Capital Flight from sub-Saharan Africa

AERC Senior Policy Seminar XVI,

Addis Ababa, Ethiopia

April 09-10, 2014

Seminar Report

African Economic Research Consortium
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About African Economic Research Consortium (AERC)

The African Economic Research Consortium (AERC), established in 1988, is a public not-for-profit organization devoted to the advancement of economic policy research and training. AERC's mission is to strengthen local capacity for conducting independent, rigorous inquiry into problems pertinent to the management of African economies through a synergetic programme combining research with postgraduate training in economics. There are two principal approaches to this: learning by doing research in thematic, collaborative and other modalities, and support for postgraduate training through collaborative master's and PhD programmes.

Networking – the linking of individuals and institutions in a knowledge-sharing, expe¬rience-sharing framework – is the key strategic instrument for implementing AERC's activi¬ties. The network approach links economists within and outside the region and promotes professional esprit de corps.

The Consortium is itself a network of 18 funders who support a commonly agreed programme of research activities, its dissemination and the training of future potential researchers. The Board of Directors sets broad policy, provides support for a multi-year programme of activities, approves annual work programmes and budgets, and appoints the Consortium's international staff. An independent Programme Committee sets the research agenda, advises on scientific matters and reviews and approves proposals for research and training grants. Academic Boards for the collaborative master's and PhD programmes oversee the implemen¬tation of their respective programmes. A small Secretariat, based in Nairobi, Kenya, manages the programmes and provides technical support to researchers, students and participating institutions. This organizational structure allows for ownership of AERC activities by the network of local researchers, an independent determination of the research agenda, and a programme of activities that is responsive to the professional and policy needs in the region, while at the same time ensuring accountability to funders.

Capital Flight from sub-Saharan Africa – AERC Senior Policy Seminar XVI, Addis Ababa, Ethiopia, April 09 –10, 2014: Seminar Report

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Abbreviations

AERC	African Economic Research Consortium
ALMPs	Active Labour Market Policies
CMAAE	Collaborative Master's Programme in Agricultural and Applied Economics
CSAE	Centre for Study of African Economies
ECD	Early Childhood Development
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ILO	International Labour Organization
LICs	Low Income Counties
MDGs	Millennium Development Goals
MENA	Middle East and North Africa
MICs	Middle Income Countries
NEET	Not in Employment, Education or Training
OECD	Organization for Economic Co-operation and Development
PPP	Public-Private Partnership
SAPs	Structural Adjustment Programmes
SIPs	Socially Inclusive Policies
SPS	Senior Policy Seminar
SSA	Sub-Saharan African

Acknowledgements

The theme for the senior policy seminar "Capital Flight from Africa" is very topical because billions of US dollars disappear every year from this continent without trace. In addition to illicit capital outflows, multinational corporations operating in Africa engage in a variety of tax evasion and avoidance schemes costing Africa billions every year. Senior policy makers are at the center of decision making to mitigate capital flight. This particular policy seminar made it clear that capital flight is actually more burdensome on Africa than the rest of the regions, given its staggering development needs.

African Economic Research Consortium (AERC) and United Nations Economic Commission for Africa (UNECA) partnered to put together this timely senior policy seminar on capital flight. We leveraged two sets of collaborative efforts. First, AERC sponsored a collaborative research project by its network members and resources persons from around the globe. The project is now under a publication process Oxford University Press (OUP). This project inspired two sessions at the SPSXVI - one on overview of capital flight from Africa and its drivers and motivators. The second dealt with recovery of stolen assets (asset recovery). The other sessions were contributions based on studies done by two major pan-African organizations, namely UNECA and African Development Bank (AfDB) – focusing on illicit capital outflows.

African Economic Research Consortium (AERC) is immensely grateful to the Government of Ethiopia for welcoming us to the country and UNECA for co-hosting Senior Policy Seminar XVI. I also thank the authors who produced very high-quality papers, and the partici¬pants for their active participation in producing the seminar's policy recommendations to be shared with other African policy makers who did not find time to take part in this event. I am grateful to all those who made the seminar a success.

AERC appreciates the hard work of Dr. Charles Owino, Manager, Publications, and Ms. Sandra Mulluka, Communications and Publications Assistant in organizing the event. AERC also acknowledges with thanks Dr. Samuel Mwakubo, Collaborative Research Manager, and Ms. Mary Kuria, Manager, Resource Mobilization for their role as rapporteurs. Mr. Winston Wachanga, Programme and Information Re¬sources Administrator, worked on promotional materials, and Mr. Benjamin Masila, Ms. Bertha Chedeye, Ms. Hellen Makimi, and Ms. Susan Miyengi who assisted with logistics. To all of these and the many others who were involved, AERC extends its heartfelt gratitude..

Prof. Lemma Senbet
Executive Director
African Economic Research Consortium

Capital Flight from Africa

Introduction

Senior policy makers from across Africa congregated in Addis Ababa, Ethiopia, on 09–10 April to debate one of Africa's most pressing subjects today – *Capital Flight from Africa*. The two days of intense deliberations during the sixteenth Senior Policy Seminar (SPS XVI) convened by the African Economic Research Consortium (AERC) mainly focused on Capital Flight from Africa: Causes, Effects, and Policy Issues. The Conference was held at the United Nations Economic Commission for Africa Conference Centre.

This region-wide seminar brought together over 101 participants, primarily African policy makers and advisors drawn from the highest levels of government representing over 25 countries on the continent. The seminar was officially opened by Prof. Lemma Senbet, Executive Director of the African Economic Research Consortium (AERC) and the key note address was given by Dr. Carlos Lopes, Executive Secretary, United Nations Economic Commission for Africa (UNECA). The cluster of senior government officials included ministers, governors of central banks, permanent secretaries, and several special advisors, as well as parliamentarians. Other participants included senior scholars and directors in various ministries and research institutes.

The seminar brought together a significant body of information to illuminate the issue of capital flight from Africa and related policy matters. It was anticipated that through AERC's broad research and policy network, the research papers and dissemination efforts would bring these issues to the fore so as to raise African policy makers' awareness and enable them take a proactive stance on behalf of their countries. And, for AERC's own agenda on the economic policy front, capital flight from Africa has presented opportunities and challenges in the areas of focus of AERC research and training programmes.

Billions of US dollars vanish each year without a trace from developing countries generally, and Africa in particular, ending up in enclaves – so called tax havens or in developed countries. A significant part of this outflow is driven by multinational companies seeking to dodge taxes where they operate. Recent research shows that the volume of capital that leaves developing countries each year as unreported financial outflows, referred to as 'illicit capital flight', is about ten times the annual global aid flows, and twice the amount of debt developing countries repay each year.

Capital flight represents a higher burden in Africa than in other regions, given the low state of development. Thus, measures to mitigate illicit capital flight must be at the center of policy agenda, both in Africa and outside Africa, particularly those advanced countries on the receiving end. The issue of capital outflow from Africa and the absorption into western economies, therefore, deserve attention and require concerted effort. Through greater transparency in the global financial system, illicit outflows could be curtailed.

There is also a need for specific measures at country level. Such measures would include the building of legal frameworks better suited to address the problem, awareness-raising about the links between tax evasion, tax revenue and social services, as well as capacity building of tax authorities. Tax administrations in developing countries are often poorly resourced and lacking in staff capacity. Inadequate technology and capacity to collect taxes, as well as the inefficiency and lack of expertise of tax authorities, create loopholes that otherwise could be plugged.

The AERC and UNECA have recently conducted studies on the burning issue of capital flight and had the opportunity to host this conference jointly. AERC senior policy seminars are forums designed specifically to bring together senior policy makers from sub-Saharan African countries to exchange experiences and deliberate on topical issues pertaining to sustainable development of their economies. Participants in these seminars are drawn from the highest levels of government, including the presidency, ministers, governors of central banks, heads of civil services, permanent secretaries and heads of government agencies and parastatals.

Capital Flight from Africa: An Overview

Session chair:	**Caleb Fundanga,** P*resident, Institute for Finance and Economics and former Governor, Bank of Zambia*
Presenter:	**Leonce Ndikumana**, *University of Massachusetts, Amherst, USA*
Discussant:	**Eric Ogunleye,** *Office of the Chief Economic Advisor to the President, Nigeria*

Traditionally attention has been focused on efforts to mobilize more financing through increasing domestic resource mobilization, which is critically important in and by itself and attracting more external financing, including official development aid (traditional and innovative aid), foreign direct investment and migrant remittances, regrettably less attention has been on this important source of financing. Much less attention has been paid to the leakages of resources through capital flight, and generally through illicit financial flows.

The nature of the beast: capital flight consists of unrecorded movements of capital across borders; discrepancies between the recorded 'sources' of foreign exchange and recorded 'uses' of foreign exchange. It also occurs through trade mispricing and unrecorded remittances. Capital flight is, by and large, illicit and what makes it illicit is the sin at the origin. Capital flows are illicit if they involve funds that were acquired illegally (through corruption, drugs and human trafficking and trade mispricing.

The offshore financial systems or 'safe havens' facilitates illicit financial flows. Banking secrecy practices and domiciliation of multinational organizations to facilitate tax evasion and transfer pricing also encourage the same. But capital flight is only a sub set of illicit financial flows. These illicit financial flows include: capital flight, money laundering, and payments for smuggles imports and contraband trade. Other phenomena also often associated with illicit financial flows are profit shifting by multinational corporations (transfer pricing, thin capitalization), and non-financial flows including smuggling of minerals.

Capital flight is a chronic problem and has exploded in the 2000's. The total real capital flight between 1970 and 2010 from 39 African countries amounts to US$ 1.3 trillion in constant 2010 – dollar terms representing 82% of 2010 Gross Domestic Product (GDP). Contrary to perception that Africa is severely indebted, the continent is actually a net creditor to the rest of the world, this is based on 39 sub-Saharan African countries, 1970-2010. Africa's stock of debt in 2010 stood at $282 billion while capital flight to the rest of the world was $1.7 trillion.

Causes of capital flight

Some of the causes of capital flight include individual behaviour, not the outcome of portfolio choice; macro-environment - macro-economic stability, not key driver and growth not a sufficient deterrent; Institutions - governance, corruption (private and public) which equates to essential, global system; a server transparency problem; political economy - power structure-domestic and global; incentive structure-asymmetric distribution of costs and benefits of capital flight

Strategies to address capital flight

The most important ways of addressing the problem would include tailoring strategies to the nature of outflow, deterring illegal export of honestly acquired capital, addressing trade-related capital flight and tax evasion, recovering and repatriating stolen assets, tackling the revolving door and odious debt and a global compact against capital flight and safe havens.

Capital flight genuinely acquired funds motivated by tax evasion should be tackled through automatic exchange of bank information and those motivated by fear of theft would be tackled by governance improvement. While for illicitly acquired funds, the strategies would include: stolen assets recovery and bank liability. Individuals and organizations are also encouraged to publish what they pay and lend, odious debt repudiation and debt audits, and strengthening governance are also important ways of addressing the problem.

Illicit Financial Outflows: An African Pressing Problem Necessitating a Global Solution

Session chair:	**Aston P. Kajara,** *Minister of State for Privatisation, Uganda*
Presenter:	**Gamal Ibrahim,** *UNECA*
Discussant:	**Arsene K. Kouadio,** *Executive Director, Institut Pour le Development/University of Cocody-CIRES, Cote d'Ivoire*

Illicit Financial flows (IFFs) out Africa remain a major concern because of their scale and impact on Africa's economies, development and governance agenda. Over US$ 854billion was lost to IFF between 1970-2008, a yearly average of about $22billion. IFF has been on the increase especially in the last decade, with average annual losses of $50billion between 2000 and 2008. However, the estimates likely understate the true extent of IFF, because data are not always available on all forms e.g. smuggling and mispricing of services. The vulnerability of African countries to IFF underscores the urgent for a well-coordinated African response to guide regional and national policy-making. The establishment of the High level Panel on Illicit Financial Flows from Africa, chaired by President Thabo Mbeki, was essentially a response to the urgent need for systematic changes at national, regional, and global levels through greater public pressure and sensitization to secure a strong African voice in the global arena.

Concept and definition: Capital Flight and IFF

Capital Flight is simply an exodus of funds and financial assets abroad to secure better financial returns (Kant, 2002). IFF: funds exiting the country that are illegally earned, transferred or used, at its origin, or during movement of use.(Reuter, 2012 and Kar & Cartwright-smith, 2010). The Hot Money Method records IFFs through net errors and omissions in payment balances, while the Dooley Method relies on the privately held foreign assets reported in the balance of payments that do not generate investment income.

Empirical evidence

- Africa lost in average US$ 50 billion a year via IFF from trade mis-pricing between 2000 and 2008.
- Two-third of IFFs were attributed to only two regions between 1970 and 2008: West Africa (38 per cent) and North Africa (28 per cent).
- Great significance of IFFs from oil-exporting countries dominated by North and West African regions (Nigeria, Egypt, Algeria) and non-oil-exporting countries (South Africa, Morocco, Côte d'Ivoire and Ethiopia)

- More than half (i.e. 56%) of the IFFs from the African continent over the 10 years period (2000 – 2008) comes from oil, precious metals and minerals, ores, iron and steel, and copper. These are highly concentrated in very few countries
- Sectors such as edible fruit and nuts, electrical machinery and equipment, fish and crustaceans, apparel and cacao account for (each of them) between 3% and 4% of the total IFFs from the continent.
- In countries with relatively large amounts of IFFs, there is a concentration in one sector of the economy
- Main destinations of IFF from African countries are developed countries (especially, the United States, Europe, Canada, Japan and Korea) and emerging economies (such as China, India).

Development Impact of IFF from Africa Damaging effects of IFFs on African countries include:

- Draining resources and tax revenues: Africa lost about US$ 854 billion in IFFs over and continue to lose US$ 50-148 billion a year;
- Stifling growth: If illicit outflows of funds had not taken place, GDP per capita would have been 16 per cent higher (Ndikumana and Boyce, 2008-2011).
- Perpetuating economic dependence and constraining structural transformation: ODA to Africa (US$ 46 billion in 2010) is less than US$ 50 billion lost annually through IFFs.

IFFs from developing countries:

- Prevent governments from providing public services;
- Undermine poverty reduction, skewing income distribution and leading to economic and political instability;
- Weaken governance;
- Decrease public spending on health, education and public infrastructure needed to reach the MDGs: Each additional dollar debt service implies 29 fewer cents spent on public health. An additional infant in Africa dies for every reduction of US$ 40,000 in health spending (Boyce and Ndikumana, 2011).

Political Economy of IFF

- IFF undermines the ability of governments to implement economic policies that run against the powerful interest groups that oppose these policies.
- Financial globalization has provided a conducive environment for a ‘capital strike’ against undesired taxation or regulatory policies; this has wider implications on the nature and the modes of development in Africa and the orientation of the domestic capitalists.

- The incentives facing economic and political elites have been shaped particularly by the major changes in the global economy that took place since the late 1970s:

A Global Solution to an African Problem

- There are various international conventions and agreements that aim to curtail the various forms of illicit financial flows.
- Though the scope and breadth of these initiatives comprise a good first step in curtailing IFF, many issues still remain i.e. some countries have not ratified the UNCAC and are therefore not required to cooperate with its mandates; and loopholes in the international legal framework and differences between legislations in the Northern countries and Africa prohibit the effective investigation of IFF.
- One of the important barriers in the search for a global solution to combat IFF is the lack of an institutional home for global governance on these flows which can provide an outlet for policy debate and implementation.
- Curtailing IFF requires concerted and simultaneous efforts by both Northern and Southern countries

Capital Flight and Asset Recovery

Session chair:	**Rayford Mbulu,** *Deputy Minister, Ministry of Labour and Social Security, Zambia*
Presenter:	**Melvin Ayogu,** *American University of Sharjah, UAE*
Discussant:	**H.B Lunogelo,** *Executive Director, ESRF, Tanzania*

How money is moved and why it is moved are crucial elements in establishing money laundering. The intention to conceal the money, and as well as the nature, location, source, ownership or control of money is all very important elements in asset recovery. Value recovery recognizes that victims of GP can recoup via several channels extending course of action beyond narrow constructs of stolen asset recovery.

To not only seek return of stolen assets or compensation for value assets stolen; it is important to pursue additional compensation for damages from all parties that contributed materially to the injury. State parties can pursue recovery via identification and trace proceeds of particular stolen assets to where it is hidden, and instituting claims against various parties in the liability chain. UNCTAD article 53(b) enjoys each state party to "take such measures as may be necessary to permit its courts to order those who have committed offences to pay compensation or damages to another State Party that has been harmed by such offences.

Legal experts for example Edward Davis argues that Asset recovery assumes there is a traceable asset waiting idly to be discovered through tracing principles, then frozen and repatriated. This is an exception and not the rule, indeed much value to be gained in the form of damages is in pursuing inchoate claims, those who have stolen attempt to tracing either impossible or a very difficult time-consuming process.

UNCTOC, 2000 (Palermo Convention) entered into force 2003 as the main international instrument directed at combating international criminal organizations involved in the theft and laundering of public assets. The three hey features of the phenomenon are sheer size of the amount and level of activities globally; speed at which funds can be moved around nowadays and increasing sophistication of modalities for camouflaging the monies.

How to make asset recovery work through investigation and prosecution of the predicate offences (underlying criminality) and the related offense of concealment (money laundering) is vital. The four stages of the value recovery process include: pre-investigation; investigation; juridical; and disposal. The implementation channels may include domestic and international dimensions, non-conviction based on asset-forfeiture, financial transparency (secrecy jurisdictions, powerful banks), domestication on UNCAC (domestic politics) and harmonization of MLA procedure (international cooperation). Some of the star achievements include Nigeria $1.2 billion, Philippines $624 million, Peru $185, Kazakhstan $84 million and Tiawan $14.52 million.

Examples of civil forfeiture cases in California and Washington DC include that of Teodoro Nguema Obiang Mangue, son of President of Equatorial Guinea and Minister of Agriculture for over $70 million. StAV also secured a restraining order against more than $3 million in corruption proceeds related to James Ibori, ex-Governor of Delta State, Nigeria. Three months later, DOJ executed a restraining order against additional $ 4 million in Ibori's assets including proceeds from the sale of a pent house unit in Ritz-Carlton in Washington D.C. Ibori was arrested in Dubai and pleaded guilty in London. He was sentenced to 13 year in United Kingdom (UK) for his crimes. His solicitor Bhadresh Gohil, Daniel McCann (fiduciary agent-front); Lambertus De Boer (corporate financier) were all convicted and jailed for 30 years for their role in the criminal enterprise.

What action can one take then to curtail this phenomenon as much as possible then? Change the game, for example structure of those political institutions which shape the selection of policies. Organize local political participation, sensitization and advocacy (even from regional bodies and intergovernmental agencies such as UNCE, High level panel and Illicit Flow in Africa. However, if you elect to change the game, they must not see it coming.

Importance of ecological metrics for mass political mobilization is emphasized, be bold, be loud, be heard, though making voices heard, the whole things is expensive and needs to be sustained. It takes resources and patience. Note that the dark side is well heeled and organized, hence there should be more guidance on the political economy strategy-dark side (Machiavellian) versus the bright side (Coasian).

Illicit Financial Flows and the Problem of Net Transfers from Africa: 1980-2009

Session chair:	**Ibi Ajayi,** *University of Ibadan, Nigeria*
Presenter:	**Daniel Guarara**, *African Development Bank*
Discussant:	**Maria Esperance Majimeja,** *Deputy Director, Research & Statistics Bank of Mozambique*

Africa could finance bulk of its development needs from own resources. However, the decline of external financing is expected to continue. Significant financial outflows, both recorded and unrecorded, continue to make domestic financing seriously inadequate. Today there is a growing demand for more transparent processes for resource rents. External financing could then merely be complementary if domestic resources could be kept within the country – while ODA to Africa has increased over the most recent years, for most African countries, the volume of ODA relative to GDP has declined, implying that ODA for fast growing African economies is becoming less and less relevant over time.

In recent years, African leaders have shown increasing interest on the issues of illicit financial flows and its corollary, stolen asset recovery. The interest ranges from the political changes brought about by the Arab Spring in North Africa, with citizens demanding the return of stolen assets, to the political debates heightened by the natural resource boom in Sub-Saharan African countries. In all these cases, there are popular demands for more transparent processes and the avoidance of capture by the elites of the rents from natural resource exploitation and other sources of public revenue. The irony of Africa being richly endowed with natural resources but continuing to depend on external support for the provision of basic services is beginning to dawn on many African countries. A number of them have joined the Extractive Industries Transparency Initiative, while others have introduced over-arching legislation to plug financing loopholes.

The balance of payments data annually submitted to the International Monetary Fund (IMF) and World Bank Data was used to create estimates of IFF, NRecT and NRT. The choice of time period was (1980-2009), dictated by period for which relevant balance of payments data are available for the largest number of African countries. Illicit Financial flows are estimated using World Bank Residual measure (using the Change in External Debt (CED) adjusted for trade mispricing (using the GER measure) in their normalized and non-normalized forms.

Africa was a net creditor to the rest of the world mainly during the post-2000 period, which was also the period of the commodity price boom and subsequent high growth. The dip after 2007 was due to the global economic crisis and not as a result of domestic policy measures. Illicit financial flows were highest in the post-2000 period in the time of commodity booms; this was a precursor to the link between illicit financial flows and commodity (particularly fuel exporters).

Definitions of Geographical regions are based on the IMF's April 2012 World Economic Outlook (WEO) Report classification namely: North Africa (9 countries), Sub-Saharan (44 countries) including Great Lakes (6), Horn of Africa (2), Southern (14) and West and Central (22) countries. Illicit outflows were dominated by outflows from sub-Saharan Africa, notably from West and Central Africa. The Illicit outflows from Sub-Saharan Africa outstripped those from North Africa by over two times in nominal terms while in real terms, three African regions—West and Central Africa at US$459.1 billion (38 percent), North Africa at US$368.9 billion (30 percent), and Southern Africa at US$330.0 billion (27 percent)—account for 95 percent of total cumulative illicit outflows from Africa over the 30-year period.

Definitions of fuel, non-fuel and HPIC groupings are based on the IMF's April 2012 World Economic Outlook (WEO) Report classification, namely:

- Fuel refers to fuel exporters – 9 countries including Angola, Chad, Congo Republic, Equatorial Guinea, Gabon, Nigeria, Algeria, Sudan and Libya.
- Non-fuel refers to nonfuel primary commodity exporters – 12 countries comprising Burundi, Democratic Rep, Mozambique, Zambia, Zimbabwe, Burkina Faso, Central Africa Republic, Guinea, Guinea-Bissau, Mali, Sierra Leone and Mauritania.
- HPIC refers to the 33 HPIC countries which include all the non-fuel primary exporting countries (excluding Zimbabwe) and 21 other African countries.

IFFs grew at a much faster pace over the 30-year period 1980-2009 than net recorded transfers even accounting for the net inflows arising from the broad net recorded transfers. Illicit outflows from Sub-Saharan Africa outstripped those from North Africa by over two times in nominal terms while in real non-normalized terms, three African regions— West and Central Africa at US$494.0 billion (37 percent), North Africa at US$415.6 billion (31 percent), and Southern Africa at US$370.0 billion (27 percent), account for 95 percent of total cumulative illicit outflows from Africa over the 30-year period.

Financial System Transparency

- Regular reporting by OFCs of detailed deposit data
- BIS permitted to widely disseminate cross-border banking data on regular basis.
- Addressing obscurity surrounding beneficial ownership

Automatic exchange of information

- Mechanism similar to what already exists between members of the European Union (EU) under the EU Savings Tax Directive (EUSTD) could be adapted.
- Address tax evasion through source country entering into an automatic exchange of information (AEI) agreement with destination countries where proceeds of tax evasion are lodged.

Policy Roundtable

The closing session of the senior policy seminar was a public/private sector roundtable, chaired by *Esther Koimett*, Investment Secretary, The Treasury, Kenya, that looked to synthesize the discussions on the challenges of capital flight from Africa and what African role players can do to mitigate capital flight, particularly given the global nature of capital flight".

Policy Round Table: *Africa Leading From the Front: Combating Capital Flight from Africa*

Panel[1]

Chair: **Esther Koimet,** *Investment Secretary, The Treasury, Kenya*

- ***Caleb Fundanga,*** *President, Institute for Finance and Economics and former Governor, Bank of Zambia.*
- ***Seetaram Jangbahadoorsing,*** *Minister, Ministry of Business, Enterprise and Cooperatives of Mauritius, Mauritius*
- ***Leonce Ndikumana,*** *University of Massachusetts, USA*
- ***Alie Mansaray,*** *Deputy Minister, Ministry of Trade and Industry, Sierra Leone*
- ***Willard Manungo,*** *Permanent Secretary, Ministry of Finance and Economic Development, Zimbabwe.*
- ***Lila Mkila,*** *Deputy Governor – Financial Stability and Deepening, Bank of Tanzania, Tanzania*

Purpose of the policy panel

- Provide a forum for exchange of views between policy makers and the research community on the challenges facing sub-Saharan Africa due to capital flight.
- Provide a platform to facilitate exploration of areas of common interest among the various role players in confronting these challenges.

Issues addressed were (but not limited to)

- Motives and drivers of capital flight from Africa
- Economic environment and capital flight: macro and monetary policy; financial sector
- Globalization of capital flight

1 Ideally, a maximum of 6 panelists are needed, excluding the chair. We also try to have some Francophone participants on the panel.

    - More efficient contract design in view of opaque nature of natural resources extraction in Africa, particularly oil.
    - Impact of capital flight on:
        - Economic growth
        - Poverty reduction
- Challenges and opportunities in combating capital flight from Africa.
    - How can African policy-makers deal with the challenges of tax evasion, transfer pricing, and trade misinvoicing?
    - Can stolen assets be traced? And if so, how can they be recovered?
    - Rising awareness in Africa and world-wide?
- What lessons, if any, can Africa draw from, and /or share with, other regions of the world; in particular, Asia and Latin America, on mitigating capital flight?
- Have we seen evidence of capital reversals back to Africa? Examples, if any?
- What is the way forward?
    - Institutional frameworks to promote transparency
    - Management of natural resources
    - Management of external debt
    - Transfer pricing and country-by-country tax reporting?

Lessons and Policy Options

Capital flight is a major problem in Sub-Saharan Africa as it impacts negatively on capital scarce economies. As presented during this policy seminar, trillions of dollars have flown out of Africa over the last four decades. Capital flight has accelerated since 2000, a period that coincides with the commodity-driven growth resurgence in Africa.

Evidence suggests that capital flight has significantly undermined Africa's growth and development – through the siphoning of potential investment capital out of the continent. As was demonstrated in the presentations and discussions, capital flight is a global problem, thus requiring a global solution. However, Africa, as a major source of capital flight, needs to speak with a unified voice on this issue, and to spearhead the fight against capital flight, including the tracing and recovery of these 'stolen' assets. This requires that African policy makers and the broader populace fully appreciate the magnitude of the capital flight problem and its various manifestations, as well as its impacts on Africa's development.

The opacity of the international banking system, especially the expansion of the so called safe havens, facilitates the flight of capital and makes it difficult for African countries to track these assets. Among other things, capital flight manifests itself in the form of tax evasion, trade misinvoicing, and transfer pricing, and resource rich African countries are very susceptible to these forms of leakage. This deprives African countries of (potential) revenues especially from their natural resources resulting in reduced domestic savings for funding investments and also loss of tax revenues for funding public expenditures like health, education and public infrastructure.

The severity of capital flight and illicit financial flows varies from country to country and across regions in Sub-Saharan Africa, in part depending on the quality of institutions.

Key Policy Recommendations

- African leaders should seek strong political commitment from destination countries to strengthen transparency in international financial transactions;
- Greater transparency in the banking system, whereby banks would ascertain the identity, source of wealth and country of origin of their depositors and deposits;
- MNCs to report regularly on their employees, sales, financing, tax obligation and payments on a country-by-country basis.
- Broad-based coalition against IFF;
- Curtailing IFF requires concerted and simultaneous efforts by both Northern and Southern countries;
- Strengthen regulatory frameworks and build national capacity;
- Strengthen regulation of the domestic banking and finance sector;
- Encourage economic diversification

- Improve institutional frameworks for African countries and support sharing of good practices: i.e. APRM

Resource-rich countries

- Promoting transparency and accountability including Collaborative Africa Budget Reform Initiative (CABRI) and Extractive Industries Transparency Initiative (EITI).
- Progress beyond EITI - facilitate greater transparency and accountability over the entire resource value chain.
- Set-up well-functioning sovereign wealth funds.

Resource-poor countries

Need to strengthen transparency and accountability including through;

- Tax reform to broaden the tax base.
- Strengthen national authority for regulation and management of public procurement and enforcement of related regulatory framework
- Customs service reform – necessary to curtail trade mispricing.
- Strengthening anti-money laundering initiatives
- Policies need to be country-specific and tailored to individual country needs.

Annex A

Seminar Participants

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Annex B

Seminar Programme

Tuesday, 08 April 2014		
16:00–18.30:00 Hrs		**Registration**
Wednesday, 09 April 2014		
08.30 – 08.55		**Registration**
09:00 –10:30		**Official Opening Session**
	Session chair:	**Adam Elhiraika,** Director, Macroeconomic Policy Division, United Nations Economic Commission for Africa (UNECA)
	Opening remarks:	**Lemma Senbet,** Executive Director, African Economic Research Consortium (AERC)
	Keynote address:	**Carlos Lopes,** United Nations Under-Secretary General and Executive Secretary of the United Nations Economic Commission for Africa (UNECA)
10:30 –11.00		*Tea/Coffee Break*
11:00 –12:30		
	Session 1:	**Capital Flight from Africa: An Overview**
	Session chair:	**Caleb Fundanga,** President, Institute for Finance and Economics and former Governor, Bank of Zambia
	Presenter:	**Leonce Ndikumana,** University of Massachusetts, Amherst, USA
	Discussant:	**Eric Ogunleye,** Office of the Chief Economic Advisor to the President, Nigeria
	Floor Discussion	
12:30 –14:00		*Lunch Break*
14:00 –15:30		
	Session 2:	Illicit Financial Outflows: An African Pressing Problem Necessitating a Global Solution
	Session chair:	**Aston P. Kajara,** Minister of State for Privatisation, Uganda

Presenter: **Gamal Ibrahim,** UNECA

Discussant: **Arsene K. Kouadio,** Executive Director, Institut Pour le Development/University of Cocody-CIRES, Cote d'Ivoire

Floor Discussion

15:30 –17:00

Session 3: **Capital Flight and Asset Recovery**

Session chair: **Rayford Mbulu,** Deputy Minister, Ministry of Labour and Social Security, Zambia

Presenter: **Melvin Ayogu,** American University of Sharjah, UAE

Discussant: **H.B Lunogelo,** Executive Director, ESRF, Tanzania

Floor Discussion

17:00 –17:30 *Tea/Coffee Break*

19:00 – 20:00 *Cocktail Reception*

Thursday, 10 April 2014
09:00 –10:30

Session 4: **Illicit Financial Flows and the Problem of Net Resource Transfers from Africa: 1980-2009**

Session chair: **Ibi Ajayi,** University of Ibadan, Nigeria

Presenter: **Daniel Guarara,** African Development Bank

Discussant: **Maria Esperance Majimeja,** Deputy Director, Research & Statistics Bank of Mozambique

Floor Discussion

10:30 –11.00 *Tea/Coffee Break*

11:00 –11:30

Sessions 5: **Highlights of AERC Strategic Plan, 2015-20**

11:30 –13:00

Sessions 6: **Policy Roundtable**

Session **Anthony Maruping,** Commissioner of Economic Affairs,

Moderator: African Union Commission (Possible Policy Round Table Chair) TBC

Panellists:

- **Esther Koimet,** Investment Secretary, The Treasure, Kenya
- **Caleb Fundanga,** President, Institute for Finance and Economics and former Governor, Bank of Zambia.
- **Seetaram Jangbahadoorsing,** Minister, Ministry of Business, Enterprise and Cooperatives of Mauritius, Mauritius
- **Leonce Ndikumana,** University of Massachusetts, USA
- **Alie Mansaray,** Deputy Minister, Ministry of Trade and Industry, Sierra Leone
- **Willard Manungo,** Permanent Secretary, Ministry of Finance and Economic Development, Zimbabwe.
- **Lila Mkila,** Deputy Governor – Financial Stability and Deepening, Bank of Tanzania, Tanzania

13:00 – 13:10

Vote of Thanks **Director of Research,** AERC

13:10 –14:00	*Lunch Break*