Development Goals Monitoring and Tracking System under the responsibility of the INEI[27], which already has several of the SDG indicators constructed and measured, but there are still no reported values for indicator 16.4.1 on illicit financial flows. The construction of these indicators also represents a challenge for the other countries in the region, whose SDG monitoring systems are deficient and the indicators are still incomplete. Very few countries have indicators for target 16.4, and those that do, only have values for target 16.4.2 on the use of firearms.[28]

Although the world has made progress in defining methodologies and achieved greater consensus in identifying and quantifying IFF, this is not a problem that will be solved unilaterally by any particular country. Given that the problem is global and affects both developing and more advanced countries, it is necessary to adopt measures to reduce and eliminate false invoicing in trade and, in general, illicit financial flows, since these illicit practices undermine the economic and social stability of nations.

27. http://ods.inei.gob.pe/ods/
28. https://agenda2030lac.org/estadisticas/monitoreo-estadistico-nacional.html

One of the most important challenges is related to customs control. Customs authorities should not only be responsible for collecting duties and other trade-related taxes, but should also play a complementary role with tax and financial authorities to detect false invoicing and contribute to the fight against IFF. However, customs authorities usually limit themselves to controlling the value of traded goods, especially in under-invoiced imports, leaving aside the other three types of fraudulent invoicing, such as over-invoiced imports, under-invoiced exports and over-invoiced exports (GFI, 2020).

In this regard, some of the policy recommendations to achieve better controls at the national level for the countries of the region are as follows:

- Strengthen the technical, technological and financial capacities of control agencies.
- Promote fiscal cooperation in the fight against illicit financial flows; the Punta del Este Declaration goes in that direction, but it is necessary to make progress towards more inclusive mechanisms that adjust to the requirements of the countries in the region.
- Strengthen customs authorities with a far-reaching legal mandate and more resources to be able to monitor invoices and detect irregularities in both export and import declarations.
- Fraudulent invoicing of trade should be established as an illegality, adopting legislation that clearly defines the crime and the penalties for those responsible.
- Establish working teams to analyze IFF risks, incorporating the various agencies and entities that fight customs fraud, tax evasion and other financial crimes, such as customs, financial intelligence units and tax administrations.

At the international level, some recommendations would be:

- Improve records and monitoring of bilateral economic relations to provide quality statistical data.
- Strengthen the information exchange processes between countries related to trade movements, so that both countries have the best possible data to eliminate information asymmetries between exporters and importers.
- Adopt or improve measures related to the transparency of financial and corporate information that go hand in hand with the recommendations of TJN, FATF and the FACTI panel, such as: establishing public registries of beneficial owners; making country-by-country reporting effective; and participating in automatic information exchange mechanisms.
- Develop joint strategies with other countries in the region and the world that allow for joint negotiating positions in multilateral negotiations dealing with trade, investment or tax matters.
- To support regional and global tax governance that regionally enhances cooperation between countries to fight IFF, and globally incorporates the interests of developing countries through the establishment of an intergovernmental body within the framework of the United Nations.

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Annexes

Annex 1: Peruvian export trade gaps with its trading partners, 2015-2019 (USD millions)

Commercial Partner	Exports reported by Peru						Imports reported by the rest						Xs gap	
	2015	2016	2017	2018	2019	Subtotal	2015	2016	2017	2018	2019	Subtotal	Yearly average	Total
Total Outflows	**15.785**	**16.386**	**20.706**	**22.805**	**23.487**	**99.169**	**16.623**	**17.541**	**22.732**	**24.681**	**25.409**	**106.986**	**-1.563**	**-7.816**
China	7.391	8.492	11.626	13.237	13.546	54.293	7.227	8.628	12.152	13.830	13.829	55.667	-275	-1.374
Spain	1.092	1.221	1.852	1.804	1.206	7.176	1.206	1.481	2.294	2.017	1.359	8.357	-236	-1.181
Germany	927	890	934	1.126	1.034	4.911	1.107	1.040	1.226	1.344	1.289	6.006	-219	-1.095
France	283	250	249	296	291	1.369	434	447	471	510	581	2.444	-215	-1.075
Norway	33	30	33	62	58	216	213	207	174	204	213	1.010	-159	-794
Austria	3	4	3	3	3	16	61	72	85	97	97	412	-79	-396
Japan	1.117	1.265	1.880	2.181	1.975	8.418	1.127	1.202	1.896	2.165	2.255	8.646	-45	-227
Finland	134	77	24	41	60	336	181	105	71	96	97	551	-43	-214
Poland	10	12	59	64	21	167	35	35	91	117	81	359	-38	-192
Mexico	547	466	418	445	475	2.350	613	498	461	431	492	2.495	-29	-144
Turkey	32	34	49	61	40	217	58	55	70	99	66	348	-26	-132
Canada	2.409	1.685	1.202	923	2.408	8.627	2.319	1.686	1.260	999	2.460	8.723	-19	-96
Morocco	4	3	7	10	9	34	14	23	22	30	31	120	-17	-86
Russian Federat	85	91	86	136	211	609	74	86	103	166	258	687	-16	-78
Honduras	41	39	34	43	62	219	78	58	47	42	67	292	-15	-73
Czechia	2	2	1	7	2	15	14	18	15	21	18	86	-14	-71
Indonesia	35	42	35	39	60	211	48	54	57	51	62	273	-12	-62
Iceland	2	1	1	2	1	7	17	11	12	7	16	63	-11	-56
Ireland	11	11	17	18	17	73	17	18	24	27	27	112	-8	-39
Brazil	1.073	1.205	1.591	1.720	1.442	7.030	1.191	1.179	1.532	1.708	1.458	7.068	-8	-38
Algeria	17	1	4	5	3	30	18	15	12	10	11	67	-7	-37
Slovakia	9	14	5	0	0	28	13	15	15	14	7	64	-7	-36
Guatemala	93	58	59	86	83	378	95	77	64	84	89	409	-6	-30
Saudi Arabia	18	7	8	5	14	53	22	23	12	10	14	81	-6	-28
Ukraine	1	1	2	2	3	9	5	4	5	8	14	36	-5	-27
Australia	101	260	240	211	92	904	95	239	258	232	104	928	-5	-24
New Zealand	37	24	23	30	27	142	41	29	29	36	29	164	-4	-22
Estonia	11	8	2	4	3	28	15	11	7	8	6	47	-4	-19
Kazakhstan	0	0	0	1	0	1	3	2	6	3	2	16	-3	-15
Slovenia	0	1	1	1	1	4	4	3	4	4	4	19	-3	-15
Luxembourg	0	0	0	0	0	0	2	3	2	3	4	15	-3	-15
Sweden	155	59	61	59	87	421	124	66	61	90	94	435	-3	-14
Kuwait	2	2	2	1	2	8	4	4	4	4	4	20	-2	-12
Egypt	8	8	6	5	5	31	12	6	7	9	8	42	-2	-11
Qatar	0	0	5	1	1	8	3	3	4	5	3	18	-2	-10
Lebannon	3	4	4	3	3	17	5	5	6	5	5	26	-2	-9
Serbia	0	0	0	0	0	0	2	2	2	2	2	9	-2	-9
Tunisia	0	0	0	0	0	1	2	1	2	2	2	9	-2	-8
Malta	1	0	1	15	1	17	0	0	0	23	0	24	-1	-7
Thailand	67	63	112	126	192	561	81	62	109	123	193	567	-1	-7
Zambia	1	1	0	2	2	6	0	1	1	2	7	12	-1	-6
Jordan	2	1	1	1	1	5	2	3	2	2	3	11	-1	-5
Bosnia Herzego	0		0	0	0	0	1	1	1	1	1	5	-1	-5
China, Macao, S	0	0	0	0	0	0	0	1		1	1	3	-1	-3
Bahrain	1	1	1	1	1	5	2	2	2	2		8	-1	-3
Democratic Rep	0	0	0	0	0	0	1	0	0	0	1	2	0	-2
Saint Vincent	1	1	1	0	1	4	2	1	1	1	1	6	0	-2
Albania	0	0	0	0	0	2	0	1	0	1	1	4	0	-2
Kenya	1	0	0	0	1	3	3	0	0	0	0	4	0	-1
Singapore	14	39	50	10	15	128	15	47	40	12	16	129	0	-1
Cote d'Ivoire		0	3	3	4	11	0	1	3	3	5	12	0	-1
Saint Lucia	3	2	2	2	3	12	3	3	2	3	3	13	0	-1
Guyana	3	3	4	4	10	24	4	2	3	8	9	25	0	-1
Pakistan	2	2	3	3	4	13	3	2	3	3	3	14	0	-1
Mauritius	1	1	0	0	1	3	1	1	0	0	1	4	0	-1
Suriname	2	3	3	4	4	17	2	2	3	5	5	18	0	-1
Belize	0	1	0	1	1	3	1	1	1	1	1	3	0	0
Romania	2	2	2	6	9	21	2	2	2	3	12	21	0	0
Barbados	1	2	2	2	2	9	1	2	1	2	2	8	0	0
Cyprus	1	1	1	1	1	3	0	1	1	1	1	3	0	0
Grenada	0	0	0	0	0	2	0	0	0	0	0	1	0	0
Antigua and Bar	1	1	1	1	1	4	1	1	1	1	1	4	0	0
Congo	0	0	0	1	0	2	0	0	0	0	0	1	0	1
Togo	0	0	1	0	0	2	0	0	0	0	0	1	0	1
Cape Verde	1	1	1	1	1	4	1	1	0	1	1	3	0	1
Croatia	1	0	1	0	0	2	0	0	0	0	0	1	0	1
Iran	1	2	2	2	1	8	1	2	3	1		6	0	1
Cambodia	4	1	0	0	1	6	3	0	0	0	1	4	0	2
Benin	1	1	0	0	0	3		0	0	0	0	1	0	2
Angola	2	1	1	2	1	6	2	1	1	1		4	0	2
Hungary	2	1	1	1	1	7	1	1	1	1	1	5	0	2
Mauritania	1	1	0	1	1	4	0	1	0	0	0	2	0	2
Myanmar	1	0	1	0	1	3		0	0	0	0	1	0	2
Israel	9	8	9	9	8	43	6	6	6	11	11	40	1	3
Latvia	1	0	1	2	2	6	0	0	0	1	1	2	1	4
Senegal	2	1	1	2	1	7	1	0	0	0	0	3	1	4
Jamaica	9	9	10	11	16	55	8	9	9	11	14	51	1	4
Nigeria	1	4	4	7	28	45	0	1	9	3	25	38	1	7
Bahamas	8	3	5	6	15	37	6	6	4	4	10	29	2	8
Paraguay	11	11	13	15	13	62	9	9	10	12	13	54	2	8
Zimbabwe	4		3	3	2	12	2	1	1	0	0	4	2	8
Lithuania	5	5	4	5	7	27	4	3	3	3	4	16	2	10
Portugal	27	22	27	47	45	169	25	23	26	42	41	157	2	12
Gambia	3	4	5	3	4	20	0	0	0	0	0	1	4	19
El Salvador	49	43	32	36	94	255	56	46	36	36	59	234	4	20
Namibia	94	52	123	155	90	514	79	77	107	108	122	492	4	21
Ghana	0	6	10	6	5	27	0	0	1	1	1	3	5	25
Costa Rica	56	60	66	67	61	310	52	56	60	60	55	282	6	28
Greece	7	9	12	13	16	58	3	4	6	6	8	27	6	31
Nicaragua	23	29	37	55	26	170	19	22	28	42	25	137	7	34
Georgia	9	11	7	0	88	116	11	10	0	0	60	81	7	35
Uruguay	36	31	40	48	42	197	27	26	34	34	37	157	8	40
United Arab Em	20	431	602	443	975	2.472	23	409	591	424	979	2.426	9	46
Oman	24	13	14	2	7	60	7	2	1	2	2	14	9	46
China, Hong Ko	137	129	151	177	150	744	150	131	128	132	155	696	9	47
Other Asian cou	275	313	259	289	202	1.337	195	292	304	261	225	1.276	12	62
Dominican Rep.	102	84	101	94	90	472	85	69	79	84	84	402	14	70
Malaysia	29	111	130	110	102	481	35	70	125	102	75	408	15	73
Argentina	132	128	158	181	138	736	116	114	144	172	116	663	15	74
Denmark	142	88	84	117	122	555	116	82	71	88	85	443	22	112
Italy	561	466	564	658	611	2.861	547	438	536	617	544	2.683	36	178
Vietnam	74	93	153	120	141	582	55	70	106	76	74	381	40	201
South Africa	81	107	119	77	42	426	23	28	69	49	23	192	47	233
Switzerland	2.677	2.571	2.349	2.087	2.266	11.951	2.501	2.710	2.252	2.099	2.088	11.649	60	302
Bolivia	594	563	625	666	707	3.155	551	536	555	591	610	2.843	62	311
Colombia	879	712	673	761	791	3.817	852	620	602	682	681	3.438	76	379
Ecuador	710	653	813	859	796	3.831	646	566	690	714	676	3.292	108	539
India	677	931	1.964	2.481	1.787	7.841	678	900	1.876	2.231	1.598	7.283	112	558
Phillipines	58	160	349	207	211	984	24	26	142	98	22	312	134	672
Chile	1.077	1.012	1.041	1.227	1.303	5.660	999	907	854	1.051	1.079	4.888	154	771
Korea	1.087	1.394	2.137	2.467	2.278	9.363	1.033	1.177	1.939	2.249	2.107	8.505	172	859
United States	5.079	6.326	6.940	8.102	5.748	32.194	4.894	5.956	6.933	7.520	5.922	31.225	194	969
United Kingdom	604	671	729	703	458	3.165	352	383	416	480	541	2.173	198	992
Bulgaria	159	168	292	305	245	1.169	23	24	25	44	48	165	201	1.005
Belgium	464	624	514	587	500	2.688	173	217	170	182	171	914	355	1.775
Netherlands	877	999	1.081	1.376	1.434	5.767	574	695	680	847	1.047	3.842	385	1.925
Panama	445	558	931	243	513	2.690	20	18	145	105	77	365	465	2.325
Total inflows	**17.335**	**19.628**	**23.198**	**24.850**	**22.207**	**107.217**	**14.995**	**16.750**	**19.785**	**21.287**	**19.536**	**92.354**	**2.973**	**14.863**

Source: Own, based on Comtrade data.

Note: the values in the boxes shaded in yellow were completed with the IMF's DOTS database.

Annex 2: Peruvian import trade gaps with its trading partners, 2015-2019 (USD millions)

Commercial Partner	Imports reported by Peru						Exports reported by the rest						Ms gap	
	2015	2016	2017	2018	2019	Subtotal	2015	2016	2017	2018	2019	Subtotal	Yearly average	Total
Total Outflows	**22.078**	**21.057**	**22.535**	**24.535**	**24.167**	**114.372**	**19.261**	**18.152**	**19.862**	**21.904**	**21.445**	**100.622**	**2.750**	**13.749**
China	7.871	7.478	8.056	9.150	9.332	41.887	6.355	5.990	6.959	8.102	8.509	35.914	1.195	5.973
Japan	971	939	936	959	972	4.777	791	716	758	736	701	3.701	215	1.076
Mexico	1.569	1.523	1.613	1.749	1.683	8.137	1.494	1.388	1.495	1.647	1.431	7.455	136	682
Colombia	1.175	1.071	1.348	1.445	1.212	6.250	1.148	1.051	1.114	1.165	1.146	5.624	125	627
Ecuador	887	1.000	1.427	1.763	1.164	6.242	934	934	1.297	1.615	952	5.733	102	509
Thailand	566	490	412	365	384	2.216	465	382	354	315	297	1.814	80	402
Vietnam	311	345	366	321	447	1.789	238	277	330	250	341	1.438	70	351
Indonesia	219	212	320	260	256	1.267	177	159	167	222	199	924	69	343
Other Asian count	359	317	301	312	299	1.587	256	240	233	286	230	1.246	68	342
Australia	120	93	130	106	103	552	61	46	50	41	62	259	58	292
India	849	730	748	820	800	3.947	755	682	728	757	751	3.674	55	273
Panama	90	86	40	19	24	259	5	3	2	2	3	15	49	244
Malaysia	146	171	148	212	185	863	92	122	118	188	121	641	44	222
Republic of Korea	1.170	1.172	936	884	874	5.038	1.217	1.155	914	803	744	4.833	41	205
Russian Federatio	299	263	285	398	334	1.580	282	219	280	339	264	1.383	39	196
Canada	684	608	588	640	616	3.136	672	577	548	582	579	2.957	36	179
Sweden	202	225	219	241	234	1.122	169	193	196	221	180	959	33	163
Bolivia	351	389	363	423	388	1.914	323	369	330	385	382	1.789	25	124
France	329	281	303	321	299	1.533	278	352	272	269	241	1.412	24	120
Saudi Arabia	117	125	128	166	63	598	149	87	79	121	43	479	24	119
Denmark	133	59	48	57	57	354	66	49	40	45	47	247	21	107
Ireland	48	56	50	56	52	262	43	32	30	29	27	161	20	101
Hungary	46	42	56	43	42	229	32	30	31	27	19	140	18	89
Phillipines	56	48	52	53	63	273	31	30	35	42	47	185	18	88
Uruguay	126	145	175	133	135	714	124	137	139	125	110	635	16	79
Finland	95	96	115	115	118	539	82	81	95	104	107	469	14	71
Romania	21	17	20	18	22	97	6	5	7	6	9	33	13	64
Turkey	213	128	126	168	181	815	199	88	111	174	181	753	12	62
Paraguay	183	107	130	141	143	704	173	98	120	122	134	646	12	58
Austria	110	88	85	101	94	478	95	91	65	97	84	432	9	47
Germany	1.007	1.018	965	989	1.030	5.010	937	966	995	1.008	1.057	4.963	9	46
Slovakia	16	15	16	19	24	89	9	9	12	10	15	54	7	35
Cambodia	14	16	18	18	22	88	9	12	11	10	12	54	7	34
Poland	69	64	73	77	79	362	51	57	65	72	84	328	7	34
Portugal	47	39	39	40	53	219	38	36	41	39	34	186	7	33
Venezuela	27	11	21	6	6	71	15	7	13	4	4	43	6	28
United Kingdom	276	232	240	230	218	1.196	282	215	230	231	210	1.169	5	27
Argentina	781	827	1.064	1.113	1.609	5.394	720	821	1.073	1.170	1.588	5.372	4	22
Pakistan	30	29	34	37	34	164	25	26	30	33	28	143	4	21
Czechia	46	40	46	51	51	234	42	33	38	44	56	213	4	21
South Africa	45	33	42	39	35	194	47	25	36	34	32	175	4	19
Tunisia	4	3	4	5	4	19	0	0	1	2	1	4	3	16
Costa Rica	22	23	24	24	21	114	18	19	23	21	17	99	3	15
Ukraine	5	13	21	13	28	79	3	10	22	8	22	66	3	14
Norway	38	14	25	18	13	107	41	12	13	17	10	94	3	14
Slovenia	6	7	14	9	12	48	4	4	8	8	12	35	3	13
Jordan	2	3	4	3	3	15	1	1	0	0	1	3	2	12
Latvia	5	6	8	8	8	36	4	3	6	5	6	24	2	12
Estonia	2	4	6	5	6	22	1	3	2	2	3	10	2	12
New Zealand	97	57	81	121	78	434	90	50	84	120	79	423	2	11
Israel	74	82	77	77	75	384	74	74	75	79	71	374	2	10
United Arab Emira	17	67	20	28	30	161	19	41	27	32	33	152	2	10
Lithuania	3	3	6	4	9	25	4	2	2	3	5	16	2	9
Myanmar	1	2	4	7	7	21	0	2	2	4	4	12	2	9
Singapore	55	84	72	62	63	336	55	79	81	60	54	328	2	8
Sri Lanka	21	21	24	36	28	130	22	19	25	29	27	122	2	8
Iran	2	2	10	1	0	14	0	7	1	0	0	8	1	6
Egypt	4	5	7	9	8	32	3	5	6	8	5	27	1	5
Madagascar	3	2	1	2	1	9	2	1	1	1	0	4	1	4
Cote d'Ivoire	1	2	3	3	0	9	1	1	2	1	0	5	1	4
Greece	20	10	15	18	19	82	17	10	14	17	20	79	1	4
Croatia	2	3	3	3	1	11	0	5	1	1	0	8	1	4
Serbia	2	2	2	2	4	12	1	1	3	2	2	9	1	3
Luxembourg	9	5	3	4	5	27	8	3	4	4	5	24	1	3
Mauritius	1	1	1	1	0	3	0	0	0	0	0	0	1	3
Bosnia and Herzeg	1	0	1	1	1	3	0	0	1	0	0	1	0	2
Malta	3	0	0	3	0	6	4	0	0	0	0	5	0	2
Iceland	1	0	1	0	1	2	0	0	0	0	0	1	0	2
Nicaragua	3	7	20	5	5	39	3	7	20	4	4	38	0	2
Ghana	0	0	0	2	0	2	0	0	0	1	0	1	0	1
Lebanon	0	1	1	0	0	3	0	2	0	0	0	2	0	1
Kenya	0	0	0	1	0	2	0	0	0	0	0	1	0	1
Cyprus	0	0	0	1	0	1	0	0	0	0	0	1	0	1
Suriname	0	0	0	0	0	1	0	0	0	0	0	0	0	1
Barbados	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Brunei	0	0	0	0	0	0	0	0	0	0	0	0	0	0
El Salvador	5	5	9	6	5	29	4	5	9	4	6	29	0	-1
Jamaica	1	1	1	1	1	5	1	1	1	1	1	5	0	-1
Namibia	0	0	0	0	0	0	1	0	0	0	0	1	0	-1
Oman	2	2	1	3	3	11	1	2	1	4	4	12	0	-1
Dominican Repub	10	12	10	11	13	56	10	10	10	13	16	59	-1	-3
Bulgaria	7	10	12	18	15	61	3	9	18	19	16	65	-1	-3
Georgia	3	3	2	4	11	23	3	3	4	10	10	29	-1	-5
Belgium	167	152	156	173	164	811	131	144	170	176	198	820	-2	-9
Belarus	1	7	4	7	5	24	0	6	9	11	9	35	-2	-11
Qatar	15	18	14	18	5	70	24	19	18	18	4	84	-3	-14
Guatemala	46	49	84	47	40	265	53	51	87	53	45	288	-5	-23
Honduras	7	7	6	4	3	27	13	15	18	9	1	56	-6	-29
Italy	580	674	706	611	671	3.241	723	597	737	593	644	3.294	-10	-52
Brazil	1.756	1.934	2.230	2.195	2.209	10.325	1.815	1.948	2.245	2.155	2.216	10.380	-11	-56
Morocco	32	31	31	24	22	140	45	42	51	48	28	214	-15	-74
Nigeria	49	44	47	73	181	392	1	51	130	147	153	482	-18	-90
Switzerland	144	142	118	131	157	691	158	166	157	172	173	826	-27	-135
Spain	641	586	958	856	809	3.850	660	656	1.007	920	857	4.099	-50	-249
Netherlands	165	227	261	220	223	1.096	288	321	393	340	339	1.681	-117	-585
China, Hong Kong	14	15	14	35	23	102	423	505	433	515	399	2.274	-435	-2.173
Chile	1.100	1.048	1.092	1.243	1.217	5.700	1.616	1.550	1.748	1.732	1.819	8.465	-553	-2.766
United States	7.137	6.456	7.336	8.334	8.008	37.271	8.726	7.927	8.668	9.724	9.687	44.732	-1.492	-7.461
Total inflows	**11.881**	**11.420**	**13.092**	**14.014**	**13.784**	**64.191**	**14.698**	**14.029**	**15.915**	**16.664**	**16.626**	**77.931**	**-2.748**	**-13.741**

Source: Own, based on Comtrade data.

Annex 3: Peru - China inbound and outbound IFF, by tariff item, 2019 (USD millions)

Tariff item	Xs Gap	Totals
Ores, slag and ash	-165.29	-168.45
Glass and glassware	-1.17	
Miscellaneous edible preparations	-0.50	
Pharmaceutical products	-0.31	
Commodities not specified according to kind	-0.27	
Chemical products n.e.c.	-0.27	
Man-made staple fibers	-0.25	
Coffee, tea, mate and spices	-0.13	
Preparations of vegetables, fruit, nuts or other	-0.09	
Cotton	-0.08	
Aluminum and articles thereof	-0.03	
Beverages, spirits and vinegar	-0.03	
Headgear and parts thereof	-0.01	
Ceramic products	-0.01	
Rubber and articles thereof	-0.00	
Cocoa and cocoa preparations	0.01	60.55
Plastics and articles thereof	0.03	
Miscellaneous manufactured articles	0.07	
Iron or steel articles	0.07	
Organic chemicals	0.12	
Cereals	0.15	
Raw hides and skins (other than fur skins) and lea	0.18	
Iron and steel	2.23	
Zinc and articles thereof	5.26	
Fish and crustaceans, mollusks and other aquatic	5.16	
Copper and articles thereof	7.27	

Tariff item	Ms Gap	Totals
Chemical products n.e.c.	27.78	81.78
Fish and crustaceans, mollusks and other	9.94	
Rubber and articles thereof	9.82	
Clocks and watches and parts thereof	9.31	
Iron or steel articles	9.19	
Organic chemicals	4.99	
Plastics and articles thereof	4.71	
Sugars and sugar confectionery	1.28	
Copper and articles thereof	1.04	
Zinc and articles thereof	0.95	
Aircraft, spacecraft and parts thereof	0.72	
Miscellaneous edible preparations	0.68	
Cocoa and cocoa preparations	0.60	
Photographic or cinematographic goods	0.43	
Coffee, tea, mate and spices	0.20	
Cork and articles of cork	0.08	
Lead and articles thereof	0.05	
Raw hides and skins (other than fur skins)	0.00	
Nickel and articles thereof	-0.01	-221.53
Silk	-0.19	
Ships, boats and floating structures	-0.25	
Preparations of vegetables, fruit, nuts or	-0.26	
Ores, slag and ash	-0.53	
Beverages, spirits and vinegar	-1.05	
Aluminum and articles thereof	-1.94	
Fertilizers	-2.17	
Man-made staple fibers	-2.40	
Carpets and other textile floor coverings	-2.52	
Pharmaceutical products	-3.14	
Cotton	-3.21	
Tobacco and manufactured tobacco subs	-5.51	
Headgear and parts thereof	-5.79	
Commodities not specified according to kind	-11.99	
Miscellaneous manufactured articles	-13.21	
Glass and glassware	-18.58	
Ceramic products	-55.56	
Iron and steel	-93.24	

Where (millions de US)	
Total IFF outflows	250.23
Total IFF inflows	282.08

Source: Own, based on Comtrade data.

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