



Capital Flight and Illicit Financial Flows from Africa: Channels, Actors and Enablers

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Bujumbura, Burundi

Léonce Ndikumana

University of Massachusetts Amherst

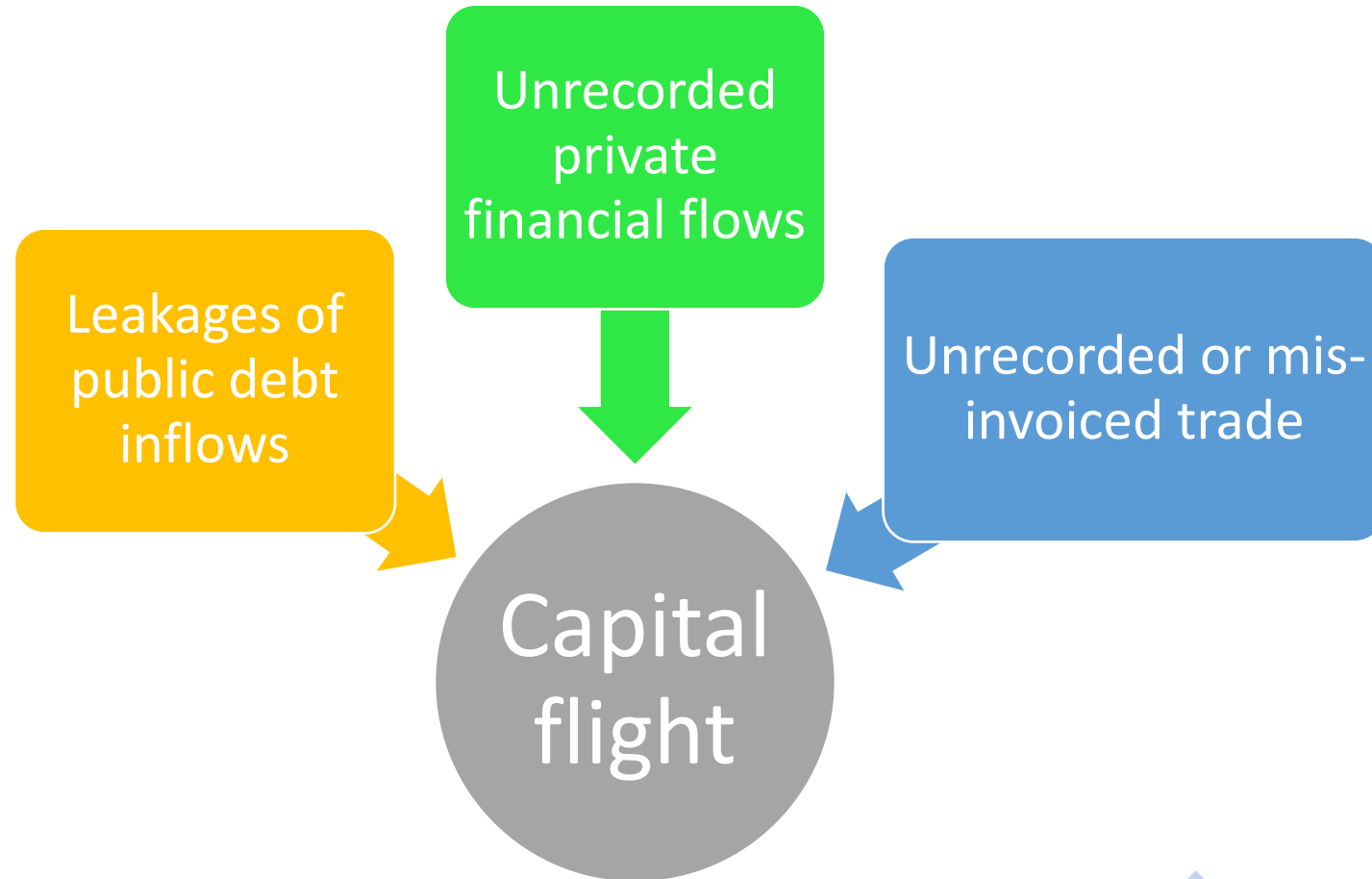
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Definitions

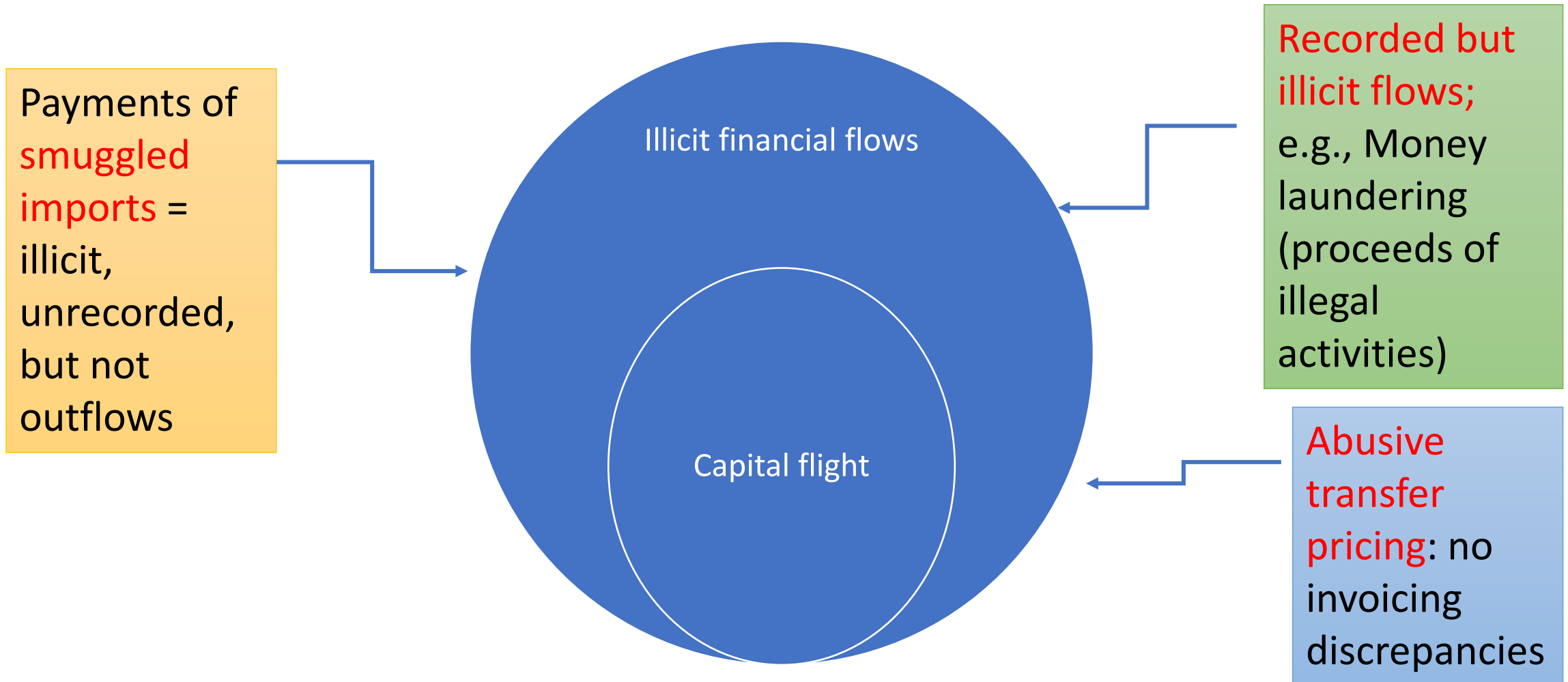
Capital flight consists of unrecorded financial outflows from a country; i.e., discrepancies between inflows of foreign exchange and their uses as recorded in a country's Balance of Payments statistics

Flows and Stocks: The unrecorded/illicit outflows result in accumulation of 'private wealth' in offshore financial centers, real estate, and other assets abroad. *Ultimate losses exceed the cumulative annual flows.*

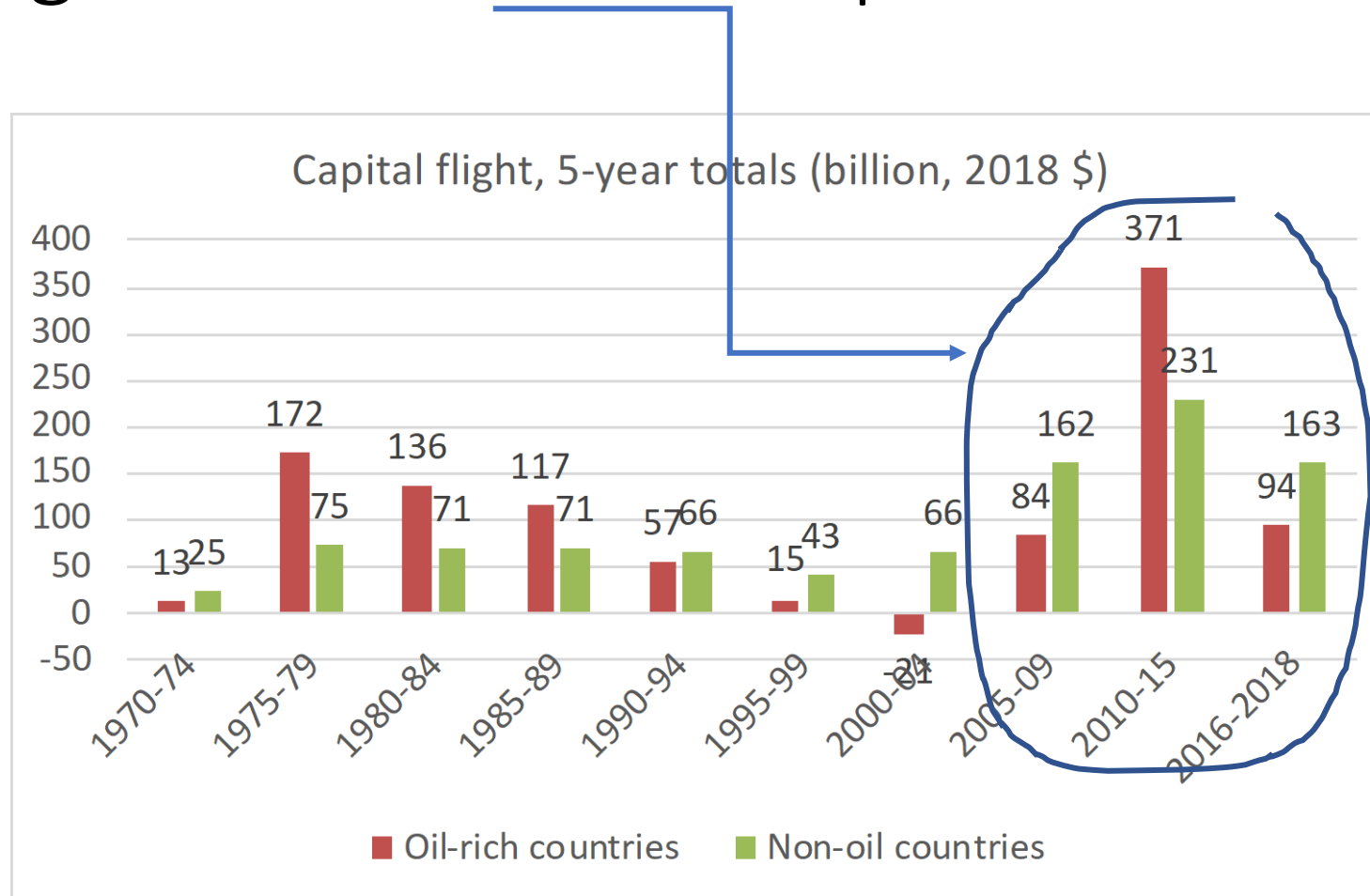
Key mechanisms of capital flight



Capital Flight is only a subset of Illicit Financial Flows

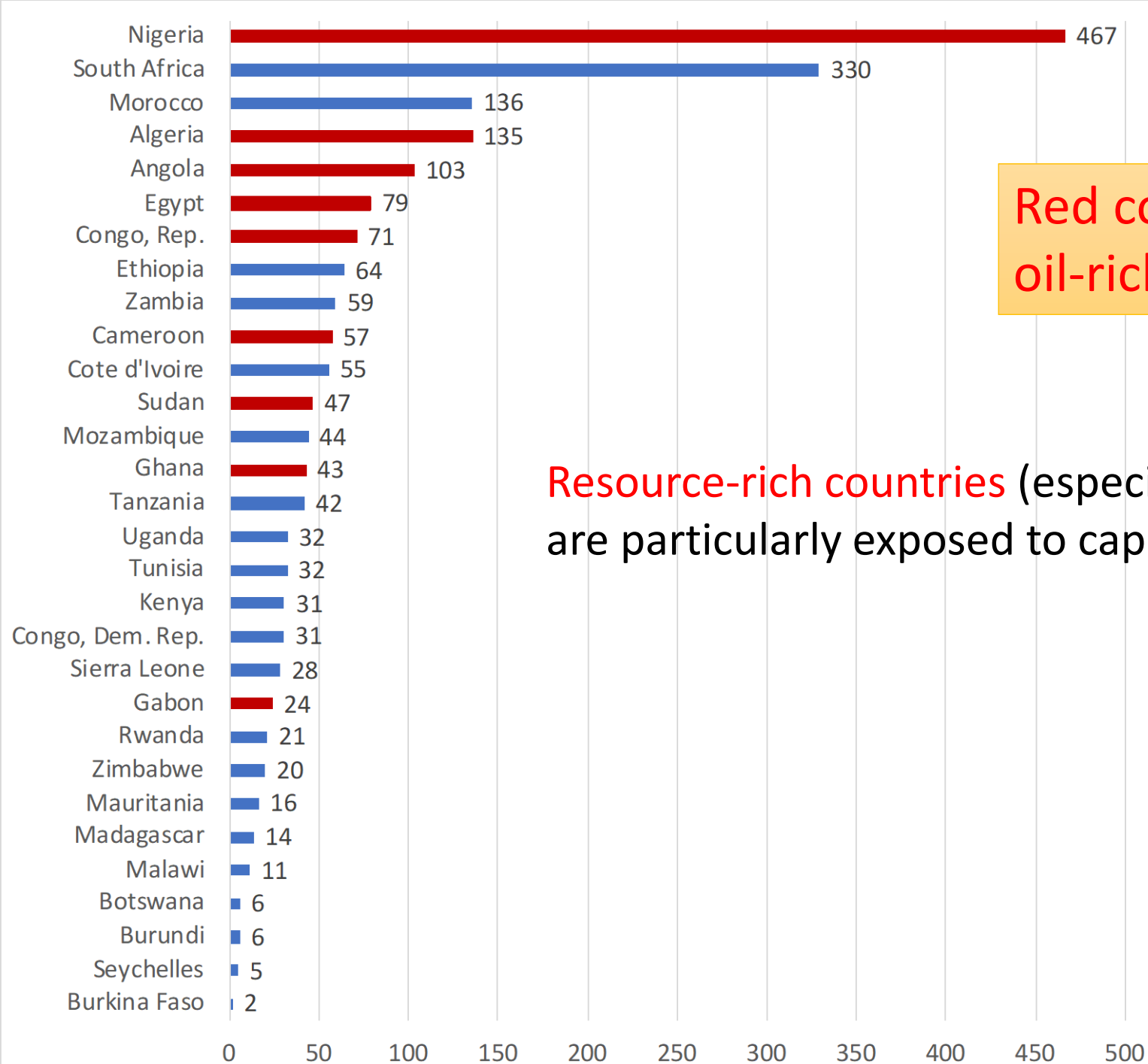


Capital flight from Africa has exploded during the growth acceleration period from early 2000s.



So, why does capital flee from growing economies with improving macroeconomic environments?

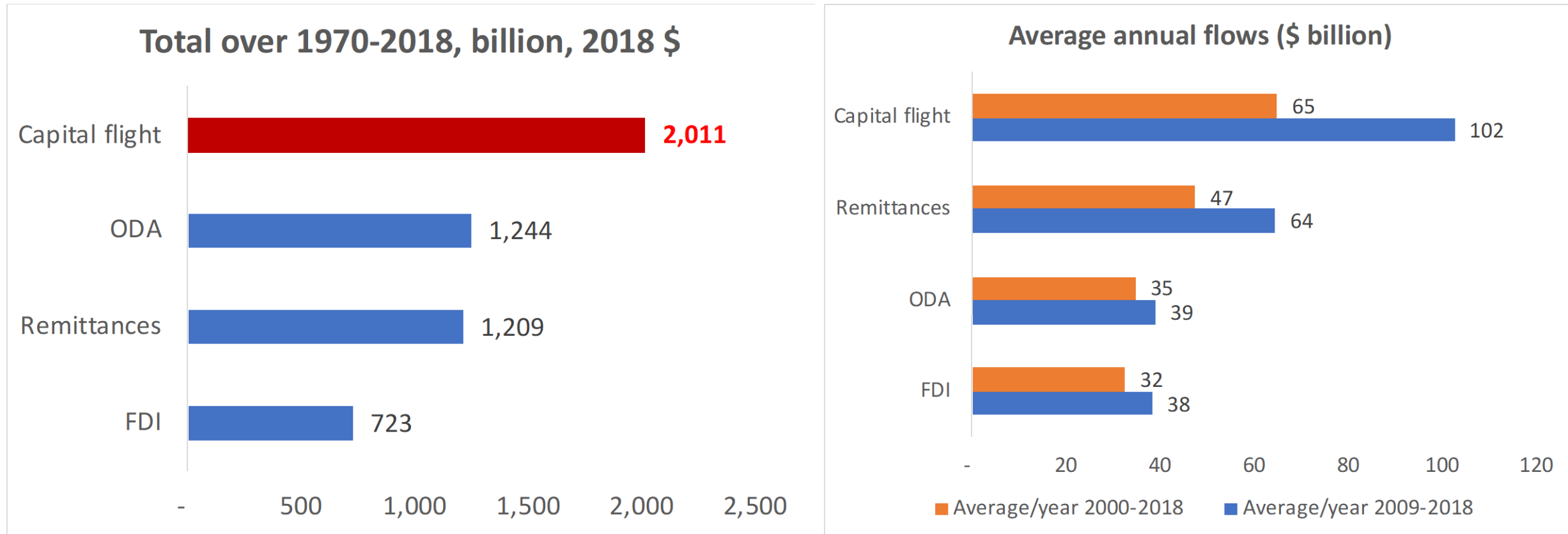
It is mostly because capital flight is not motivated by higher returns abroad; but rather by concealment of ill-gotten wealth.



Red color =
oil-rich countries

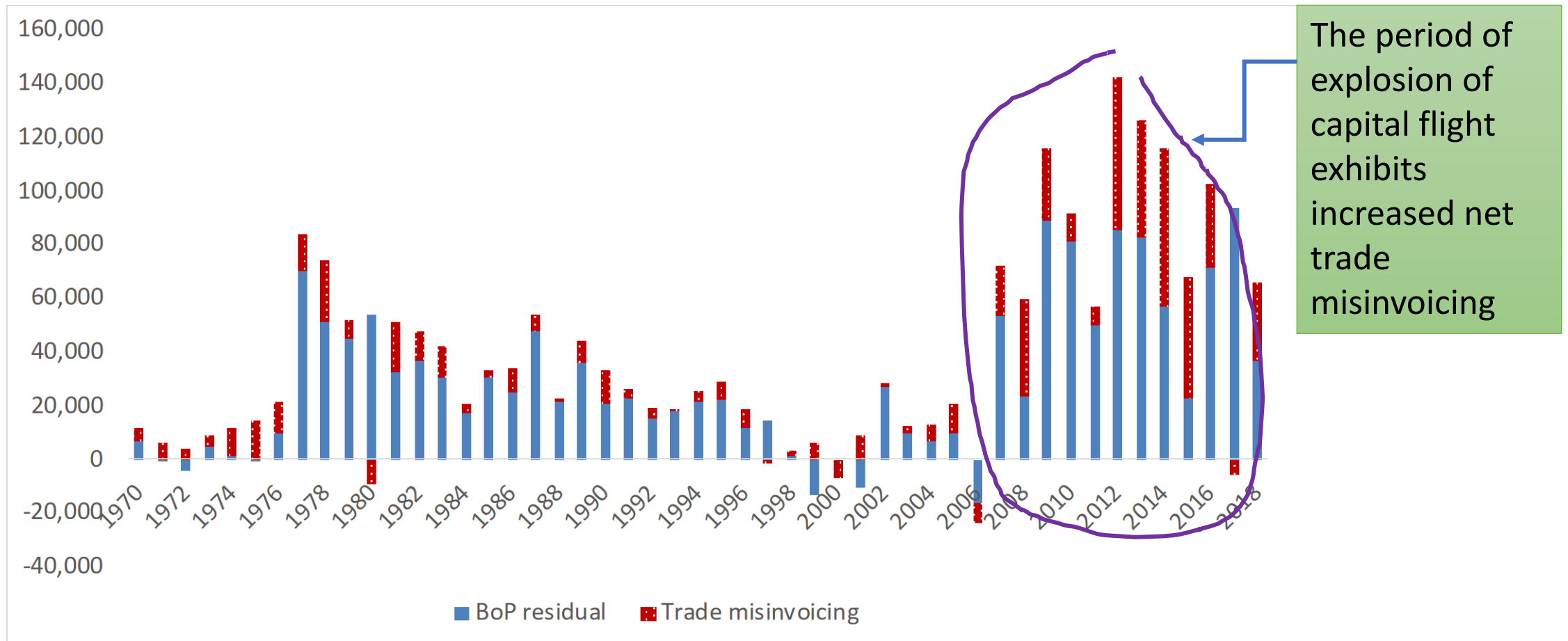
Resource-rich countries (especially oil-rich)
are particularly exposed to capital flight

Capital flight exceeds other flows (billion, constant 2018 \$)

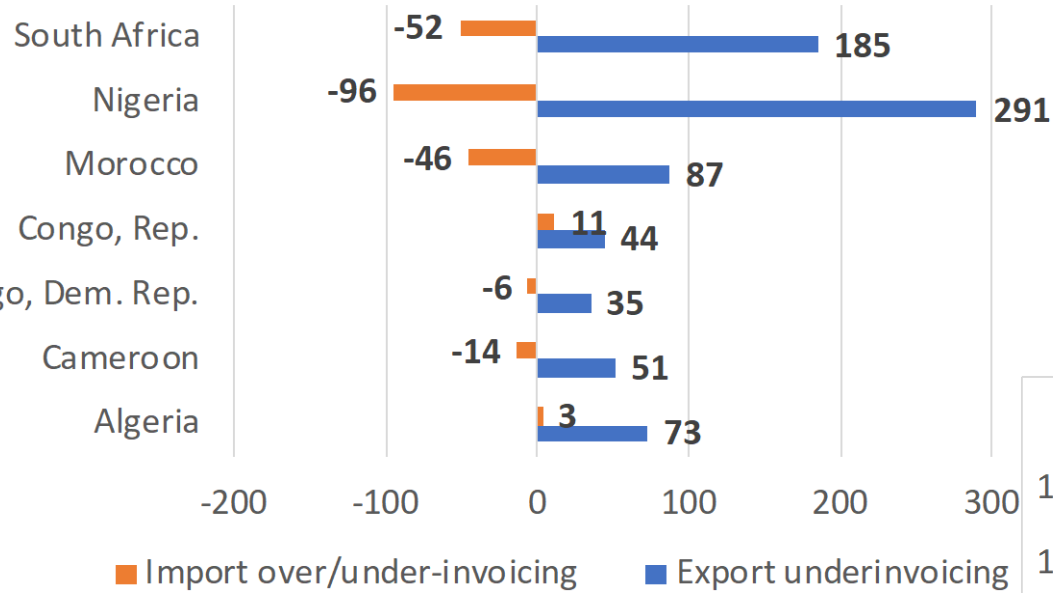


Africa has lost over \$2 trillion through capital flight; \$65 bn/year over 2000-18, \$102bn/year in the post-GFC period (2009-18). Annual capital flight far exceeds inflows in ODA, FDI, remittances.

Capital flight: BoP residual and trade misinvoicing (million, constant 2018 \$)



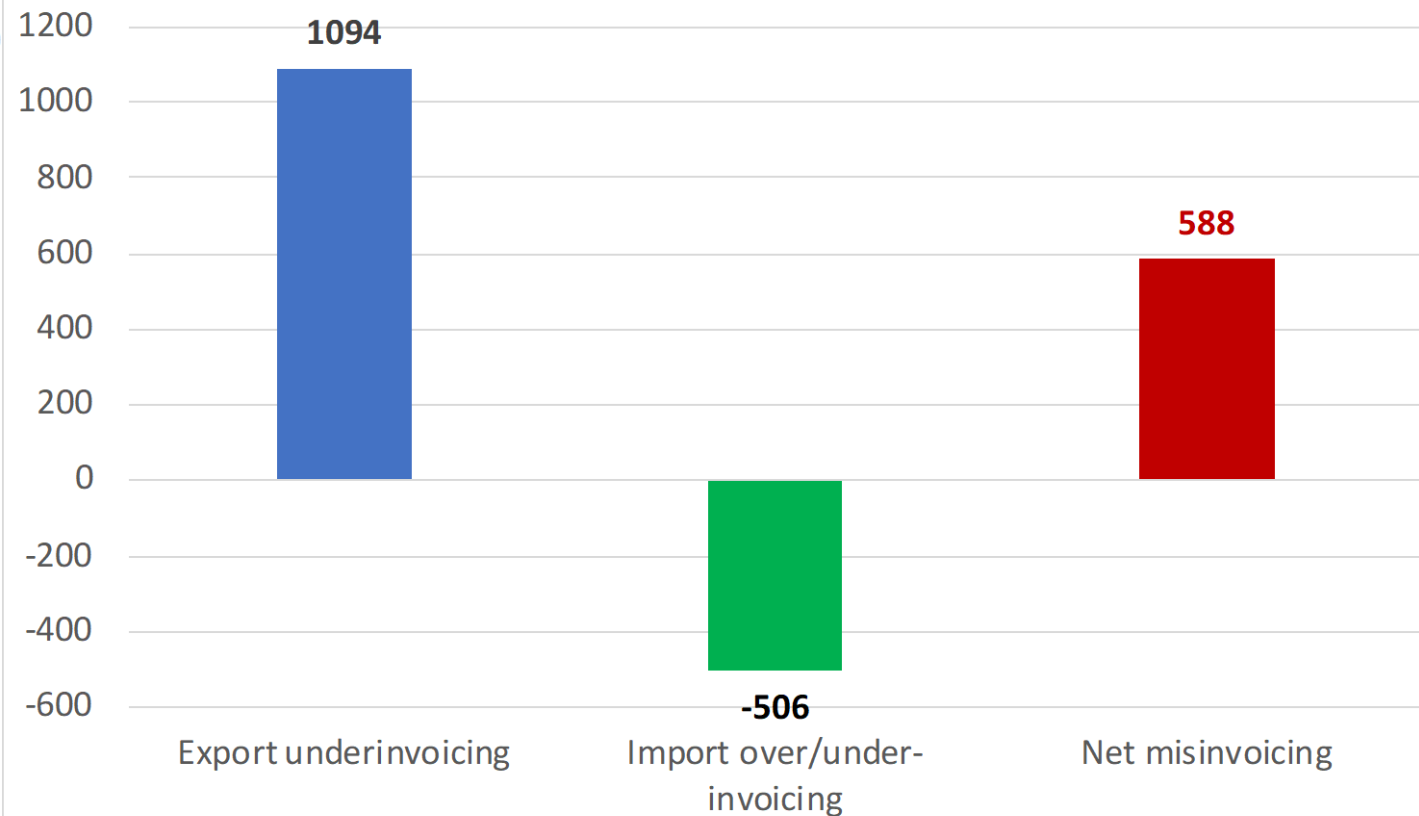
Export and import misinvoicing (billion 2018\$)



Some countries experience both **export under-invoicing** (outflows) and **import under-invoicing (import smuggling)**.

Export under-invoicing is a predominant channel of capital flight and illicit financial flows

Total 30 countries (billion 2018 \$)



Some illustrations of export misinvoicing at the product level


Zambia (copper); Nigeria (oil)

Where does Zambia's copper go?

Zambia's copper exports and partners' copper imports over 2000-2018, in constant 2018 US dollars

Partner	Zambia's recorded exports (billion 2018 \$)	Partner's recorded imports (billion 2018 \$)
China	14.8	27.3
Switzerland	39.0	0.0

All this copper gone 'missing'?



Where did China find the extra copper?



Zambia, Africa's second-largest copper exporter, became Africa's first country to default on debt in the COVID19-era!

Africa's second-biggest copper producer says it cannot meet payments if creditors reject plea for delay



A copper mine in Chingola, Zambia. The government is attempting to restructure the country's \$12bn of external debt © Waldo Swiegers/Bloomberg

Where does Nigeria's oil go?

Nigeria's oil exports and partners' oil imports over 2000-2018, in constant 2018 US dollars

Partner	Nigeria's recorded exports (billion 2018 \$)	Partner's recorded imports (billion 2018 \$)
USA	269.9	374
Netherlands	61.0	38.2

Where did the 'missing oil' go?

Where did the US find the extra oil?

The two sides of the Digital Technology with regards to Illicit Financial Flows

- **On the positive side:**

- Digital technology can help strengthen the prevention of IFFs
- It can facilitate tracing and repatriation of stolen wealth from abroad

- **Examples of areas that can benefit from digital technology:**

- Customs: monitoring, tracing, and reporting on trade
- Cross-border financial flows: increasing technical capacity of government agencies to track and manage capital flows – IFUs, Central Bank, etc.

Digital technology and IFFs (cont'd)

- **But, on the not-so-positive side:**
 - Digital technology also facilitates IFFs by providing sophisticated tools to evade regulation: **the bad guy is always ahead of the law** (e.g., the hackers)
 - Expansion of the 'digital economy' poses challenges to taxation systems:
 - Tax base issues: Identifying the activities to be taxed; some are "invisible", some enterprises are "stateless";
 - Tax rate issues: determining the appropriate tax rate for digital activities: some are new (therefore lack of benchmarks); others are globalized (posing challenges of comparative taxation to avoid both the race to the bottom and unfair international competition)
 - Problems confounded by the lack of coordinated approach to global corporate taxation. Example: no consensus on minimum corporate tax rate (e.g., US proposition de 21%)

Combatting illicit financial flows from Africa: A multi-level, concerted, multi-prong approach

