Published on *The National Law Review* https://natlawreview.com

AU-UN Report Reveals Startling Illicit Financial Flows in Africa

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A new, comprehensive report published by the African Union's high-level panel on illicit financial flows and the United Nations economic commission for Africa (Uneca) concludes that Africa loses more than $50 billion every year to ***illicit financial outflows (IFFs)***. The report, entitled Illicit Financial Flows, represents the first African initiative of its kind, and is the product of a study that began in February 2012. It analyzes various fraudulent practices of governments and multinational companies that deprive African countries of tax payments, facilitate the undervaluing of African trade, and perpetuate profit-shifting schemes that collectively divert billions of dollars in essential capital from the world's poorest continent every year.

According to the AU-UN report, Africa lost approximately $850 billion in illicit financial outflows between 1970 and 2008. "Illicit financial outflows" are defined as "money that is illegally earned, transferred or utilized," and that typically originate from one of three sources: (1) "commercial tax evasion, trade misinvoicing and abusive transfer pricing"; (2) criminal activities; and (3) "bribery and theft by corrupt government officials." The AU-UN report asserts that "large commercial corporations are by far the biggest culprit of illicit outflows, followed by organized crime." Illicit funds are often routed out of Africa to developing countries and tax havens around the world, causing Africa to function as a "net creditor to the rest of the world."

Although corrupt practices and weak governance structures are key facilitators of IFFs in Africa, the report notes that tax evasion, international trade manipulations, and organized crime constitute large portions of illicit outflows from the continent. Indeed, the Open Society Foundations' Initiative for West Africa recently stated that throughout Africa, only 3% of IFFs stem from government corruption, while 64% arise from trade manipulations and 33% originate from organized crime. One of the AU-UN researchers' methods of estimating IFFs was to compare the reported value of African exports with the higher value attributed to the same goods by non-African countries that received the goods as imports.

Development Consequences

Over the past decade, Africa has maintained an impressive economic growth rate of approximately 5% annually, yet the degree of capital flight documented by the AU-UN panel paints a grim picture, suggesting that Africa's economic growth will elude many of the estimated 414 million Africans who live on less than $1.25 a day. A recent study by Global Financial Integrity asserts that illicit finances flow out of Africa at a much faster rate than development assistance enters into the continent, with IFFs outpacing international development funds at a ratio of at least two-to-one. According to the AU-Uneca report, Sub-Saharan African countries have been most heavily impacted by IFFs; West and Central Africa shoulder the largest numbers of illicit financial streams.

Governance, Oversight and Capacity Constraints

IFFs plague developing and developed nations alike, yet African governments are especially impacted by these illegal activities because they often lack the capacity, centralization and collaborative networks necessary to identify and reduce illicit practices effectively. For example, without a consistent means of exchanging financial and tax information among African countries, it is difficult for African authorities to thwart the efforts of those who evade tax payments and engage in other illegal activities. In light of these obstacles, the AU-UN report makes several key recommendations aimed towards African states, including the drafting of clear and concise legislation prohibiting trade mispricing, the enhancement of financial monitoring and oversight mechanisms, and the automatic exchange of tax information between African governments.

Charting a Way Forward

In addition to making recommendations towards African leaders, the report's authors call on countries that receive illicit outflows to help prevent these financial streams, assist Africa in repatriating illicit funds, and to prosecute perpetrators. Recent remarks before the Assembly of the African Union by Thabo Mbeki, South Africa's former President and Chairperson of the AU-Uneca panel, summarize the report's call for political mobilization on a global scale: "[W]hile the study of illicit financial flows seems technically complex, it is ultimately a political matter requiring decisions at various levels of governance. It can indeed be said that illicit financial flows are an 'African problem with a global solution.'"

As the first African initiative to comprehensively address IFFs throughout the continent, the report is a strong indicator that African governments are prioritizing the fight to eradicate IFFs throughout the continent. The target period of the UN Millennium Development Goals is scheduled to end at the close of this year, and African governments are now looking towards the design of Africa's Post-2015 Development Agenda. IFFs will likely be viewed as a seminal source of development financing whose recovery is essential to meaningful progress.

National Law Review, Volume V, Number 42