Public Revenues in Africa and Mapping the Contours Illicit Financial Flows

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Introduction: Renewed Optimism
There is indeed renewed optimism about Africa’s development path. Even the Economist which had once labeled Africa as ‘the hopeless continent’ in 2000 devoted an entire issue to what it called ‘Africa Rising’ in 2013. The AfDB projects that by 2060 most African countries will attain upper-middle income status. For instance, North Africa will continue to post the highest incomes per capita followed by East Africa – a region that is expected to achieve a growth performance of 9.3% by 2030 – and in all regions, the middle class will continue to grow from 355 million in 2010 to 1.1 billion in 2060. This figure represents 42% of the African population compared to 34% in 2010. Indeed despite the financial crisis, Africa has been growing at an unprecedented rate – rekindling optimism, across the continent; there is now a greater sense of seizing the day. Sub-Saharan Africa as a whole registered the highest GDP growth rates in over 30 years during the period 2000-2008, underpinned mostly by high commodity prices and in some cases improved macroeconomic policies. The acceleration in growth was mainly driven by oil-producing countries with capacity increases in Angola and the Republic of Congo and new production in Mauritania. In addition, poverty levels are expected to fall from 44% in 2010 to 33.3% in 2060. This will also mean that life expectancy in Africa will increase to 70 years compared to 56 years in 2010. Again, North Africa and East Africa, given their higher incomes per capita, are likely to have a life expectancy of between 80 and 83 years, while Central Africa will have the lowest at 55 years.

Furthermore the projections only tell half the story–Africa faces a more debilitating challenge of the illicit movement of her finances out of the continent. It is estimated that approximately US$854 billion has been moved out of Africa illicitly over a 39 year period. In fact according to Ndikumana and Boyce (2003, 2008) the continent as a whole has turned into a net creditor to the world. Also important to note is the fact during the period when Sub-Saharan Africa enjoyed its strongest period of sustained economic growth, the pace of illicit flows from the region also accelerated relative to previous decades. According to an IMF (2000) study, faster economic expansion with rising income levels can actually drive capital flight if growth is not accompanied by genuine economic reform and better governance.

1 Program Officer, Trust Africa, Illicit Financial Flows Program
2 Presentation at: Promoting Transparent Effective and Accountable Governance (TEAG): Reversing the Resource Curse Conference Organised by Ford Foundation and Africa Centre for Economic Transformation
3 Neube, M (2012) ‘We will live longer and be the wealthier by 2060’ Forbes Africa, November, pp: 84-85
The growth forecasts are thus unfortunately not based on the principle of *ceteris paribus* (everything being equal) are contingent upon sound governance of economic resources and enhancement of opportunities for the poor and marginalized. Africa still requires bold political will and leadership able to mobilize the African population around a common national development agenda. This will have to be accompanied by strong institutions in government, the private sector and civil society.”

**A Snapshot of Illicit Capital Outflows from Africa**
African countries have experienced massive outflows of illicit capital mainly to Western financial institutions. The term Illicit financial flows is being used in this discussion as short-cut to describe monies that are illegally earned, transferred or utilized. Somewhere at its origin, the movement or use of these monies broke laws and hence are considered illicit. There are four common practices of externalizing finances illicitly and viz;

*Corruption*- the proceeds of bribery and theft by government officials and they constitute about 3% of the global total. However in Africa there is reason to believe that these proceeds could be higher than 3%. There are more high profile cases of political elites abusing public funds in such as Equatorial Guinea and Gabon.

*Criminal*- proceeds generated through drug trafficking, racketeering, counterfeiting and they constitute about 30-35% of the total

*Commercial tax evasion*-mainly through trade mispricing and are by the largest component- 60-65% of the global total.

*Smuggling*- unfortunately no economic models that relies on official data to estimate illicit financial flows can capture effectively the scope of smuggling.

Then there are what may be called *external investments* by Africans. Researchers such as Collier, Hoeffler and Pattillo (2001) point out that many African investors seem to prefer foreign over domestic assets to the extent that the continent now has the highest share of private external assets among developing regions with serious ramifications for self-sustaining economic growth which allow countries to graduate from aid dependence. Although these, combined the choice of keeping saving outside of the continent, are not necessarily illicit in manner they have the same effect of starving domestic markets with savings for long term investment in productive sectors.

**Background: The Drivers of Illicit Financial Flows**
Many factors have contribute towards the increase of illicit financial flows from Africa, the most significant of these being the liberalisation of financial services and also weak regulatory institutions in many countries. Rather than only looking at figures it is also important to track the manner in which global economic policy regimes have evolved and influenced accumulation
practices within peripheral countries. At the centre of the global restructuring of world economies under the supervision of the International Monetary Fund (IMF) which began in earnest in the early 1980s after the fuel crisis of the 1970s has been the need to liberate the movement of finances from one country to the next with very little impediments. The imperative for the free movement of capital has been identified as critical for the effective functioning of markets and under the Washington Consensus financial services firms gained unprecedented support from policy makers. Although these reforms potentially contributed towards ease of doing business around the world there have also been unintended consequences.

The first signs of the negative effects of these reforms was in the Asian crisis. The speculative nature of capital has already been raised by many others it is important to note that with regards to developing (emerging markets) multi-nationals mostly showed preference to keep their money in countries with friendlier tax regimes. In many instances this led to some of enclave development within the peripheral countries where multi-nationals (especially in the extractive sector) would develop certain parts of the country where they were active in. But more importantly the investments did not necessarily turn into tax receipts within the countries receiving the investment. The world began to take notice, especially in areas where there are natural resources being extracted by multi-nationals but other economic and social indicators remain negative.

At the peak of structural adjustment developing countries were advised against using a heavily regimented regulatory financial services environment in order to allow for free movement of capital and also tax holidays were introduced as an incentive for potential investors. For instance when global copper prices had hit rock bottom and Zambia was experiencing a serious/debilitating balance of payment support investors that came in during the ‘winds of change’ period bought the copper mines at rock bottom prices. However within less than ten years copper prices were on the rebound but the multi-nationals stuck to the agreements they had entered into with the Chiluba government. Whilst the Konkola copper mines earned approximately US$301m in profit in 2006/7 they allegedly only paid US$6.1 million in taxes

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4 The term Washington Consensus was coined in 1989 by economist John Williamson to describe a set of ten relatively specific economic policy prescriptions that constituted the “standard” reform package promoted for crisis-wrecked developing countries by Washington, D.C.-based institutions such as the IMF, World Bank, and the US Treasury Department. The prescriptions encompassed policies in such areas as macroeconomic stabilization, economic opening with respect to both trade and investment, and the expansion of market forces within the domestic economy.

5 Joseph Stiglitz (2002) in Globalisation and its Discontents has ably described how the liberalisation (or liberation) of finance led to speculative tendencies and consequently the Asian crisis of the 1990s.
during the same period. The Zambian example unfortunately is not isolated—many countries entered into mining agreements during the period of liberalisation and the only indicator of growth that dominated the discourse at the time was the number of jobs created.

Besides the tax holidays, the liberalisation regime also insisted on the repatriation of profits—multinationals were to be assured that they could repatriate their profits without restrictions from governments and their regulatory bodies. Another related cause to the increase in illicit financial flows were the cost saving measures implemented internally within multinationals— for instance many continued to import through their head offices and this created opportunities for over-invoicing on certain capital goods to allow the repatriation of more foreign currency. At times multi-nationals used their local foreign currency accounts for such purchases as a way of moving even their minimal reserves of foreign currency. In terms of exports many multi-nationals— rather than sell their commodities (minerals and otherwise) on the open market sell to their sister companies usually at prices lower than what is prevailing in the market—thus are able to lower their commitments in tax. In many instances the practices discussed were allowed or at worst overlooked during the adjustment days.

Structural adjustment also meant reducing the numbers in the public service and also cutting back on perks. As a result many experts left the public service for lucrative positions within the private sector, burgeoning NGO sector and others emigrated overseas. The regulatory capacity of the bureaucracy was heavily constrained either through the ‘withdrawal of the state’ philosophy and also weak and understaffed public institutions. The capacity of the state to regulate market activity in terms of oversight over the movement of money, investment agreements and adherence to them remains highly constrained in many countries in a context where the private sector has become highly sophisticated in terms of exacting certain demands to remain within the country and also in ways to circumvent paying taxes.

The third dimension or driver of illicit flows has been the type of political systems that many African countries have been under. Many resource rich countries, Nigeria, Equatorial Guinea, Angola and Zimbabwe have mostly been under different forms of dictatorial regimes inclusive of Africa’s big men, ex-military generals, one party states or a combination of both. Nigeria, tops the list of countries with the highest levels of illicit flows and this is just not a coincidence but partially explains why democratisation has been a challenge in a context where international capital has been complicit in colluding with a rent seeking political/military elite to siphon resources out of the country. The share of oil rent vis a vis GDP in oil rich countries has mostly grown in the past ten years; in Angola (46%), Equatorial Guinea (47%), Gabon, (46%) and Libya (46%). In other countries such as Angola, Equatorial Guinea and Libya (at least until Muamar Gaddafi’s death) revenues from the oil boom have been used to entrenched family dynasties and through patronage politics to contain discontent within. As such the oil boom has not necessarily translated into equitable development. Challenges such as infant mortality, weak social services
and limited number of jobs created still continue to define the challenge of development in the oil rich countries. The lack of democracy and a transparent institutional framework for the collection and management of revenues from commodities partly explain the increase in illicit financial flows.

Thus the massive outflows of capital are on one hand due to sub-optimal policies caused by the liberalizing agenda and weak regulatory institutions within developing countries but and also more importantly they find synergy in deep flaws within the global financial systems. The global financial crisis has gone a long way in demonstrating that this is not Africa’s challenge alone but rather that the entire system is opaque in nature, at the centre of it are tax havens that even rich countries such as England are finding as a challenge in instituting tax justice. The excesses of financial institutions even in their own backyards and the fact that most are still operating despite their evident corrupt practices (for instance Barclays in the UK) suggests the extent of their influence. Unfortunately for Africa the democratic deficit across the continent and limited citizen engagement has also contributed towards the failure to detect and act on cases on illicit financial flows.

The Challenge: Africa’s Global Positioning and Illicit Financial Flows
Emerging literature does not unfortunately adequately make the connection between the illicit financial flows and the liberalisation regime of the last three decades that many African countries are emerging from. The global financial system is not only opaque in nature but services a very wide network of powerful process of production and allocation of surplus that is driven by the value of maximizing returns. Whilst Africa, for the first time, features in a more significant way in the post-economic crisis recovery discourse as part of the missing link to the recovery process, in terms of on the hand continuing its role as supplier of critical raw materials and contributing new land area for the expansion of agriculture the logic and values driving accumulation have not all of a sudden gone through a major transformation. There is reason to believe that the indeed Africa is the next frontier of growth butas already argued economic growth without credible reforms of the international system and also national processes could lead to more, not less capital flight if there are no attendant policy reforms at national and international levels.

The challenge that the practice of illicit financial flows imposes upon government is multifaceted and require a more organised and collective approach to tackle. The figures story of how much Africa is losing due to illicit financial flows has been well rehearsed (see for instance Ndikumana and Boyce, 2010) and more countries are presently being undertaken through the UN’s Economic Commission for Africa (UNECA)^6. The purpose of this paper is focused on ‘what do

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^6 There are admittedly, quantitative data gaps that may never be filled especially in regions affected by conflict such as the Horn of Africa and the Great Lakes- but the most important purpose of existing and forthcoming is to prove without a doubt that we have a problem of moneys being illicitly moved out of Africa.
we do with what we know’. The illicit financial flows challenge forms a part of many other challenges related to Africa’s positioning within the global circuits of capital and coherent responses require a more concerted and collaborative approach amongst African governments, citizens and support from international institutions. The current name and shame approaches, through documentaries, op-eds, public platforms whilst very important they need to be complimented by official processes at national and regional levels.

At the moment every individual African country’s major concern is attracting foreign direct investment (FDI) in various productive sectors. In many instances African countries have to bend backwards to attract investment. Data has shown that Sub Saharan Africa has in the last ten years attracted the least FDI compared to the other regions. Newly oil rich countries such as Ghana, Uganda and Kenya are potentially in better positions to enforce certain investor guidelines and also hopefully insist on equity within these new entities. Africa is yet to embrace in a more coherent way the need for a collective response to the renewed interest and establish a more unified and standardized approach to dealing with foreign multinationals. The current set-up allows for the continuation of the divide and rule approach. The failure to utilize a more collective approach pits in many cases weak African governments (desperate for financial injections) against the much more sophisticated investing countries or multinationals. Usually such encounters are characterised by information and capacity asymmetries that unfairly disadvantage African governments. New tools such as the Africa Mining Vision are yet to be coherently integrated into the way of government’s business.

What is to be Done?
The discourse of illicit capital flows dovetails neatly into what others have called resource nationalism and also one may suggest rethinking of the state and the role of markets. Norway provides one of the best examples of resource nationalism. In 1963 Norway asserted sovereign rights over natural resources in its sector of the North Sea. Since then Natural Gas reserves have also been discovered. The government through its own oil company Statoil started explorations and licensing of other exploring concerns. The government established the Petroleum Fund of Norway which later changed to The Government Pension fund. It is estimated that the value of the fund will be reach $717 billion by the end of 2014. The purpose of the fund is to invest part of the large surplus generated by the Norwegian petroleum sector, mainly from taxes of companies but also payment of licenses to explore as well as dividends from partly state owned Statoil. Besides the apparent measures of ensuring that resources from oil are kept in Norway and used for the people of Norway’s benefit there is also a policy that requests all petroleum to secure most of their services locally.

Discussions on addressing illicit capital flows also need to embrace an already ongoing discussion on the role of the African state in terms of economic decision making. There is an emerging consensus amongst scholars based in the global South that there is need for a democratic developmental state. Such a state should have autonomous policy space, based on the
apparent consensus that development requires autonomy of the state and that autonomy requires a new conciliatory foundation, together with effective planning bureaucracies (Edigheji, 2010). There is need to re-invest capacities within African bureaucracies in order to sufficiently regulate the financial services sectors and other productive sectors. Another approach would be through the establishment between independent African based policy think tanks and relevant government ministries. Opportunities for collaborative governance have not been adequately exploited for the benefit of African economies. Expertise resident within the independent policy research organisations has for a while now been marginalised from policy formulation process in favor of consultants seconded by multilateral development agencies.

There are also a number of examples of best practice emerging within Africa. Ghana for instance mandates the Petroleum Revenue Management (PRM) to collect quarterly disclosures of payment and production figures. Liberia has made the voluntary Extractive Industries Transparency Initiative (EITI) requirements a legal requirement. Zambia has launched a crackdown on the copper sector after realizing that it’s losing an estimated US$2 billion a year through illicit flows. Tanzania and Zimbabwe are insisting on taking equity stakes within companies involved in the extractive sectors. Tanzania has put a threshold of 30% whilst Zimbabwe has set a limit that foreign companies cannot own more than 51% of the shares.

Besides formal processes and partnerships with government there is also need for adequate democratic reforms which focus on the consolidation of democratic governance. Ndikumana and Boyce (2012:5) make a similar observation; ‘to be sure, democracy is not a panacea: it can be hijacked by strong interest groups. But it offers a better framework for giving the African people a voice in the management of public resources’. The required democratic reforms should permit civil society organisations to carry out research and necessary advocacy activities. Ideally, the requisite role of civil society in this context is to effectively conduct informed and concerted advocacy for appropriate policies and institutional practices that enhance transparency, accountability and responsive governance. History shows that where civil society actively plays this role, performance is improved in resource and financial governance. In Kenya, for example, civil society groups played an important role in whistle blowing on corruption cases, bringing attention to the Anglo Leasing and Goldenberg scandals as well as critiquing the national budget by preparing an alternative citizens’ budget. However, in some countries, civil society participation in resource and financial governance has been severely limited due to restrictive policy frameworks, capacity limitations, and lack of technical skills. This calls for the capacitating of civil society for economic governance monitoring and advocacy across Africa. The box below describes in brief the different ways in which TrustAfrica is contributing support to civil society based responses to illicit financial flows.
**(Box 1-The TrustAfrica Intervention)**

The partnership between TrustAfrica and Ford Foundation seeks to build an effective, informed and concerted advocacy movement across Africa for accountable economic governance and to stem the tide of illicit financial flows from the continent. Specifically, the initiative seeks to expand knowledge on the state of illicit flows in Africa, empower civil society organizations with access to relevant data and strengthen their capacity to effectively hold governments accountable; and to foster collaboration among African institutions working on economic governance issues.

Underlying these objectives is a serious commitment towards supporting knowledge-generation efforts that can equip citizens to hold governments and corporate giants to account. Hence, in pursuit of the above program objectives, TrustAfrica has adopted a combination interrelated strategies and activities in order to maximize impact, facilitate collaboration, and prepare the ground for scalability.

The interrelated activities include leveraging research and knowledge, convening relevant communities of African citizens that are engaged in efforts to resolve the challenge of illicit financial flows, issuing grants to non-state organisations carrying out advocacy and through our network of thought-leaders we will also carry high level advocacy. At the core of the initiative is grantmaking for building collaborative and well-informed advocacy against illicit transfers of resources in countries where none exists and to strengthen those that are already engaged in this line of work. We have already begun to make grants to organizations that demonstrate advocacy experience or potential as well as a willingness to collaborate with other like-minded organizations.

**Conclusion**

There is a need for a big picture approach to resolving the challenge of illicit financial flows. Such an approach includes reorienting global systems of accumulation to serve/prioritise local needs. Stiglitz has already noted that pro-globalization policies have the potential of doing a lot of good, if undertaken properly and if they incorporate the characteristics of each individual country. Countries should embrace globalization on their own terms, taking into account their own history, culture, and traditions. However, if poorly designed—or if a cookie-cutter approach is followed—pro-globalization policies are likely to be costly. They will increase instability, make countries more vulnerable to external shocks, reduce growth, and increase poverty. Current FDI regimes have mostly been developed using a cookie cutter approach. There is a need to revisit different investment regimes and allow for reforms that distributes power between communities, government and the investing entities beyond corporate social responsibility CSR approaches. African governments need to invest in improving conditions of service for the soft technical skills required for monitoring sectors susceptible to illicit flows. The African Union, through its protocol process, can also play a leading role by setting standard for FDI, movement of money out of Africa and conduct of political elites. The envisaged economic growth can, if no reforms are undertaken, be a mirage and also feed a few privileged one.
References


Ncube, M (2012) ‘We will live longer and be the wealthier by 2060’ Forbes Africa, November, pp: 84-85


