

ILLICIT FINANCIAL FLOWS AS AN OBSTACLE TO DEVELOPMENT



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Although the phenomenon of Illicit Financial Flows (IFF) is not entirely new on the agenda of the international donor community, in the past five years the subject has gained additional momentum in the context of development finance discussions. Donors and recipients have both come to realise that the hazards and side effects are not limited to financial losses for the state concerned, but rather pose a threat to its statehood.

The aim of this article is to address a topic that has rather been neglected in the recent German development policy debate. It assesses dimensions and characteristics of IFFs, and reviews the current policy initiatives against the backdrop of recent discussions in Addis Ababa in the scope of the International Conference on Financing for Development Cooperation (13 to 16 July 2015).

Even though IFFs are a global phenomenon that has grown to a volume of around 991.2 billion U.S. dollars (2012)¹ per year, the following analysis is primarily concerned with the current situation in sub-Saharan Africa, as well as global and African initiatives to combat the issue.

ILLICIT FINANCIAL FLOWS

The phenomenon of illicit financial flows is not limited to the often associated symptom of actual capital flight. The term, first coined by Raymond Baker,² emphasises the multi-dimensional character

1 | Cf. Dev Kar/Joseph Spanjers, *Illicit financial flows from developing countries 2003-2012*, Global Financial Integrity, 12/2014, p. vii, <http://gfintegrity.org/wp-content/uploads/2014/12/Illicit-Financial-Flows-from-Developing-Countries-2003-2012.pdf> (accessed 18 Aug 2015).

2 | Cf. Raymond Baker, *Capitalism's Achilles Heel. Dirt Money and How to renew the Free Market System*, Hoboken, New Jersey, 2005, p. 205ff.

of the issue, since responsibilities do not solely lie at the source of financial flows, but also on the receiving side. The term illicit deliberately encompasses more than just illegal transactions, but also refers to tax avoidance models of transnationally operating companies (intra-firm profit shifting).

When studying the effects of IFFs on the development and financing of states, it makes little sense to limit the concept to illegal aspects, as is for example the case with the OECD IFF definition, but instead to cast a wider net.³

However, since any broader conceptualisation would further impede the quantification of an issue that is difficult to measure due to the non-public nature of the phenomenon in the first place, IFFs are generally understood as follows:

Illicit financial flows are defined as all transfers of illegally acquired and employed capital.⁴ This capital is derived from criminal activities (a) and corruption (b). In sub-Saharan Africa, however, IFFs linked to commercial activities (c) are the primary cause of economic damage, undermining development efforts. The High Level Panel on Illicit Financial Flows from Africa under the auspices of former president Thabo Mbeki has therefore not limited its investigations to illegal transactions, and has included the legal grey areas within official economic cycle.

In sub-Saharan Africa, however, commercial activities are the primary cause of economic damage, undermining development efforts.

a) Criminal Activities

Money laundering is probably the criminal activity that has been the subject of most international attention. In particular, anti-terrorism legislation in many countries has made an effective contribution to combating the issue. However, some countries, particularly in sub-Saharan Africa, have signed the relevant international

3 | As Blankenburg and Khan demonstrated in the World Bank study (2012), illegal capital flows may also generate positive development momentum. Cf. Stephanie Blankenburg/Mushtaq Khan, "Governance and illicit flows", in: Peter Reuter (ed.), *Draining development? Controlling flows of illicit funds from developing countries*, Washington D.C., 2012. The observable construction boom and the underlying volume of foreign investment in African metropolitan areas becomes often associated with money laundering by foreign or local elites.

4 | For a discussion of the term IFFs cf. Marc Herkenrath, "Illicit Financial Flows and their Developmental Impacts: An Overview", *Revue internationale de politique de développement*, Articles and Debates 5.3, 2014, <https://poldev.revues.org/1863> (accessed 19 Aug 2015).

framework agreements but do not dispose of any institutional capacities and are also delaying their establishment.⁵ Since money laundering, insofar as the funds are of domestic origin, is directly related to corruption, the political will of the elites, but also their own ethical standards, are crucial for fighting it.

Apart from money laundering, drug trafficking, arms deals and human trafficking are other, partly transcontinental criminal activities that contribute to illegal capital flows. The High Level Panel on Africa is particularly concerned about the current level of organised crime in sub-Saharan Africa. It includes the trade in counterfeit goods as well as international smuggler networks, which serve the sole purpose of avoiding custom duties and other taxes destined for the treasury of the relevant country.⁶ The symbiotic relationships entered by transnational networks of organised crime with governmental structures in the context of fragile states are particularly likely to perpetuate the associated risks for further undermining the state. The susceptibility of the system to corruption, in turn, is the entry point for structures of organised crime.⁷

b) Corruption

In addition to money laundering, corruption is widely regarded as one of the primary sources of IFFs. This is due to the fact that major corruption scandals are particularly likely to make the headlines and enter public consciousness. Scientific studies have however established that an estimated mere three per cent of global IFFs are generated by corruption.⁸ Despite all efforts to combat corruption in sub-Saharan Africa,⁹ the gravity of the problem remains. On the one hand, access to information, as a first step of any form of public control, remains limited. Only South

5 | Cf. Economic Commission for Africa, *High Level Panel on Illicit Financial Flows from Africa: Track it! Stop it! Get it!*, 2015, p. 32.

6 | Cf. *ibid.*, p. 32.

7 | Cf. Tjark M Egenhoff, *Transnational Organized Crime in fragile states as a threat to regional peace and security: Overload of the UN agenda or upgrade necessary? The case of Guatemala*, Boston, MA Thesis, 2014, p. 42.

8 | Cf. Dev Kar/Devon Cartwright-Smith, *Illicit Financial Flows from Africa. Hidden Resource for Development*, Global Financial Integrity, Washington D.C., 2010, p. 1, http://gfintegrity.org/storage/gfip/documents/reports/gfi_africareport_web.pdf (accessed 18 Aug 2015).

9 | Examples in this context are the UN Convention against corruption, regional initiatives such as the African Convention on Preventing and Combating Corruption, or even national disclosure requirements for ownership relations and investments (asset disclosure).

Africa provides sufficient information on the state budget. The Open Budget Survey of 2012 counts the governments of Angola, Cameroon, Equatorial Guinea, Zimbabwe, and Zambia as countries that have failed to provide either a viable legal framework or sufficient transparency. All countries mentioned have economies based on extractive industries and natural resources.¹⁰

The complexity of combating corruption in the context of IFFs relates also to the fact that the capital is commonly invested in phantom companies with obscured ownership structures outside of the developing continents. As a World Bank study established 70 per cent of the 213 largest corruption scandals (1980 to 2010) involved phantom firms either based in tax havens or in industrialised countries¹¹

Capital drain due to corruption deprives the state budget of necessary means for the development of vital sectors such as infrastructure, education, and health care. The

The level of corruption exacerbates the alienation of citizens from the state and its representatives.

existing and perceived level of corruption within a state and by its governing elites, exacerbates the alienation of citizens from the state and its representatives. This, in turn, forms a breeding ground for extremist groups that commonly present themselves as a supposedly “clean” alternative. Although there is no empirical evidence for any correlation between the level of corruption and the emergence of extremist groups to date, a glance at the Transparency International Index indicates that Al-Shabab (Somalia: ranking 174/174), Boko Haram (Nigeria: ranking 136/174), IS (Iraq: ranking 170/174), or the Taliban (Afghanistan: ranking 172/174), are all currently active in states at the end of the spectrum.¹²

10 | Cf. International Budget Partnership, “Survey 2012 Key Findings”, International Budget Partnership, o.D., o.O., <http://internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/publications-2/rankings-key-findings/key-findings> (accessed 18 Aug 2015).

11 | Cf. Emile van der Does de Willebois et al., *The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It*, The World Bank, Washington D.C., 2011, p. 34 ff., <https://openknowledge.worldbank.org/bitstream/handle/10986/2363/9780821388945.pdf> (accessed 18 Aug 2015); see also: David McNair et al., *ONE*, Sep 2014, p. 8, https://s3.amazonaws.com/one.org/pdfs/G20-Bericht-2014_DE.pdf (accessed 9 Aug 2015).

12 | Cf. Transparency International, “CPI 2014: Tabellarisches Ranking”, *Corruption Perception Index 2014*, 3 Dec 2014, <http://www.transparency.de/Tabellarisches-Ranking.2574.0.html> (accessed 9 Aug 2015).



Anti-corruption poster in Uganda: The population in the affected developing countries itself considers corruption a big obstacle to stability and growth in their respective countries. | Source: futureatlas.com, flickr ©.

c) Commercial Transactions

The IFFs also include commercial transactions. However, this is a grey area, since the dividing line between the legitimate political exploitation of incentives and tax avoidance or even tax evasion cannot always be clearly identified. By now, abusive trade misinvoicing constitutes 77.08 per cent of all IFFs.

In sub-Saharan Africa, abusive trade mispricing is particularly widespread. Exports are under-invoiced with the aim of avoiding taxes and duties. For 2012, Mozambique, for example, stated a global export of 260,385 cubic meters of wood in its official statistics. China, in turn, reported the import of 450,000 cubic meters of wood from Mozambique in its own annual report.¹³ There are similar examples for other commodity economies.¹⁴

Countries such as Mozambique or Ghana have respectively lost 10.4 per cent and eleven per cent of their potential tax revenue for the period from 2002 to 2011 due to misinvoicing.¹⁵

13 | Cf. n. 5, p. 28.

14 | For illegal transactions in Nigeria's oil industry to the volume of some 100,000 barrels per day, see: Christina Katsouris/Aaron Sayne, *Nigeria's Criminal Crude – International Options to combat the Export of stolen Oil*, Chatham House, London, 2013.

15 | Cf. Christine Clough et al., *Hiding in Plain Sight: Trade Misinvoicing and the Impact of Revenue Loss in Ghana, Kenya, Mozambique, Tanzania and Uganda 2002-2011*, Global Financial Integrity, 12 May 2014, p. vii.

Profit-shifting is another popular tool among multinational enterprises, which entails the declaration of sales profits in tax privileged enterprise locations. The South African Revenue Service examined 30 cases of profit shifting and transfer pricing with a total volume of 30 billion rand on the basis of the 2012 introduced respective legislation. These cases alone did cost the South African government more than five billion rand¹⁶ in income tax.¹⁷

The South African Revenue Service examined several cases of profit shifting and transfer pricing, which results in a tax shortfall of five billion rand.

DIMENSIONS OF THE ISSUE OF ILLICIT FINANCIAL FLOWS

The annual reports of the American think tank Global Financial Integrity (GFI) are based on a comprehensive data collection on the topic of illicit financial flows, and are held in high esteem of the development banks and multilateral organisations. The comparison of IFFs over time clearly indicates that IFFs increased by around 9.4 per cent per annum between 2003 and 2012.

In sub-Saharan Africa, IFFs even grew by 13.2 per cent per year¹⁸ in the same period, well above the mean. On average, African countries lost an annual 60.3 billion U.S. dollars due to IFFs in the same period.¹⁹

Compared to the volume of IFFs in Asia (2.6 trillion U.S. dollars in the period 2003 to 2012), the numbers for sub-Saharan Africa appear to be rather low at first glance (528.9 billion U.S. dollars in the same period). However, the illustration of IFFs in relation to BNP yields a far more somber picture.

Taking into consideration and adding up, illegal capital flows across borders, legal capital flight, and inadequate tax collection capacities of governments, the complex problem of finance capital in African States becomes evident. Africa requires around 100 billion U.S. dollars for the development of infrastructure, but loses 63 billion U.S. dollars by IFFs every year. States generally require 25 per cent of their capital income for economic development.

16 | Approx. 361 million euros at current exchange rates.

17 | Cf. Lisa Steyn, "Clampdown on tax avoidance", *Mail & Guardian*, 21 Nov 2014, <http://mg.co.za/article/2014-11-20-clampdown-on-tax-avoidance> (accessed 18 Aug 2015).

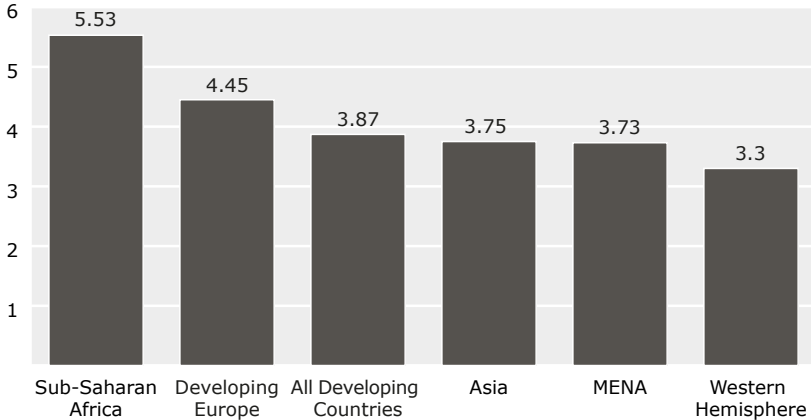
18 | Cf. Kar/Spanjers, n. 1.

19 | Cf. *ibid.*

African countries without oil production revenues, for example, dispose of a mere 11.8 per cent.²⁰

Fig. 1

Illicit Financial Outflows to GDP (in per cent)



Note: The denomination developing Europe includes Albania, Belarus, Russia, Ukraine, Bulgaria, Moldova, Croatia, Bosnia and Herzegovina, Macedonia, Serbia, Montenegro and Turkey. | Source: Dev Kar/Joseph Spanjers, "Illicit Financial Flows from Developing Countries: 2003-2012", 16 Dec 2014, Global Financial Integrity, <http://gfin integrity.org/report/2014-global-report-illicit-financial-flows-from-developing-countries-2003-2012> (accessed 16 Sep 2015).

Inter-African comparisons are complicated by inadequate and poor-quality data. The GFI data indicate that West and Central Africa are those regions with the most IFFs. However the values for Nigeria, the African country with the highest volume of IFFs by far, distorts the picture and draws the focus to West Africa.

Correlating the capital outflow due to IFFs with official development assistance (ODA) for sub-Saharan Africa and foreign direct investment, it becomes evident that the capital outflow has exceeded the inflow since 2005. And this took place at a time when many African countries experienced immense economic growth rates.

20 | Leonce Ndikumana, "Savings, Capital Flight, and African Development", Political Economy Research Institute, Workingpaper Series 353, 2014, p. 8, http://peri.umass.edu/fileadmin/pdf/working_papers/working_papers_351-400/WP353.pdf (accessed 18 Aug 2015).

Table 1
Top 10 IFFs African Countries²¹

Country	Cumulative IFFs (1970-2008) in billion U.S. dollars	Share in Africa's total IFFs in per cent
Nigeria	217.7	30.5
Egypt	105.2	14.7
South Africa	81.8	11.4
Morocco	33.9	4.7
Angola	29.5	4.1
Algeria	26.1	3.7
Ivory Coast	21.6	3.0
Sudan	16.6	2.3
Ethiopia	16.5	2.3
Republic of Congo	16.2	2.3

Source: Kar/Cartwright-Smith, n.8, p.33-36.

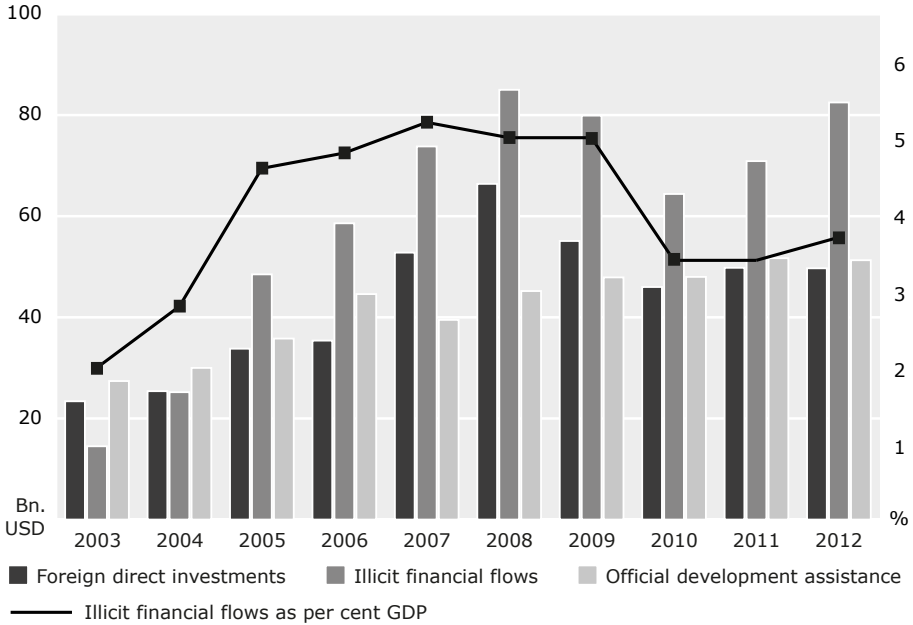
Given the lack of public funds for infrastructure development and poverty reduction, the loss of capital from IFFs becomes even more significant. Studies expect that a radical cut of IFFs would result in an average economic growth rate of three per cent in those countries concerned. Similarly, most of the countries concerned would be debt-free, if they manage to get a grip on the problem of IFFs.²²

Against the backdrop of shrinking development aid budgets of bilateral donors, it is therefore only consequent for the international donor community to enhance the efforts to tackle the problem of IFFs.

21 | Table from presentation of Koen Roovers, *EU Lead Advocate, Financial Transparency Coalition: Tackling illicit financial flows from Africa to Europa – Current Situation and EU Policies*, Brussels, 23 Apr 2015.

22 | Cf. James K. Boyce/Léonce Ndikumana, "Capital Flight from Sub-Saharan African Countries: Updated Estimates, 1970-2010", Political Economy Research Institute, 22 Oct 2012, p.8, <http://www.peri.umass.edu/236/hash/d76a3192e770678316c1ab39712994be/publication/532> (accessed 18 Aug 2015).

Fig. 2
The Evolution of Illicit Financial Flows in Relation to Foreign Direct Investment and Official Development Assistance



Source: EurActive, "Infographic: Curbing illicit financial flows is a resource for Africa", 23 Jul 2015, <http://euractiv.com/sections/development-policy/infographic-curbing-illicit-financial-flows-resource-africa-316534> (accessed 30 Sep 2015).

NECESSITIES AND REALITIES IN THE FIGHT AGAINST IFFS IN SUB-SAHARAN AFRICA

The effective fight against IFFs requires shifting the focus of attention beyond the perpetrators. Policy makers that establish both the necessary legal framework and have the power to build state capacities play an equally important role.

A glance at the ranking of the top ten of IFFs in sub-Saharan Africa reveals that all are natural resource economies with the exception of South Africa. Deficient resource management systems by the government facilitate illicit financial flows. The problem starts as early as during the negotiation of contracts, and the capacity of the respective government to realistically assess the value of the subject of contract. The administrative capacities of the states are also often insufficient to verify discrepancies between the declared and extracted quantities of raw materials. The government of the Democratic Republic of Congo assumes that there is wide-spread

under-reporting in terms of the quantity, quality and composition of the extracted minerals by the mine operators.²³

According to the former Zimbabwean Minister of Finance, Tendai Biti, the state budget of Zimbabwe during his tenure amounted to just a third of the IFF-outflows from Zimbabwe. Just the diamond trade from Marange mine, which is not subject to state control, was responsible for around 50 per cent of the illicit outflows from Zimbabwe.²⁴

To address this problem, control capacities must be established, and technical expertise must be acquired at the state level, in addition to the generally required political will of the governments. However, the extracting countries as well as the states that host the processing industries must also strengthen the legal framework. Although the Dodd-Frank Act has raised the levels of transparency in the extractive industries, the legislation is mainly concerned with the quality, or rather conflict-neutral origin of raw materials. The criterion of quantity and the associated payment of levies to the state of origin are not included.²⁵

Initiatives such as the Extractive Industries Transparency Initiative (EITI) are also powerful tools for curbing corruption. However, they are voluntary in nature, and therefore depend on the presence of political will.

Beyond questions regarding the sustainable extraction and use of national resources and their contribution to the development of the country, the state tax system is another fundamental factor in the context of IFF. Most states of sub-Saharan Africa only manage to raise 17 per cent of BNP by tax levies (for comparison, the figure for Portugal is 20.5 per cent; for Norway 26.8 per cent). African governments have little capabilities or capacities to investigate the transaction costs of multinational companies to reveal profit transfers or abusive pricing. The South African Revenue Service (SARS), which has proven capable of investigating various

23 | Minister of Public Service, S.E. Jean-Claude Kibala on 24 Sep 2014 technical discussion of the CDU/CSU faction, "Investing together in Africa's future: opportunities for German-African economic cooperation".

24 | Tendai Biti was the Minister of Finance of Zimbabwe from 2009-2013 and spokesman for the ENoP event "Financing for Development and Africa-EU Relations – ODA and the challenge of tax evasion and illicit financial flows", which took place in Lisbon on 29 May 2015.

25 | Cf. n. 5, p. 58.

cases, is a notable exception. Quite often, the value of goods is stated too low at export to avoid taxes, to bypass any existing quota arrangements, or even to launder money.

Improving the tax system of developing countries will only prove partially effective if the proportion of the population that can be taxed grows at the same time.

In recent years, much has been initiated from donor side and on bilateral level to make the tax systems of developing countries more efficient, and to increase government revenues in the medium and long term. However, this will only prove effective, if the proportion of the population that can be taxed grows at the same time. In many African countries, the informal economy is greater than the formalised share. In booming Mozambique, for example, only 32 per cent of workers are employed in the formal labour sector, which is concentrated in the urban regions. The vast number of young people entering the labour market every year (300,000 per year in the case of Mozambique) only find employment in the informal sector, and are therefore not subject to taxation.

Some efforts to build more efficient tax systems are also thwarted since tax relief rules are commonly used as incentives for foreign investors, and such tax benefits are not always designed under consideration of the balance of costs and benefits. Again, Mozambique is a good example in this context:

The Mozambican government established special tax regimes to attract FDI as early as during the late 1990s. The Belulane Industrial Free Zone was established on the Mozambican side of the Maputo Corridor, which links Mozambique and South Africa, as well as the Nacal Special Economic Zone for the Nacala corridor in the province of Nampula. Companies that settle in the two zones are exempt from taxes and duties on all imports of raw materials and equipment. In the designated industrial zones, businesses are exempt entirely for ten years, with a reduction in tax of 50 per cent for the following five years, and tax relief (25 per cent) for the remaining period. This special arrangement leads to a situation where the major aluminium smelters in southern Mozambique (MOZAL) hardly bring any tax revenue to the state coffers.

Beyond the previously mentioned lack of capacity in the ministries in charge of commodity agreements, it is mainly the weakly developed financial, tax and law enforcement agencies which fail to counter the IFFs. The problem begins with a lack of information on IFFs by governments. The inadequate legal framework

as such, but also unequal levels of legal expertise in government agencies compared to the expertise found in multinationals, turn the mitigation of commercially motivated IFFs into a battle of David against Goliath.



Letter box in Mombasa: The lack of transparency and poor governance do foster the phenomenon of IFFs. | Source: Marcel Oosterwijk, flickr ©©©.

The inefficiencies inherent in the present government systems are also a result of the lack of transparency, cooperation and coherence between involved government agencies, which end up degrading the governmental position from the outset.

Reducing the problem to the lack of information and technical expertise on the part of the developing countries would, however, also be a mistake and overly simplistic. It might be true to a certain extent. The lack of transparency and poor governance do foster the phenomenon of IFFs. Anti-corruption agencies are commonly established without expert staffing, nor do they dispose of the necessary independence. As the example of the anti-corruption unit Scorpions in South Africa demonstrates, political interference also occurs. The Scorpions unit that had launched investigations against South Africa's President Jacob Zuma and others, and was subsequently dissolved in 2009 and superseded by a new, far more dependent unit, the Hawks, now being part of the police.

The effective combating of IFFs requires national political elites to recognise that IFFs gradually undermine already weak state structures due to their nature and connection to organised crime and terrorist groups. This also presupposes that capital outflows

from commercial activities, which account for 65 per cent of the IFFs, are accepted as a problem for the development process of the country, and are targeted both by the developing country and the industrialised nations and the donor community.

INTERNATIONAL INITIATIVES TO COMBAT IFFs

The topic IFF has been placed on the agenda of the multilateral organisations. At the recent G7 meeting in Elmau, the intention to present the G20/OECD Base Erosion and Profit Shifting (BEPS) Action Plan by the end of the year was reiterated. The initiatives to combat tax evasion and corruption, both related to the mitigation of IFF, are also to receive continued support. However, the G7 leaders did not issue a statement on the significance of IFFs in respect of development policy, the debate on development financing, as well as the post-2015 development agenda.²⁶

The OECD regularly examines the scope of measures targeting IFFs among its members. Here, the focus is on the areas of money laundering, tax evasion, corruption, as well as the freezing, recovery, and repatriation of stolen assets. The OECD members are however only partially following the recommendations of the Financial Action Task Force (FATF) in their fight against money laundering.²⁷ In the area of tax evasion, there is still "room for improvement", and the envisaged automatic exchange of information is still the exception. The exchange of information with developing countries is failing due to the low data collection capacities, as well as the susceptibility of the competent tax authorities to corruption.²⁸ The report also shows that even OECD countries are often lenient in investigating and prosecuting bribe payments to recipients in developing countries. This affects both the legal framework for anti-corruption measures, as well as law enforcement itself.²⁹ The OECD verdict is sobering even in respect of the return of stolen assets:

26 | Cf. "Abschlussklärung G7-Gipfel", 8 Jun 2015, p. 3, http://bundesregierung.de/Content/DE/_Anlagen/G8_G20/2015-06-08-g7-abschluss-deu.html (accessed 18 Aug 2015).

27 | "OECD anti-money laundering regimes have improved since the first set of Recommendations was established in 2003, but not evenly across the board. On average, OECD countries' compliance with central FATF Recommendations is low." Quoted in: OECD, "Illicit Financial Flows from Developing Countries: Measuring OECD Responses", 2014, p. 11, http://oecd.org/corruption/Illicit_Financial_Flows_from_Developing_Countries.pdf (accessed 18 Aug 2015).

28 | Cf. *ibid.*

29 | Cf. *ibid.*, p. 12.

“Progress in OECD countries in repatriation has been modest, however, with only a limited number of countries having frozen or returned assets.”³⁰

The EU, as well as bilateral donors, support initiatives to improve national tax revenue in developing countries (domestic revenue mobilisation),³¹ as well as the aforementioned global efforts of the OECD, World Bank, G7/G20 and non-governmental initiatives such as the Extractive Industries Transparency Initiative. The subject of IFFs appears continuously on the agenda at meetings between EU and AU representatives, and form an integral part of the 2014 to 2017 roadmap for the implementation of the Joint Africa-EU Strategy (JAES):

“We shall deepen our cooperation in international tax matters to broaden domestic revenue mobilisation and tackle illicit financial flows, through increased cooperation in line with the principles of transparency, exchange of information and fair tax competition.”³²

Since IFFs must primarily be combated at the member state level, the efforts of the EU in this area may appear to be in good faith, but are of limited effectiveness. They certainly help in reminding African partner governments of their responsibilities. However, any possible influence on the African side requires Europe to first meet its own obligations (see OECD report).

The 2012 action plan to strengthen the fight against tax fraud and tax evasion (COM (2012) 722 final), which also contains recommendations to the member states, still requires an evaluation of its implementation.

The tax transparency package presented in March 2015 is commonly cited in the context of tackling IFFs, overlooking that it is primarily designed to promote justice in the internal market. The

30 | Cf. *ibid.*

31 | Cf. in this context Odd-Helge Fjeldstad, “WP/2013/010 Taxation and Development. A review of donor support to strengthen tax systems in developing countries”, Unu-Wider, Wider Working Paper, 2013/010, Feb 2013, http://wider.unu.edu/publications/working-papers/2013/en_GB/wp2013-010 (accessed 18 Aug 2015).

32 | “Fourth EU-Africa Summit, 2-3 April 2014, Brussels. Roadmap 2014-2017”, p. 8, http://africa-eu-partnership.org/sites/default/files/documents/2014_04_01_4th_eu-africa_summit_roadmap_en.pdf (accessed 18 Aug 2015).

effects of corporate profit shifts from developing countries to the EU area do not constitute a priority of the regulation.

The regulation to combat money laundering was launched on 26 June 2015, which the member states have to implement in national law within a period of two years, is more likely to be effective in leading to more transparency in the field of financial transactions. In the age of Bitcoin and other virtual ways of transferring money, however, the focus on the existing banking system may have already been overtaken by reality, and the actual regulatory framework for digitalisation might lag behind in this area too.

The work of the High Level Panel on Illicit Financial Flows, established by the AU and UNECA and headed by ex-President Thabo Mbeki, appears particularly promising in the fight against IFFs. The panel has presented not only a comprehensive status quo assessment for sub-Saharan Africa, but has also issued specific recommendations for the three IFF components (commercial, corrupt, criminal activities). The recommendations range from mandatory declarations on financial assets of office holders, close monitoring (lifestyle audits) of so-called politically exposed persons (PEPs), improved public access to information relating to the state budget, more transparency in public procurement, as well as greater transparency in the international banking system.³³

Some reactions to the report, however, clearly demonstrate the attitude of the ruling political class. In Nigeria, which lost 142.27 billion U.S. dollars due to IFF in the period from 2002 to 2011 alone, then incumbent President Goodluck Jonathan rejected the publication of assets proposed by the High Level Panel outright:

“The issue of public asset declaration is a matter of personal principle. That is the way I see it, and I don’t give a damn about it, even if you criticise me from heaven.”³⁴

In the DRC, the Constitution even provides for a declaration of the assets of the president and his government in Art. 99. This constitutional provision has been continuously ignored since the constitution came into force in 2006.

33 | Cf. n. 5, p. 79-87.

34 | Bassey Udo, “AU asks Jonathan, other African leaders to publicly declare their assets”, *Premium Times*, 3 Feb 2015, <http://premiumtimesng.com/news/headlines/176172-au-asks-jonathan-african-leaders-publicly-declare-assets.html> (accessed 18 Aug 2015).

At the Third International Conference on Financing for Development, which took place on 13 to 16 July 2015 in Addis Ababa, the developing countries had demanded the formation of an International Tax Commission at the UN to counter tax evasion and avoidance by multinational corporations. However, this was rejected with reference to the existing structures and initiatives of the OECD. In NGO circles, this has led to particularly vehement criticism, and has been regarded as sending the wrong signals.³⁵ However, this critique fails to recognise that the absence of actions of states and governments are the hurdle for a more efficient solution to the problem rather than the lead organisation, whether it be the OECD or UN.

CONCLUSION

The volume of illicit financial flows has been in excess of both the volume of foreign direct investment and official development assistance for ten years and counting. Bluntly stated, Africa could even be regarded as a "net lender".³⁶ However, such a conclusion would ignore the complex dimensions, and, especially, the largely illegal nature of the problem. Nevertheless, the fact remains that the African countries would be capable of financing their development efforts largely autonomously if they were capable of coping with the issue of IFFs. Both the African governments, as well as the Western industrial nations and international donor community should take an interest in this outcome. The efforts of both sides, however, remain behind expectations, as well as the need for action. Before we allow ourselves to get carried away by basically supporting the budget of partner countries, the primary goal should be to ensure that all national options for revenue mobilisation are explored, and that development-oriented use of national resources is assured. Accompanying measures in this respect are essential. On the part of donor countries, the responsibilities of multinational entrepreneurs must be addressed, as well as transparency and control tools for the banking system improved.

African countries would be capable of financing their development efforts largely autonomously if they were capable of coping with the issue of IFFs.

35 | Cf. "Finanzbeamte für die Entwicklung der Welt", *Frankfurter Allgemeine Zeitung*, 17 Jul 2015.

36 | African Development Bank/Global Financial Integrity, "Illicit Financial Flows and the Problem of Net Resource Transfers from Africa: 1980-2009", May 2013, http://gfintegrity.org/storage/gfip/documents/reports/AfricaNetResources/gfi_afdb_iffs_and_the_problem_of_net_resource_transfers_from_africa_1980-2009-web.pdf (accessed 18 Aug 2015).

A range of useful measures have been implemented; others are still awaiting their implementation. The correct initiatives and recommendations were launched, and the negative effects of the IFFs are repeatedly debated in various fora. The Addis Ababa Action Plan (point 23 to 30) presents a detailed declaration of intent for IFFs.³⁷ However, the final decisive factor will be the extent to which these initiatives and recommendations are realised, or forestalled due to the lack of political will on the part of the industrialised and the developing countries.

37 | United Nations, "Outcome document of the Third International Conference on Financing for Development: Addis Ababa Action Agenda", Draft Resolution, 69th session, 23 Jul 2015, p. 8-10, http://un.org/ga/search/view_doc.asp?symbol=A/69/L.82 (accessed 18 Aug 2015).