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# REDUCING ILLICIT FINANCIAL FLOWS TO BOOST DOMESTIC RESOURCE MOBILISATION FOR FINANCING SUSTAINABLE DEVELOPMENT IN AFRICA

NICOLE ZIMUNYA<sup>1</sup>, HALLELUAH CHRISA<sup>2</sup>, RUMBIDZAI MPAHLO<sup>3</sup>, TINASHE MAGANDE<sup>4</sup> AND

TAMUKA J MUKURA<sup>5</sup>

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## Abstract

Illicit financial flows (IFFs) inhibit African development by draining foreign exchange, reducing domestic resources, stifling trade and macroeconomic stability and worsening poverty and inequality. This study focuses on Africa as a recent assessment revealed that Africa lost between US\$1.2 and US\$1.3 trillion in illicit outflows over the 32 years, 1980-2012. Of great concern is that these figures are almost four times Africa's current external debt and nearly equivalent to its current Gross Domestic Product (GDP). Zimbabwe is not an exception, with IFFs rampant in industries such as mining, especially among artisanal miners who operate clandestinely, avoiding selling their products to the state and evading tax. The rationale for a greater focus on domestic resource mobilisation in Zimbabwe springs from the quest for ever-elusive fiscal consolidation and debt sustainability. However, domestic resource mobilisation cannot succeed without tackling IFFs and other resource leakages through tax evasion and aggressive tax avoidance. According to the Zimbabwe Coalition on Debt and Development (ZIMCODD), the country loses an average of US\$276 million annually through IFFs. Motivated by this problem, the study interrogated the challenges and opportunities for curbing these illicit flows to boost domestic resource mobilisation for financing sustainable development in Africa. The study used a desk review and secondary data to explore IFFs and domestic resource mobilisation, with a special focus on the dollarisation period in Zimbabwe. An inadequate regulatory framework, the lack of information and

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<sup>1</sup> Administration, University of Zimbabwe

<sup>2</sup> Centre for Research & Development (CRD), Zimbabwe Ezekiel Guti University

<sup>3</sup> Development Studies, Zimbabwe Ezekiel Guti University

<sup>4</sup> Economics and Development, University of Zimbabwe

<sup>5</sup> Economics and Development, University of Zimbabwe  
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communication technologies facilities, transportation and other relevant infrastructure, , to mention a few, were some of the factors found to be inhibiting the prevention of IFFs. The study concludes that curbing illicit financial flows can help African countries mobilise capital to finance the achievement of the Sustainable Development Goals (SDGs) and other national priorities.

Keywords: corruption; tax evasion, financing mechanisms; dollarisation

## INTRODUCTION

Illicit financial flows (IFFs) and corruption inhibit African development by draining foreign exchange, reducing domestic resources, stifling trade and macroeconomic stability and worsening poverty and inequality (Kar and Spanjers, 2015). These illicit flows rob Africa and its people of their future, undermining transparency and accountability and eroding trust in African institutions. There is a convergence of opinion that Africa has lost more than US\$1 trillion to IFFs in the last 50 years and is currently losing more than US\$50 billion a year (Kar and Freitas, 2012). IFFs are widespread and covert by nature, hence very difficult to quantify. Integrity (2017) notes that IFFs can be traced back to commercial activities such as tax evasion, trade misinvoicing and abusive transfer pricing. Other IFFs include drug and human trafficking, illegal arms dealing, contraband, bribery and theft. There is a view that access and deployment of a portion of the funds lost through IFFs could have helped African countries achieve the Millennium Development Goals (MDGs) by 2015. IFFs reduce and even eliminate expected growth benefits and undermine the development potential in Africa. As an outcome of corruption, particularly so-called ‘petty corruption’, the negative effects of IFFs are widespread (Integrity, 2019). The pernicious effects of IFFs and their underlying activities are the creation of unfair business practices and the inhibition of competition. From a socio-economic perspective, IFFs wreak widespread damage at many levels, including the erosion of the tax base of affected countries and depriving governments of financial resources needed for public goods, such as education, health and infrastructure (Cobham and Jansky, 2017). Governance structures and public institutions are weakened, with subsequent diminished public trust in the government and low tax morale. These obstacles to economic activity and employment creation may lead the most vulnerable to resort to crime, creating a vicious cycle of corruption and IFFs, inequalities and unemployment (Kar and Spanjers, 2015).

The loss of potential public funds through IFFs within and across countries and the consequent reductions in public sector investments, as well as the



amplification of foreign debt burdens, reduce and impair the capacity of states to invest in social sectors vital to sustainable development, particularly health and education, or in human rights terms, the rights to health and education (Integrity, 2019). Unfortunately, regressive taxes, such as consumption taxes and other indirect taxes, which disproportionately affect the incomes of low-income households and their ability to purchase basic goods and access public services, are adopted to compensate for the revenue shortfalls.

According to Jansky (2015), domestic resource mobilisation (DRM) is the foundation for self-sustaining development. Domestic resources are essential in financing domestic investment and social programmes, necessary for economic growth and poverty eradication. Financing for economic growth and poverty reduction is one of the challenges facing the least developed countries (LDCs) (Lebillion, 2011). DRM refers to the savings and investments generated by domestic households, firms and governments. In contrast to mobilising external resources (through foreign direct investment (FDI), aid, trade and debt relief), DRM offers the advantages of greater domestic policy ownership and greater coherence with domestic needs. It does not suffer from the disadvantages associated with external financing, which is tied to the objectives of foreign governments, investors and donors. However, DRM poses apparent challenges in low-income countries, making attracting external resources seem like an easier option. Integrity (2019) suggests that a greater emphasis on DRM can help developing countries enhance their growth and economic performance, increase their policy space and ownership of development strategies and reduce aid dependence, thus achieving sustainable development.

## CONCEPTUAL FRAMEWORK

### ILLICIT FINANCIAL FLOWS

The issue of IFFs has increasingly become an integral part, not only of the development agenda of individual states, but also of the global economy (Adekele, 2019). Much of this concern with IFFs coincided with the development community's search for alternative sources of financial assistance for developing countries and the simultaneous surfacing of shocking figures of massive IFFs from the same needy developing countries (Reuter, 2012). This heightened concern with IFFs has also been triggered by fears of the potential to finance terrorism through money laundering networks (Goredema and Botha, 2004). Global Financial Integrity (GFI) (2010) defines IFFs as money that is illegally earned, transferred, or utilised. If it breaks laws in its origin, movement

or use, it merits the label. The activities from which the money is derived are, more often than not, in violation of —the national criminal and civil codes, tax laws, customs regulations, value-added tax (VAT) assessments, exchange control requirements, or banking regulations (Kuditchar, 2021).

There are four ways of externalising funds illegally: corruption (bribery and theft by government officials); criminal (drug trafficking, racketeering, counterfeiting); tax evasion through trade mispricing; and smuggling (often difficult to measure). It is argued that IFFs are channelled outside countries mainly through external accounts and trade mispricing (mis-invoicing of international trade transactions with the ultimate purpose of diverting financial resources) (Adekele, 2019).

| Type of IFF             | Description  |
|-------------------------|--|
| Tax and commercial IFFs | These include illegal practices such as tariff, duty and revenue offences, tax evasion, corporate offences, market manipulation and other selected practices. Some activities that are non-observed, hidden or informal, or part of the so-called shadow, underground or grey economy may also generate IFFs. The practices are typically motivated by increasing profits and avoiding taxes (Chamisa, 2019).  |
| IFFs from corruption    | The United Nations Convention against Corruption (UNCAC) defines acts considered as corruption in the International Classification of Crime for Statistical Purposes. They include bribery, embezzlement, abuse of functions, trading in influence, illicit enrichment and other acts. When these acts, directly or indirectly, generate cross-border flows, they are counted as IFFs (Chamisa, 2019).   |
| IFFs from corruption    | Theft-type activities are non-productive activities that entail a forced, involuntary and illicit transfer of economic resources between two actors (Chamisa, 2020). Examples include theft, extortion, illicit enrichment and kidnapping. In addition, the financing of terrorism or crime involves the illicit, voluntary transfer of funds between two actors to fund criminal or terrorist actions. When the related financial flows cross country borders, these activities constitute IFFs. IFFs from illegal markets. |

## DOMESTIC RESOURCE MOBILISATION

According to Chamisa (2020), domestic resource mobilisation (DRM) is the process through which countries raise and spend their funds to provide for their

people. It is the long-term path to sustainable development finance. DRM not only provides governments with the funds needed to alleviate poverty and deliver public services but is also a critical step on the path out of aid dependence. The rationale for a greater focus on domestic resource mobilisation in Zimbabwe springs from the quest for fiscal consolidation and debt sustainability, both of which have been notoriously elusive in recent years (Barasa, 2018).

Domestic resource mobilisation comprises the financial and fiscal accruals generated within a domestic economy. It consists of taxes on personal and corporation incomes, goods and services, as well as non-tax revenues such as social security contributions, commission on natural resource extraction, property income, dividends from state enterprises, tourism income, domestic savings, domestic credits, user fees, fines, interest, royalties, licences, rents, penalties, forfeits and sale of goods and services as well as other kinds of levies collected by the government from citizens, resident non-citizens and local businesses (Ncube and Okeke, 2015).

There is little debate among scholars, researchers and policymakers that effective domestic resource mobilisation leads to greater policy ownership and increased policy space, resulting in better matching of capital investment and development strategies to domestic needs (Ncube and Okeke, 2015; Barasa, 2018; Chamisa, 2020). As such, DRM has the potential to provide what Goredema (2019) refers to as decolonial finance, which could reduce Zimbabwe's dependency on debt financing from multilateral institutions such as the World Bank Group, the International Monetary Fund (IMF), the European Investment Bank and the African Development Bank. Besides responding to the Euro-Western creditors, greater domestic capital mobilisation may also liberate the country from the conceptual envelope of the Sino-Zimbabwe neo-imperialist trap that is dominated by Beijing's debt book diplomacy (Parker and Chefitz, 2018). In this regard, the Common Market for Eastern and Southern Africa (COMESA) was right when it observed that —domestic resources bring about a sense of patriotism and ownership of development policies and outcomes unlike foreign aid that comes with conditionalities, constraining a country's ability to manoeuvre and adopt policies that are consistent with its national development goals (COMESA, 2015).

## SUSTAINABLE DEVELOPMENT IN AFRICA

Although Africa is relatively rich in natural resources, development strategies pursued on the continent have not always been in harmony to ensure decent living conditions for the population and maintain a high level of environmental quality (Moyo, 2019). Sustainable development may be described as a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with future and present needs. It is a vector of development characteristics that should be non-decreasing over time and embrace wider concerns of quality of life. The achievement of development goals remains unfinished business for African countries, and the Sustainable Development Goals (SDGs), fit accurately with Africa's priorities for the next 15 years. The future of growth and its impact on poverty reduction in Africa hinges on what happens to structural transformation (ibid.). A new development trajectory of structural transformation is required to improve productivity as Africa industrialises. A huge investment in infrastructure, especially energy, and improvement in labour productivity, is needed to fit the needs of manufacturing and agrobased industries.

## LITERATURE REVIEW

Drivers of IFFs have been examined in the literature (Kar and Leblanc, 2013; Kar and Spanjers, 2014; 2015; Nnadozie et al., 2017) and include macroeconomic variables (budget deficits, inflation and inflationary expectations), structural aspects such as the impact of trade openness and rapid economic growth on income distribution, and governance-related issues.

## INITIATIVES TO CURB IFFS

Given the severe potential impacts of IFFS on African and global economies, various measures at the global, continental, regional and national levels have been taken to address the phenomenon (AUC/ECA, 2015; Nnadozie et al., 2017; Spanjers and Salomon, 2017). These include:

- i. Automatic exchange of tax information aimed at sharing information on financial transactions and assets of non-residents;
- ii. Anti-money laundering laws which criminalise money laundering, or the movement of proceeds of criminal activity through legitimate financial systems;
- iii. Disclosure of 'beneficial ownership' of shell companies to government officials;

- iv. Anti-bribery and corruption conventions to monitor, report and punish bribery and corruption;
- v. Country-by-country reporting whereby companies report income and other financial indicators for each country in which they operate, enabling tax authorities and the public to hold them accountable; and
- vi. Monitoring tax, transfer pricing and profit shifting to ensure that multinational corporations do not shift profits and avoid taxes in developing countries

At the continental (African) level, the High-Level Panel on Illicit Financial Flows from Africa established in 2011 has received a lot of attention while raising awareness of the strategic importance of IFFs and related issues. Under the auspices of the African Union Commission (AUC), various conventions such as the Convention on Preventing and Combating Corruption and the Yaoundé Declaration on Combating Illicit Financial Flows from Africa have been adopted but, unfortunately, not yet ratified by all African countries (Kar and Spanjers, 2014). Other Africa-specific initiatives include the African Tax Administration Forum (ATAF) and the Collaborative African Budget Reform Initiatives (CABRI) aimed at ensuring sound budgeting as well as improving the efficacy of tax legislation and administration in Africa. However, both initiatives are yet to have full membership in all African countries (Kar and Leblanc, 2013). The African Organisation of Supreme Audit Institutions (AFROSAI) and the African Organisation of Public Accounts Committees (AFROPAC), focusing on external financial control and auditing and legislative oversight, respectively, are also worth mentioning.

Regional initiatives aimed at curbing IFFs in Africa include the Middle East and North Africa Financial Action Task Force against Money Laundering and Terrorism Financing and the Eastern and Southern Africa Anti-Money Laundering Group (Nnadozie et al., 2017). At the country level, national task forces have been established to facilitate the development of robust and effective anti-money laundering programmes through education and sensitisation campaigns. ACBF (2015) shows that many countries have put in place initiatives to optimise tax revenues and reduce inefficiencies such as tax exemptions. For example, in Tanzania, electronic fiscal devices (EFDs) were introduced as a measure of improving revenue collection (Chamisa, 2020). The Zimbabwe Revenue Authority (ZIMRA) also introduced the same in Zimbabwe in June 2020 through Statutory Instrument (SI) 10 of 2010.

## RESEARCH METHODOLOGY

The study adopted qualitative secondary data analysis. Although secondary data would have been collected for a different purpose, it is a viable option for researchers with limited time and resources (Latham, 2007). The study is mainly analytical, predicated upon secondary information collected from various publications, reports, periodicals, books, theses, journals, newspapers and websites (Creswell and Creswell, 2017). The data were analyzed through content analysis.

## RESULTS

Over the course of 30 years, from 1980 to 2012, Africa lost between US\$1.2 and US\$1.3 trillion in illicit outflows. The prevalence of IFFs in sectors like mining, particularly among artisanal miners who operate covertly, avoiding selling their goods to the government and paying tax, is not an exception in Zimbabwe. The nation loses an average of US\$276 million per year due to illicit money flows, according to the Zimbabwe Coalition on Debt and Development (ZIMCODD). IFFs are pervasive and covert by nature, making it highly challenging to quantify them.

IFFs have been linked to business practices such as tax evasion, trade misinvoicing and unfair transfer pricing. Drug and human trafficking, illegal armed trade, sale of illegal goods, bribery and theft are examples of other IFFs. IFFs lessen, if not completely erase, anticipated growth gains and limit Africa's capacity for development. The development of unfair business practices and the restraint of competition is the destructive repercussions of IFFs and the activities that support them. The development community's hunt for other sources of financial aid for developing countries and the simultaneous disclosure of stunning numbers of enormous IFFs from the same impoverished developing countries contributed significantly to this concern about IFFs. Fears that money laundering networks could be used to fund terrorism also led to the creation of IFFs.

There are four ways to illegally externalise cash, these being corruption, criminal activity, tax evasion through trade mispricing and smuggling. To combat this issue, numerous steps have been adopted at the international, continental, regional and state levels. A few measures have been launched in Africa to stop this. These include the automatic exchange of tax data to share data on non-residents' financial transactions and assets. IFFs can be controlled

by anti-money laundering regulations that make it illegal to launder money or shift the proceeds of criminal conduct via the legal financial system. Transparency can be used by nations to make sure that government authorities are informed of the "beneficial ownership" of shell corporations. There must be conventions against bribery and corruption to keep track of, report and punish such behaviour. Companies should record their income and other financial indicators for each country in which they conduct business, allowing tax authorities and the general public to hold them accountable. To prevent multinational firms from moving earnings and evading taxes in developing nations, tax, transfer pricing and profit shifting are monitored.

## CASE STUDIES

### EGYPT

Among African countries, Egypt ranks first in terms of the magnitude of illicit flows. IFFs from Egypt are estimated to have reached US\$105.2 billion, constituting 14.7% of the total illicit outflows from Africa (UNECA, 2014). Egypt ranked third in Africa, after Nigeria and South Africa, for the exportation of illicit capital from 1980 to 2009 (ABD & GFI, 2017). It also dominated the North African illicit out-flows ranking, followed by Algeria and Libya (ibid. pp.25-27). Together, Egypt and Algeria account for 66% of the illicit outflows from North Africa (UNECA, 2014). Despite their substantial magnitude, as indicated by these figures, attempts to measure Egyptian illicit outflows remain incapable of capturing the full picture. Difficulties associated with tracking capital outflows during political turmoil and accounting for 'legalised' corruption where illicit capital was not necessarily illegally earned, transferred, or utilised as per the definition of illicit outflows, complicate the measurement. The literature reviewed suggests that illicit outflows continue to render efforts towards poverty alleviation, human rights and economic recovery ineffective, especially after the events of the 2011 Arab Spring. The primary source of illicit outflows in Egypt is traded mis-invoicing motivated by a desire to evade or reduce taxes. Trade mis-invoicing alone contributed to the loss of over US\$25 billion over the period 2005 – 2014, with an annual average of US\$2.5 billion (GFI, 2017). Another major source of illicit outflows is political mistrust or instability. As shown in Table 1, Egyptian illicit financial flows peaked in 2008 (US\$6 billion) and 2011 (US\$5 billion), periods characterised by political apprehension and instability.

## ETHIOPIA

According to GFI estimations, between 2005 and 2014, an estimated average of between US\$1259 million and US\$3153 million left Ethiopia as IFFs every year. Additionally, Alemayehu and Addis (2017) estimate that the levels of capital flight from the country, which include IFFs, have led to an average loss from illicit capital of 2.2 percentage points per year for the case of Ethiopia. They also estimate that had it not been for capital flight, poverty would have been reduced by about 2.5 percentage points in the last decade (ibid.). Data from Global Financial Integrity shows that between 55% and 80% of the illicit financial outflows leaving Ethiopia originate from trade mis-invoicing, which amounts to an estimated 6% to 23% of the total value of the country's trade. The report, *Illicit Financial Flows from Developing Countries over the Decade Ending 2009*, reveals that corruption, crime, terrorism and tax evasion fuelled the rise in illicit financial flows from Ethiopia. The channels/mechanisms through which they are transferred from one country to another can range in sophistication from cash smuggling and remittance transfers to trade finance and shell companies. Because of the complex nature of the phenomenon and its cross-sectoral nature, a wide range of policies and actions are needed to combat IFFs. Generally, Ethiopia has very strict laws that are meant to prevent money laundering within the country and IFFs out of the country, but their effect has been limited and concerns that illicit outflows might impact government revenues and weaken governance in the country remain (Yimer, 2017).

## KENYA

Kenya continues to lose millions of dollars annually as the military, police, the Kenya Revenue Authority (KRA) officials, individuals and corporations stash illegally acquired funds in highly secretive foreign banks abroad. This has resulted in IFFs accumulating to over US\$10.6 billion since 1970, making Kenya one of the worst, if not the worst, offenders among Africa's non-resource-endowed countries. It is estimated that Kenya has been losing an average of KES 40 billion every year through illicit financial flows since 2011 as government, local firms and multinationals engage in fraudulent schemes to avoid tax payments. This synthesis brings together the evidence on IFFs and interrogates common themes, practices and policies on IFFs and associated tax reforms to tackle IFFs in Kenya.

The Kenyan government has responded by introducing additional laws intended to tighten access to foreign currency for the private sector and by rationing foreign currency. In some instances, the government has even suspended access



to foreign currency for the private sector and also for government projects that have less priority in the country's development strategy. This creates additional problems rather than solutions as illicit outflows continue to grow, according to available data. Foreign currency rationing promotes the emergence of the black market and foreign currency smuggling (Yimer, 2017). Kenya has enacted the Prevention and Suppression of Money Laundering and Financing Terrorism Proclamation No. 780/2013 to ensure healthy financial transactions. However, as the title indicates, this proclamation focuses on controlling the financing of terrorism and money laundering within the jurisdiction of the country, with very little focus on illicit financial outflows from Kenya. The proclamation does not treat illicit outflows independently except for money laundering and financing of terrorism.

#### SOUTH AFRICA

In South Africa, tax evasion through IFFs occurs mainly through misinvoicing, transfer pricing, contraband, corruption and human and drug trafficking. IFFs take many forms, including grand corruption scandals involving illicit money transfers by the ruling elite since independence. Multinational corporations (MNCs) who dodge income tax on the hefty pay perks for their expatriates through mis-invoicing and transfer pricing are also to blame. Reviewed evidence points to severe implications of IFFs on South Africa's economic, social and political development agenda. The practice of illegally hiding income from tax authorities and sending it abroad impedes government domestic resource mobilisation efforts. Some government-guaranteed loans flow immediately and directly into foreign private accounts, exacerbating government debt and dependency on foreign aid. The resultant reduction in government revenue and subsequent decline in public social expenditure comprises health and education outcomes.

South Africa has adopted several initiatives to tackle IFFs, including joining global regimes against IFFs such as the Global Forum on Transparency and Exchange of Information for Tax Purposes, the Base Erosion and Profit Shifting Project (BEPS) and the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. The country has also established several legal and administrative frameworks and requirements. However, these frameworks have not been effective due to the lack of enforcement. The main institutions mandated to fight IFFs in South Africa, the central bank, revenue authority and national treasury, face numerous challenges that limit their effectiveness. Such challenges include the vulnerability of the country's financial sector to ill-

intentioned investors attracted by its strategic position in the region; weak inter-agency cooperation between the financial sector regulators, law enforcement agencies and the financial institutions; weak laws and internal controls governing financial institutions; and limited engagement with international bodies tackling IFFs.

## ZIMBABWE

In Zimbabwe, the Zimbabwe Anti-Corruption Commission (ZACC), through the National Anti-Corruption Policy (NACP), is implementing the Integrity Committee Initiative to fight corruption. The Integrity Committees are ‘watchdog’ units within public and private organisations tasked with dealing with complaints from the public and referring them to appropriate authorities. They also monitor and investigate suspicious behaviour, enforce service delivery standards and promote internal policies to combat corruption.

The Zimbabwe Revenue Authority (ZIMRA) has implemented a series of anti-smuggling measures to curb tax evasion and avoidance, especially on imported goods. Examples of such measures include a 24-hour border patrol (by a paramilitary unit operated by ZIMRA) at main border points and the implementation of a Revenue Authority Digital Data Exchange (RADDEX) system to provide cargo details in a standardised electronic format – minimising data errors and saving time. The anti-smuggling measures are partially credited with the reduction in tax evasion.

## CHALLENGES ASSOCIATED WITH COMBATING IFFS

Challenges in tackling IFFs in the African context as identified by Nnadozie et al. (2017) include inadequate regulatory framework; the lack of information and telecommunication facilities, transportation and other relevant infrastructure; inadequate funding and over-reliance on unpredictable foreign assistance; the duplication and overlapping of functions and lack of coordination among different agencies; and the lack of technical and human capacity to deal with sophisticated crime.

## INADEQUATE REGULATORY FRAMEWORK

Evidence shows that bad governance, weak and corrupt regulatory structures, poorly structured double taxation treaties, criminality, tax expenditures, banking secrecy and tax havens and lack of social cohesion, which provide

unpatriotic partners for those abetting IFFs, are the major drivers of IFFs in Zimbabwe and Africa at large (Ncube and Okeke, 2015).

#### LACK OF INFORMATION AND TELECOMMUNICATION FACILITIES, TRANSPORTATION AND OTHER RELEVANT INFRASTRUCTURE

Africa's infrastructure requirements range from US\$130 to US\$170 billion per annum, far higher than the long-accepted figure of US\$93 billion a year, thus leaving a financing gap of as much as US\$108 billion (Saungweme, 2019).

#### DUPLICATION, OVERLAPPING OF FUNCTIONS AND LACK OF COORDINATION AMONG DIFFERENT AGENCIES

In many African countries, regulatory agencies and institutions have been established with responsibilities that cut across various dimensions of IFFs. For example, various institutions and agencies created to tackle IFFs and related issues in Nigeria, have not produced any remarkable results, partly due to lack of coordination (Goredema, 2018).

#### LACK OF TECHNICAL AND HUMAN CAPACITY TO DEAL WITH CRIME PERPETUATED BY SOPHISTICATED INDIVIDUALS

Evidence shows that most African countries, Zimbabwe included, lack an adequate stock of qualified forensic statisticians, investigators and financial crime prosecutors. They also lack state-of-the-art technology and equipment for collecting, processing and storing specialised information on financial crime (Integrity, 2017). Human capacity has to do with sufficient skills for the assessment, formulation and implementation of IFFs-specific policies and measures, as well as for monitoring, reporting and reviewing the same. Kuditchar (2021) shows that most countries (31 of 42) surveyed for the Africa Capacity Report, indicated that their tax administration was either understaffed or moderately staffed, with only 10 adequately staffed. Inadequate capacity is also reflected at various other levels, such as the lack of accurate data and up-to-date information and poor understanding of the various mechanisms associated with IFFs-related transactions (Chamisa, 2019).

Adeleke (2019) also noted that IFFs and the activities that create them, notably corruption, are major scourges in Africa. To eradicate these ills impeding sustainable development in Africa and, especially the implementation of Agenda 2063 and attainment of the SDGs, a common African strategy with efficient monitoring and evaluation mechanisms is necessary. In implementing its methodology, the APRM has, since it was established in 2003, reviewed 23 African Union member countries participating in the mechanism. These

evaluations indicate that a lack of governance is the root cause of IFFs and the illegal activities that spawn them. The lack of political will to implement the recommendations of anticorruption agencies and commissions of enquiry, inadequate financial, human, technological and logistical capacities in various agencies charged with the responsibility of fighting corruption; inherent weaknesses in public procurement systems, and weak information management systems without a coordinated tracking and information sharing mechanism, are the challenges being faced.

#### LINKS BETWEEN IFFS AND DOMESTIC RESOURCE MOBILISATION

The ever-increasing interest in IFFs has led to the production of a large body of literature on the subject (Dyreng et al., 2015). The same interest is also attributable to the effects of IFFs on the level of development of different countries (Herkenrath, 2014; Epaphra, 2015; Ortega et al., 2017). Most striking is the effect they have on public bodies. According to Kar and Cartwright-Smith (2010), those capital outflows, which could have been spent on public service expenditures, undermine economic development in poor countries. Not only do IFFs have a direct impact on public service delivery, but they also threaten the stability and credibility of a country's financial system and its institutions (Fontana, 2010). Regarding the relationship between IFFs and public revenues, the existing literature is unanimous on the fact that the former constitutes an obstacle to resource mobilisation and wealth creation (Ayadi, 2008; Ritter, 2015).

Moreover, some studies suggest that they erode the tax base (Ajayi, 1997). Empirical studies conducted in several African countries have indicated that the public debt burden would disappear if IFFs were stopped (Fofack and Ndikumana, 2015). Ndikumana (2009) found that illicit capital flight affected a country's budget balance by reducing its tax base through a contraction of its economic activity.

Corruption and illicit financial flows (IFFs) are major hindrances to governance, sustainable development and democracy, as they break down opportunities for transparency, transformation and the growth of good democratic policies, practices and institutions (Herkenrath, 2014; Ortega et al., 2017). Domestic resource mobilisation has become crucial in Africa due to increasingly urgent infrastructure needs and social demand. Low-income countries will need to increase their annual public expenditure by 30% of the

GDP to achieve the SDGs (Baum et al., 2017). Africa also has other sources and strategies for mobilising adequate resources (Ortega et al., 2017). Efforts should therefore be intensified at the country level to mobilise further national resources, thereby overcoming dependence on foreign aid. Africa must seek to improve the use of its available financial resources through a real improvement in the efficiency of public spending and good management of financial resources.

## DISCUSSION

Combating IFFs requires a wide range of actors to design and implement different (albeit mutually reinforcing) policies and actions at various levels of government. The various actors have different stakes, with some of them implicated as perpetrators, while others are actively engaged in combating the scourge (AUC/ECA, 2015; ACBF and AfDB, 2018). UNODC and OECD (2016) advance that law enforcement and customs authorities need to increase awareness while the financial sector and vulnerable sectors need to take preventive measures. It is important to have transparency in corporate structures, with deliberate actions taken to promote public sector integrity and support asset recovery.

African countries are in one way or another implementing policies to combat IFFs and thereafter mobilise more resources to address their development challenges. Measures such as transfer pricing legislation and the training of staff to conduct forensic audits, have been introduced in Zimbabwe. Several African governments have liberalised their financial sectors and focused on product innovations and financial inclusion (ACBF, 2015). Some examples of strategies and initiatives on IFFs include the integration of revenue collection agencies in one coherent institution (for example, Ghana, Togo and Zimbabwe); the optimisation of revenue collection from the mining sector and the introduction of presumptive taxes on informal activities (whereby indirect methods are used to determine tax liability rather than rules based on the accounts of taxpayers, for example, Zambia, Zimbabwe); and the implementation of anti-smuggling measures to curb tax evasion and avoidance.

Drawing on the findings, countries need to establish appropriate rules and regulations while enhancing the capacity of institutions in the IFFs value chain. The rules and regulations must encompass sound public financial management which is integral to the process of preventing IFFs and ensuring that recovered

resources are allocated towards development priorities. Moreover, it is important to:

- i. have legal system reforms, especially where the laws are inadequate, or the systems poorly functioning;
- ii. reduce crime and criminal activities of all kinds;
- iii. undertake reforms in the areas of taxation, banking and capital markets;
- iv. have flexible yet effective laws and regulations to curb IFFs; and
- v. work more on tax reforms that will ensure tax harmonisation and a move away from tax exemptions, concessions and holidays.

Another critical component of the capacity-building efforts would be to strengthen the capacities of key continental, regional and national institutions to effectively combat IFFs. Targeted institutions include the AUC and its organs, especially those dealing with legal, audit, tax and parliament-related issues will play a great role at the regional level in the IFFs value chain; and national tax administration and revenue authorities. Equally important is the need to foster visionary leadership, mindset change and soft capacities. A transformative, visionary, committed and accountable leadership that sets the right tone at the top is a key ingredient. While there is need for positive social norms, values and practices against IFFs, the ability and willingness to learn from experience are equally important.

## CONCLUSION

Curbing illicit financial flows can help African countries mobilise capital to finance the attainment of SDGs and other national priorities. Reducing these outflows can increase the stock of capital available — for building the productive capacity of business and stimulating job creation. Increased tax revenues can provide governments with additional fiscal space to invest in infrastructure, spend on poverty reduction programmes, or assist citizens during emergencies, such as the COVID-19 pandemic. Policymakers at the national, regional and international levels should consider the following recommendations:

- Revenue authorities, policymakers and researchers need to treat wide and persistent trade gaps for a commodity group as —red flags| for further investigation. Government should engage the private sector and obtain transaction-level data for use in analysing the sources of the macro-level gaps which may be indicative of illicit behaviour;

- African governments need to invest in trade data collection infrastructure and capacity building of port, customs and tax authorities personnel to improve data collection and analysis. Such steps will improve the detection and investigation of IFFs and the ultimate prosecution of the highly elusive perpetrators;
- There is also need to accelerate progress on tax reporting and strengthen domestic regulatory frameworks drawing lessons from best practices and model treaties and contracts. Institutions such as financial intelligence units, anti-fraud agencies, customs and border agencies, revenue agencies, anti-corruption agencies and financial crime agencies should be strengthened or established, if not already in existence;
- Mechanisms for information sharing and coordination among the various institutions responsible for preventing IFFs should be developed, such coordination being championed by the country's financial intelligence unit (FIU);
- Adoption of multi-stakeholder oversight of the exploitation and trade of natural resources through joining voluntary initiatives such as the Extractive Industries Transparency Initiative (EITI) while pushing for mandatory country-by-country and project-by-project reporting requirements in the extractive sectors (immediately) and across all sector (medium to long term);
- Given that private sector commercial activities are by far the largest contributors to IFFs, robust bank supervision regimes by central banks and other financial supervision agencies such as mandatory reporting of transactions that may be linked to IFF activities, should be prioritised;
- There is need to publish taxes paid as part of corporate social responsibility reporting; and
- Civil society organisations (media, non-governmental organisations, academia and think tanks) can play a critical role in the fight against IFFs by:
  - promoting more dialogue on tax-related issues and efforts at curbing IFFs; demanding transparency and accountability in multinational corporations and tax authorities' operations; monitoring performance indicators to assess the progress

- made in fighting IFFs and advocating for information exchange.
- Advocating for government accountability to taxpayers on utilisation of public funds and transparency in the granting management of tax incentives to ensure that they serve the best interests of countries.
- Supporting government delegations with research evidence and expertise during international negotiations, consultations and meetings. This also requires that governments embrace collaboration with civil society organisations (CSOs) on this front as public institutions usually lack capacity in research and negotiation skills, resulting in receiving raw deals that never benefit the citizenry.

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