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Democracy, Security and the Risks of Illicit Financial Flows in Natural Resource Africa: Challenges and Costs

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Abstract: **For decades, Africa has been plagued by economic distress through illicit financial flows from corruption, tax evasion, cybercrime, drug trade and transfer mispricing hence constricting her fiscal space. The continent has lost nearly US$1 Trillion in fiscal leakages exacerbated by illicit financial flows within and outside its borders and some of these illicit funds have been used to create or sponsor insurgency, warlords and terrorism hence undermining democratic governance and security. This has created catastrophic conditions of empowering those illegitimate institutions and organisations which later challenge democratic governance through insurrections, civil strife and terrorism. Illicit financial flows deprive Africa of its already scarce resources, deflate tax revenue, threaten continental peace and security, rule of law as well as create unstable conditions. The borderless nature of the internet has also proven to be a haven for cybercrimes as large sums of money are illicitly embezzled and digitally transferred with minimal success in detecting, thwarting or reversing such clandestine transactions. Africa needs to be proactive in this 21st century era to eschew any form of illicit financial flows from all sectors in order to curtail fiscal seepages.**

Keywords: **sponsor insurgency, democratic governance, illicit financial flows, security.**

ACRONYMS:

AML- Anti-Money Laundering

DRC- Democratic Republic of Congo

ESAAMLG- East and Southern African Anti-Money Laundering Group

GDP-Gross Domestic Product

IFF- Illicit Financial Flows

MLG-Money Laundering Group

MNCs- Multinational Corporations

UN- United Nations

UNDP- United Nations Development Programme

UNECA- United Nations Economic Commission for Africa

UNODC- United Nations Office for Drugs and Crime

WB- World Bank

WTO- World Trade Organisation

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1. INTRODUCTION

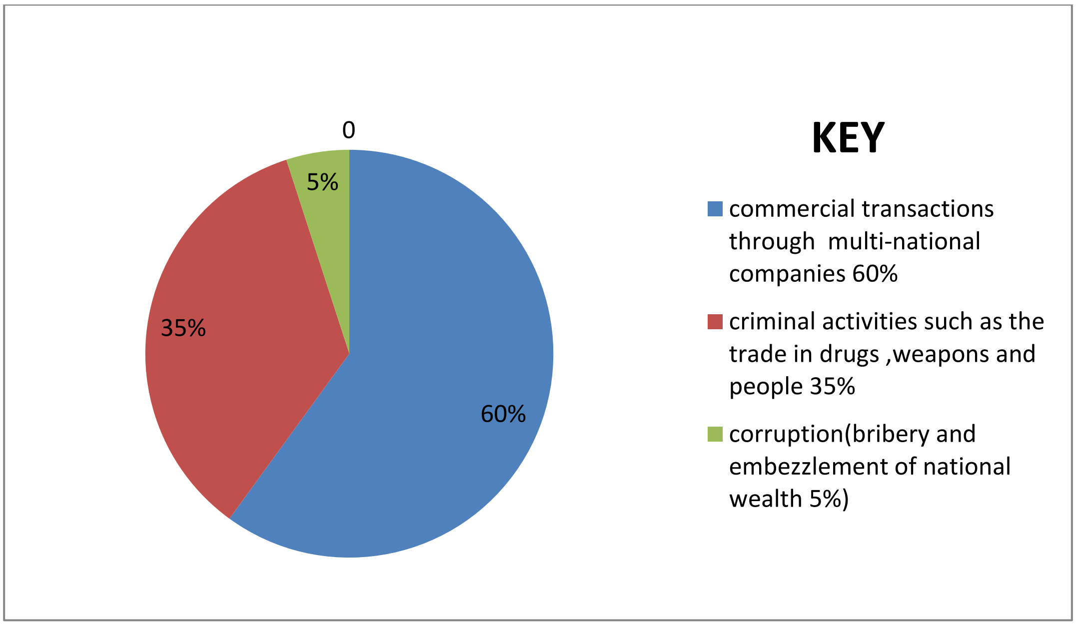
Illicit financial flows are continually accelerating Africa's underdevelopment and dependence by draining away Africa's resources, enriching other continents at the expense of Africa. The continent is being deprived of its bounty share of resources as they are surreptitiously taken away to other continents through corruption, the actions of corporate institutions such as profit transfer, trade mispricing, unfair corporate secrecy and illicit sale of drugs and humans. This paper explains the sources of illicit financial flows from Africa, their effect on democracy, security and governance as well as their consequences.

Definition of Illicit Financial Flows:

The United Nations, World Bank and Global Financial Integrity define Illicit Financial Flow (IFF) as, "Money that is illegally earned, transferred, or utilized. Somewhere at its origin, movement, or use, the money broke laws and hence it is considered illicit (Reuter, 2012, Baker, 2005, Kar, 2011). They consist of the movement of illegally transferred assets or value, funds earned through illegal activity (i.e. corruption), or proceeds of tax evasion. It should not be assumed that these flows raise concern only because of their transnational character. The decisive factor is the motivation to hide the illicit funds from victims, regulatory bodies, and law enforcement agencies with the closest interest in identifying and confiscating them (Reed and Fontana, 2011). Illicit financial flows are often the result of deliberate intentions and actions by private operators willing to evade regulation and oversight over their wealth, taking advantage of the opacity of the financial systems abroad (UNECA, 2012).

Main Sources of Funds Involved in Illicit Financial Flows in Africa:

The United Nations Development Programme (UNDP) notes that, "Illicit [financial] Flows include, but are not limited to, cross border transfers of the proceeds of tax evasion, corruption, trade in contraband goods, and criminal activities such as drug trafficking and counterfeiting."[3] In extractive sectors, these flows mostly originate from corruption, illegal resource exploitation, and tax evasion (including through smuggling and transfer mispricing) (Le Billon, 2011). Illicit money can be classified into three main forms: (1) the proceeds of theft, bribery and other forms of corruption by government officials; (2) the proceeds of criminal activities including drug trading, racketeering, counterfeiting, contraband, and terrorist financing; and (3) the proceeds of tax evasion and laundered commercial transactions (UNECA, 2013). Baker (2005) suggests that laundered commercial money through multinational companies constitutes the largest component of IFF, followed by proceeds from criminal activities, and lastly corruption as illustrated by Fig 1.



Source: Baker (2005) quoted by Kar and Cartwright-Smith,(2010).

Fig 1: Main Sources of Funds Involved in IFFs in Africa

[3]Available at http://www.undp.org.bt/Perspectives-on-Issues-and-Options-for-LDCs.html

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The bulk (60 %) of Africa's losses through IFFs is attributed to the activities of multinational companies' surreptitious commercial transactions which are shrouded in secrecy, followed by criminal activities (35%) such as the trade in drugs, weapons and people. It is suggested that corruption constitutes 3-5 per cent of the total sum of illicit funds, and this was researched by the pioneering work of Baker (2005) and the subsequent Global Financial Integrity Studies (for example, Kar and Cartwright-Smith (2008), Kar and Curcio (2011). It is very likely that the figure illustrated above could be actually higher in Africa for the following reasons: Firstly, a narrow definition of corruption is applied as it only concentrates on bureaucratic and administrative corruption. The definition conceptualizes corruption as that practiced by public officials when they misuse the trust built in them for sinister purposes. The definition overlooks the part played by private sector actors in illicit financial flows or the supply side of corruption, which forms an important element of UNECA's program on policy, research and advocacy (UNECA, 2012).

The 2009 AFRICAN Governance Report highlights that corruption is a multifaceted phenomenon which poses a major challenge to governance and democracy on the continent and remains an issue even in the countries characterized by higher levels of development. Particularly, the report notes that there is a strong presence of money laundering in the extractive industries. The report concludes that the major institutions of government (executive, legislature and judiciary) in Africa are prone to corruption to varying degrees. The private sector and non-state actors are not also immune to corruption. The report stresses that the performance of African countries in the area of budgetary oversight, for example, is somewhat weak due to a lack of resources and procedures in the auditor general's office, deficiencies in the powers and exercise of oversight functions by parliament and lack of cooperation by the executive branch of the government (UNECA, 2009).

Criminal activities which buttress other IFFs have become a cause of concern for Africa. Growth in international commerce and transport in conjunction with weak enforcement capacity and underpaid officials has made African countries an ideal conduit through which to extracting and transhipping illicit commodities (UNECA, 2013). West African states have been the most vulnerable and affected by this type of organised crime. The lack of capacity by police officers, investigators and prosecutors is further compounded by the governance response to the problem which essentially focuses on the individual criminals rather than the fluid structures of the criminal groups. A recent study suggests that, in the year 2011 alone, thirty tonnes of cocaine and around 400kg of heroin were trafficked in West Africa and it was estimated that criminal networks engaged in this trafficking generate annually $900 million. Furthermore, the drug trafficking has created spill over effects in the region. West Africa has become a final destination for drugs and cocaine as heroin use has increased significantly. There are some 2.3million cocaine users in West and Central Africa. Moreover, increased production, trafficking and consumption of drugs in conjunction with piracy and insecurities makes West Africa a high risk region (UNODC, 2012). Another integral area of transnational organized crime in Africa is the illicit smuggling of oil from Nigeria which is considered one of the biggest threats to the rule of law in West Africa. Its increased magnitude and significance highlight reveal the major adverse consequences on governance and development in one of the largest countries in Africa and the possible negative externalities to the neighbouring countries (UNECA, 2013). Such illicit movement and trade in drugs and oil generates a lot of income which can be used to create or fund militias, pirates or terrorists which have the potential of causing mayhem in African states thereby undermining democratic governance, peace and security.

Trade mispricing is a popular way of transferring illicit capital. The change in the magnitude of this type of IFF is directly related to the change in volume of trade during the period (1970-2008) (UNECA, 2013). Kar and Curcio (2011) showed that annual growth of IFF from developing countries in 2000 was 18 per cent while in 2007/8 it dropped to 12.9 per cent. The most significant perpetrators of trade mispricing are multinational corporations (MNCs).This is due to their strong global presence and influence, which facilitate the illicit transfer of funds. The WTO estimates that MNCs control about 60 per cent of world trade, which amounts to about US$40 trillion. Other forms of illicit commercial activities include tax evasion. These activities basically shift money beyond the reach and appropriate use of domestic authorities (UNECA, 2013). The lack of transparency and capacity also aid aggressive tax planning. Although it may not be strictly illegal, tax planning is not only immoral but also has detrimental effects on African countries due to their relative institutional weaknesses and their disadvantaged position vis-à-vis global corporations (Ibid, 2013).

Illicit financial flows from Africa measured through trade mispricing show high concentration in a few sectors, notably the extractive and mining industries. Over the period 2000-2009, more than half (56 per cent) of the IFF from the African

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continent over the 10 years period arose from oil, precious metals and minerals, ores, iron and steel, and copper. Sectors such as edible fruit and nuts, electrical machinery and equipment, fish and crustaceans, apparel, and cocoa have also been targets for IFF over the period 2000-2009; each accounting for between 3 per cent and 4 per cent of total IFF from Africa over the past decade. UNECA's sectoral analysis and computation also reveals a high IFF concentration by country for both extractive industries and other sectors such as edible fruit and nuts, electrical machinery and equipment, fish and crustaceans, apparel, and cocoa (UNECA, 2013).

Sources of the Funds Involved in Illicit Financial Flows from Extractive Sectors:

Table 1illustrates the three types of sources of funds involved in IFFs from extractive sectors, namely corruption which involves the abuse of public office for sinister motives, revenue from illegal sources which deprive states from receiving its bountiful share of revenues, as well as tax evasion. These three types of IFFs from extractive sectors are not mutually exclusive but they are mutually reinforcing, buttressing each other in a symbiotic relationship (See Table 1).

Table 1: Main Types of Illicit Financial Flows and Beneficiaries

	Corruption	Illegal Exploitation	Tax Evasion
Main Financial flows	Facilitation payments (bribes) paid by companies, moneyembezzled from tax collection and budgetary allocation.	Undeclared corporate revenues from illegal resource exploitation.	Inflated costs deducted from taxable revenues ,smuggling of resources
Main Beneficiaries	Corrupt government officials and companies gaining undue advantage	Domestic companies, local subsidiaries of foreign companies	Parent or holding companies, exporting companies.

Source: Le Billon (2011:4)

Corruption:

Is described as the development problem in resource-rich countries, rather than just one of a number of problems (Kolstad and Soreide 2009, 2014). Large resource revenues facilitate rent seeking and patronage, resulting in higher levels of corruption, diversion of time and talent from productive initiatives, inefficient public spending, and low political accountability. There is evidence that IFFs are intimately linked to large-scale corruption in developing countries (Reed and Fontana, 2011). IFFs from many developing countries derive from the poor governance of extractive industries. One of the "top 10"corrupt political leaders in developing countries identified by Transparency International (2004), three ruled in extractive sector-dependent countries: Nigeria, Indonesia and Zaire (now DRC). In Egypt, former energy minister Sameh Fahmy was arrested in relation to a 15-year gas supply deal with an Israeli company that would have brought a US$714 million loss for the Egyptian state. The deal would have resulted in massive kickbacks for Egyptian officials and handsome profits for Mubarak's business ally Hussein Salem (Carlisle, 2011).

The bribing of midlevel resource management officials, for example, enables illegal resource exploitation outside of concession areas. Corruption also facilitates tax evasion, with bribes undermining the maximisation and collection of monetary revenues including bonuses, royalties, fees, and corporate taxes, or physical production shares. In some sectors, such as logging and diamond mining, production companies and exporters routinely bribe officials to underreport the volume or value of resources. Resource income (measured as resource per capita) is associated with higher levels of perception of corruption, and in turn with poor economic performance (Leite and Weidmann, 2002). This relationship is stronger for extractive sectors, more so for fuel than non-fuel mineral exports. The correlation is most robust for countries with low-quality democratic institutions (Isham et al. 2005; Petermann, Guzman, and Tilton 2007; Bhattacharyya and Hodler 2010).

Illegal exploitation of resources from the extractive sectors include operating outside the confines of licensed areas, such as by extracting resource from outside a concession, or beyond contractual limitations, such by extracting extensive quantities of mineral under an "exploration" licence that only authorises sampling-a common practice in medium-scale mining of shallow deposits of high-value minerals (e.g. relatively small and poorly monitored open-cast diamond mines). Theft is also a rampant feature in extractive industries. About 30 tons of gold were suspected of being stolen from South African mines every year in the mid-1990s, with the government losing approximately 13 per cent of its potential revenues from the sector (Gastrow, 2001). Underreporting the volume or quality of resource produced (e.g., through biased oil volume measurements or misreporting of ore grade) is also common, especially when measurement involves technical expertise and equipment. Illegal resource exploitation also includes failure to report environmental and social regulations, such as policies on wastewater disposal or on workers'expossure to chemicals. Compliance with environmental and social regulations is costly for companies and thus open to corruption, through compliance avoidance, lowering of standards, or demand for "facilitation payments" by officials. Arguably, non-compliance also generates IFFs benefiting the company by illegally increasing profits (especially if these are not taxed or companies declare false compliance expenses) (Le Billon, 2011). DRC and Nigeria are among the countries most affected by the illegal exploitation of resources. Several Congolese commissions and UN panels of experts have documented illegal mineral exploitation and exports, some of which finance armed groups in the DRC, especially in the eastern part of the country. Even in the diamond sector, which comes under international monitoring through the Kimberley Process, about 30-50 per cent of the production by value is reported to be exported without proper declaration or valuation (World Bank 2008; Solvit 2009). On a similar note, estimates of oil theft or bunkering in Nigeria reached at times as high as 300, 000 barrels per day between 2007 and 2008 (Le Billon, 2011).

Tax Evasion and Avoidance:

Starts as a result of negotiations when extractive sectors canvass for favourable business environments that exempts them from various forms of taxes. While not *stricto sensu*illegal, unless obtained through corrupt practices or outright coercion, the very favourable fiscal regime or contractual terms obtained by some extractive companies make them illicit in the eyes of the domestic population, resulting in legitimacy issues for local authorities and corporations (Le Billon, 2011). Examples of suchtax avoidance practices include long tax holidays, full write-off of capital costs, exemption from import and often export duties as well as many other domestic taxes, special transfer pricing arrangements, minimum royalties and low corporate profit tax (Lungu 2009; Campbell,2011). Additionally, contracts are frequently negotiated not with resource companies in their home country but with subsidiaries incorporated in low-or no-tax jurisdictions. This ensures companies against tax payments agreed under bilateral tax treaties. Profits routed through the subsidiaries' low- tax jurisdictions are then passed on to the company's group, often through the proceeds of high-interest loans, in order to also avoid taxes in the home country. Both host and home countries lose, while untaxed profits accrue to the subsidiary in the tax haven (Brown 2008; Palan, Murphy, and Chavagneux 2010).

Such advantageous fiscal terms are most often the result of general policies of liberalisation pursued since the early 1990s (Bridge, 2004). But they are also sometimes the result of corruption, with payments by companies to public officials to secure better terms. Such corruption can be initiated by investors seeking higher returns who find corrupt elites willing to accept direct bribes or similar benefits such as lucrative service contracts. Very attractive conditions can be offered by political elites in the hope of generating large initial payments, such as signature bonuses, which can be embezzled (or used to address short-term priorities unrelated to the long-term national interest (Le Billon, 2011). Another way of obtaining a tax advantage is to inflate costs and thus reduce taxable earnings through over-or under-invoicing for profit-based taxes. This is generally done through transfer mispricing that advantageously sets prices for internal transactions between two subsidiaries of the same corporation (Hollingshead, 2010).

Digital Technologies and Illicit Financial Flows in Africa:

Illicit financial flows in Africa have also been catapulted by the advent of information communication systems or digital technologies. Digital technologies have been used as a vehicle to transfer large sums of money to fund terrorist organisations in Africa such as Boko Haram, Al-Shabaab and Al Qaeda in East Africa. These terrorist groups perpetrate horrific acts of destabilisation such as bombings and abductions thereby undermining democratic governance and security. With the development of digital technologies, the use of information and communication networks as a tool for facilitating illicit financial flows is rising as one of the key challenges in tackling the problem of the management of illegal funds. Digital technologies facilitate illicit financial flows at each stage, be it earning money illegally, transferring illegal funds, or using them (Tropina, 2016). Apart from Ethiopian occupation and absence of effective governance, the growth of al Shabaab has also been necessitated by the expansion of Information Communication Technologies (ICTs). Interaction with other terrorist organisations, individuals, gaining support, donations and funding are made possible through al Shabaab websites. Al Shabaab has also been able to recruit foreign fighters through the use of ICTs (Ankomah, 2014). As noted, the group has used the internet to collect pledges from diaspora Somalis; in August 2009 it raised as much as $400 000 from members of the diaspora via an online fundraising forum (Wise, 2011).

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In addition to the creation of the underground illegal markets of cybercrime and cyber-related crime, digital technologies facilitate the migration of traditional organised crime online and provide a number of opportunities for fraud, corruption, tax evasion, and other criminal activities. New digital tools for money transfers, such as online and mobile banking, electronic payments, crypto currencies, e-commerce providers, and online gambling services, especially if they are combined, provide a countless number of opportunities to distance money from illegal sources of profit or to illegally transfer money from legal sources. New forms of doing business online, and the digital economy as a whole, facilitate the transfer of illegal profits and the aggregation of illicit funds in offshore accounts, and their placement in fake e-commerce companies and offshore online businesses (Tropina, 2016). As markets and trade have always attracted criminals seeking benefits from illegal activities, digital networks have become a key enabler for the new forms of earning and transferring illicit funds and a facilitator for many traditional ways of IFFs. Criminal activity has been evolving in parallel with society's use of information networks, reacting to every technological development with new approaches to gain profits and hide them. The borderless nature the decentralised architecture of the internet, combined with a complex dynamic ecosystem of the digital economy, poses new challenges to governments, industry and civil society in tackling the problem of IFFs (Ibid, 2016). Insurgencies and terrorists have also managed to keep abreast with every new technological development on the internet in order to manipulate it, transferring and earning moneys, recruiting and strategizing. Such activities make them thrive, adapt to new technological conditions and continue to cause mayhem thereby undermining regional peace, democratic governance and security.

Technology can be used in various ways to facilitate illicit financial flows which may later have a potential to undermine democratic governance, peace and security. Evolvement of the new types of crime (for example, cybercrime), and , as a result, the rise of a criminal underground economy that has a potential of funding an insurrection banditry insurgent groups(s) which may pose a threat to regional peace and security may also be realised in such a scenario. This underground digital market, where certain offenders specialize only in committing crimes involving digital technology, has already become an independent source of gaining illegal money. Criminals may also utilise relocation of traditional organised crime online by using digital technology for secure encrypted communications for trade, information exchange, and for facilitating illegal activities in the offline world (Tropina, 2016). The development of the cybercrime industry is driven by the monetary value of data and services[4], traded on the specific internet platforms and via communication channels, which are used as underground market places (Europol 2014; Fallman et al. 2010).According to a McAfee assessment study, the underground industry of cybercrime costs global economies as much as US$445 billion. This estimate includes both direct and indirect costs: profits of cybercriminals, and indirect costs such as reputational damage, defence, and recovery. McAfee makes a conservative estimate of US$375 billion in losses, and the probable maximum as much as US$575 billion (McAfee, 2014). Even the smaller of these estimates of possible losses related to cybercrime exceed the GDP of most countries and the revenues of most private companies in the world (Tropina, 2016). This highlights the potential devastating aspect of illicit financial flows from cybercrimes if they are used to fund insurrectionist armies, warlords, rebels or terrorists, thereby undermining democratic governance and security in Africa.

Consequences of IFFs on Democratic Governance and Security in Africa:

IFFs have had an abrasive effect on Africa and the scale of the flows boggles the mind. This is due to African governments' poor governance systems, a culture of impunity for those officials implicated in corruption, porous borders and poor technological development. Africa poses as the most vulnerable continent to IFF. These IFFs out of Africa have become a matter of major concern due to the scale and negative impact of such flows on Africa's development and governance agenda. They perpetuate Africa's economic dependence on other regions and undermine the capacity of the African governments to articulate and implement a developmental state approach that prioritize capacity-expanding, transformative and distributive economic and social development policies. The quest for a developmental state in Africa has been significantly constrained by the financial structures of IFF, which undermine the potential for economic transformation in the continent through draining tax revenues and scarce foreign exchange resources, stifling growth and socio-economic development, and weakening governance (UNECA, 2013). By some estimates, illicit flows from Africa could be as much as US$50 billion per annum (Kar and Cartwright-Smith, 2010) and, indeed, the estimate may well be

[4]For example according to KPMG research, in 2014 the prices for stolen credit card credentials earned from US$0.25 to US$100 per item. Debit card information cost approximately US$9.55 per item, stolen usernames and passwords US$5.60 per item (Fowler, 2014)

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short of reality as accurate data does not exist for all transactions and for all African countries. Further, these estimates often exclude various forms of IFF such as proceeds from smuggling and mispricing of services.

The state's ability to pursue a developmental role depends to a large extent on its relative autonomy from the interest of powerful interest groups. In this context, illicit financial flows further deepen the unequal distribution of power (political and economic power) as the beneficiaries of IFF become wealthier and gain further control on the polity, which has adverse implications, notably on pro-poor policies. In other words, a major political cost of illicit financial flows is the undermining of the ability of African governments to implement developmental and transformative policies that run against the powerful interest groups that oppose these policies (UNECA, 2013). High levels of corruption distort the allocation of public resources. In this context, resources are distributed in favour of those individuals that are willing and able to bribe and pay kickbacks to public officials. Poor governance leads to public corruption and encourages corporate misbehaviour (Ibid, 2013). The abuse of authority for private benefit is used by government officials and also typically by rent seekers in the private sector as an indication of the magnitude of a government's level of political, economic and administrative decadence.

Organised crime has caused stir and difficult to eradicate especially in Africa, manifest in drug and human trafficking as well as smuggling of firearms. A prominent feature of this phenomenon is its close interlinkages with the other two sources of IFF namely corruption and commercial transactions through multinational corporations, transnational organised crime permeates various segments of state and society by infiltrating government agencies and institutions as well as business and politics. Furthermore, it severely undermines governance and democracy as it empowers those who operate outside the law. UNODC (2011) estimates that about US$1.6 trillion (equivalent to about 2.7 per cent of global GDP) was available for money laundering activities across the globe. The largest income for trans-national organised crime seems to come from illicit drugs, accounting for a fifth of all crime proceeds. It is estimated that the illicit flow of goods, guns, people and natural resources is approximately $650 billion. Illicit drug trafficking and counterfeiting are the two largest components of these criminal activities. The market for illicit drug trade is estimated to be worth $320 billion (50 per cent of total) whereas the market for counterfeiting comprises $250 billion (39 per cent) of total. Other sources such as human trafficking and illicit oil trade comprise respectively 5 per cent and 2 per cent of the total (Haken, 2011).

IFFs have caused disastrous effects for Africa by draining away Africa's finances through its natural resources. Africa has lost billions of dollars through illicit financial flows and this form of economic haemorrhage has empowered illegitimate groups who cause strife and mayhem in the continent, threatening continental peace and security as well as democratic governance. According to the most aggressive scenario (Kar and Cartwright-Smith, 2010), Africa lost about US$854 billion. The trend has been increasing over time and especially in the last decade, with an annual average illicit financial flow of US$50 billion between 2000 and 2008 against a yearly average of only US$9 billion for the period 1970-1999 (Ibid, 2010). The decline in 2009, as registered in Kar and Freitas (2011), is likely explained by the recent economic and financial crises, which have depressed overall global trade.

IFFs have a devastating effect on Africa by weakening continental governance. Financially weak states cannot operate effectively and are generally constrained from providing public goods and services. IFF is also damaging to the state in as much as it undermines (through bribery and public theft) the various institutions (banks, financial intelligence units, legal systems etc.) that are responsible for detecting and prosecuting IFF. It also discredits democratic institutions, which could be used to dispose of the proceeds of corruption, thereby fuelling further corruption. The allocation of public resources tends to be guided by the advancement of personal and group interests over national interest. Such groups and individuals may become financially and militarily strong and pose a threat to state security by owning armies, militias or armaments (UNECA, 2013).

Another disastrous effect of IFFs from Africa are the corporate financial losses that the continent is currently facing due to trade mispricing, tax evasion and transfer pricing that are prejudicing the continent with billions of dollars. The loss of corporate taxes in the developing world alone is estimated to be worth around US$160 billion a year (Christian Aid, 2008). Kar and Cartwright-Smith (2010), in a report for Global Financial Integrity, content that the proceeds of commercial tax evasion, mainly through transfer pricing, are the largest component of global illicit financial flows, accounting for 60-65 per cent of the global total. Prominent multinational enterprises active in Africa have been implicated in shifting income or profits through transfer pricing. Through these mechanisms, an estimated US$420 billion of capital was transferred out of Africa, predominantly to the major economies, in the three and a half decades following

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1970 (Ndikumana and Boyce, 2008). Apart from under declaring the volume or value of exports, multinationals can use related party-agreements to transfer disproportionate levels of the costs of freight, insurance, or equipment leasing to the subsidiary company, cutting income accruals and tax payable in the producing countries, for example, following an audit of its Zambian subsidiary Mopani Mine late in 2010, mining resources conglomerate Glencore International is reported to be under pressure to pay additional tax in excess of US$50 million to the Zambia Revenue Authority. Glencore is alleged to have used another subsidiary, located in the United Kingdom, to inflate operational costs, under-price output, and engage in irregular hedging and abusive transfer pricing (Bariyo, 2011).

In pursuit of Africa's incessant fiscal leakages through illicit financial flows, in Tanzania it is widely acknowledged that the risk of transnational money laundering involving the mining industry is very significant. In 2009 Finance Minister Ramadhan Khijah, in response to revelations of profit-shifting practices by some gold mining companies in Tanzania, lamented that Tanzania was "earning almost nothing from our vast wealth compared to what is being pocketed by investors." In Botswana a joint research study of money laundering trends by the Director of Corruption and Economic Crimes (DCEC) and the Institute for Security Studies in 2008 reported anecdotal indications of illicit financial flows from Botswana to five countries in particular: South Africa, China, Zimbabwe, Nigeria, and Zambia. With the exception of those to China, these flows involved proceeds of crimes such as robberies and fraud. Proceeds destined for China were more likelyto be derived from marketing activities and associated tax evasion. They were also more likely to have been converted from the Botswana currency to the US dollar, as were proceeds destined for Nigeria (Goredema, 2011).

Corporate Secrecy, Profit Shifting and Transfer Pricing: A Case Study of Botswana's Diamond Sector:

Botswana, just like all other developing countries, has not been spared from the economic leakages from its extractive sector. Botswana, Africa's GDP poster- child, is the world's second biggest diamond producer, from which it earns four fifths of its national income. Diamond-rich Botswana, according to the World Bank's income inequality statistics, is one of the world's most unequal countries. It is a land of contradictions: rich and poor, politically peaceful yet economically unequal (Sharife, 2017). Heavily reliant on diamond exports, the country went into business with mining giant De Beers 50 years ago. The diamond business makes up a huge proportion of the country's economy, accounting for 80% of Botswana's export revenue. However, puzzling discrepancies in the country's diamond data exist as Botswana has been getting a raw deal from the arrangement (Ibid, 2017).

Sharife (2017) notes that most of Botswana's rough gemstone diamonds are exported to other countries to be cut, polished and made into jewellery, which raises the value exponentially. Yet an analysis on confidential data on rough Botswana gemstones shows an average 77.6% increase in value for the stones once they leave Botswana and arrive in a foreign country-before any cutting or polishing takes place. It therefore means that the diamonds' value miraculously increases when they are traded between different countries after escaping Botswana's national borders-and tax brackets. The data appears to indicate use of an old trick known as profit-shifting, whereby a commodity is undervalued to reduce tax liability. Contrary, when the diamonds arrive in a tax-free jurisdiction such as the "freeports[5]" of Switzerland, their value increases by up to 200%.

Most of Botswana's diamonds have been produced through the joint-venture Debswana, a partnership between diamond giant De Beers and the Botswana government. Known as the De Beers Botswana Mining Company when it was founded in 1968, the relationship between De Beers and the Botswana government is considered the oldest public-private partnership of the post-colonial period. Over the years, the Botswana government increased its shares in Debswana from 15% to 50%, and also managed to obtain a 15% share of De Beers itself (Sharife, 2017). Khadija Sharife continues to elucidate the Botswana diamond ordeal which is shrouded in secrecy by noting that for decades De Beers closely guarded its financial information but in 2013 the company released some numbers showing that Botswana provides more than 70% of De Beers' diamonds. In that same year De Beers obtained more than 31 million carats from its holdings in African countries such as Namibia, South Africa and Botswana as well as Canada. Of that, Botswana accounted for about 22.7m carats. Of the $5.9 billion in revenue generated by De Beers in 2013, Botswana accounted for $4.2 billion. Diamonds mined by Debswana are mostly exported to De Beers' subsidiaries abroad or to De Beers' preferred buyers-companies known as "sightholders."[6]

[5]A Freeport is a free-trade zone where products can be stored duty-free while awaiting re-export (Sharife, 2017:55).

[6]Sightholders receive special parcels at "sights" (buyer events) held throughout the year. Sightholders, who are usually based in Belgium, the US or India, are allowed to accept or reject the parcels but they are not allowed to negotiate price or

Unlike gold, platinum or other high-value minerals, the value of diamonds remains confidential and highly subjective. De Beers lists more than 12, 000 different categories in a pricebook, but won't say how it values stones or determines the various types of diamonds. While De Beers demands access to proprietary information from its sightholders, the company guards its own data and valuation methodologies fiercely in order to be consistent with its corporate secrecy ethics. The sightholder system ensures a controlled supply of diamonds to the world market. Only a limited number and type of diamonds can enter the markets through specific sellers, limiting the supply of gem diamonds and raising their price. This practice is not peculiar to De Beers, which produces just over a third of the world's gemstones. Russia's diamond group Alrosa claimed that if the price of diamonds isn't supported, a diamond becomes a "mere piece of carbon." It therefore appears that De Beers may stockpile an unknown quantity of rough diamonds to create a scarcity of rough gems.

Profit-Shifting and Transfer Pricing by De Beers in Diamondiferous Botswana:

The value of the gems varies greatly depending on which country imports them from Botswana, for example, in practices that smack transfer pricing, Switzerland shows a pattern of importing gemstones before exporting them at much higher values, without having added value to the stones by cutting or polishing them. Between 2003 and 2016, confidential data shows the value of diamonds originating in Botswana and traded between Switzerland and other countries totalled $67.4billion. This figure includes rough diamonds directly exported from Botswana by Debswana (Khadija, 2017).

Sharife (2017) remarks that records show that these companies pay an average of $519/carat for rough stones that are then re-exported at$1,644/carat- a 216% increase in value. Sometimes the scale of transfer pricing is even extensive, for example in 2016, 269 rough gem carats originating from Botswana were re-exported from Switzerland to Laos at $16.5 million, or more than $$61,000/carat. In 2016, Swiss freeports exported parcels worth $118million to the US, averaging $84,000/carat. An analysis of this official inte-government data shows that by the time the rough diamonds left Switzerland for other countries, they had increased in value by $27.8billion. It is interesting to note that at least half of this multi-billion dollar re-export trade in rough diamonds appears to be the same stones in different packages: subsidiaries of companies received and repackaged diamonds into new parcels with new invoices. The data shows that the rough diamonds were re-imported and re-exported between different jurisdictions, particularly tax havens, at increasingly higher values. Data analysis identified 17.1 million carats of rough diamonds originating from Botswana from 2003 to 2012. When the stones left Botswana, they were valued at an average of $125.9/carat. When they were re-exported from foreign countries, they were valued at an average of $223.8/carat, for a total of more than $3.8 billion over the period-a 77.6%increase in value.

De Beers' Corporate Secrecy Ethics in Botswana's Diamond Industry:

Corporate secrecy laws prevent digging deeper into who is exporting the rough diamonds at what increases and why, for example, the average re-export value of all diamonds originating from Botswana in the same period is unknown (Sharife, 2017). Companies sending or receiving diamonds from tax havens and freeports do not need to indicate Botswana as the country of origin, nor is there any external authority that scrutinises imports and exports of rough diamonds. The data does not also show the names of the subsidiaries or their parent companies. De Beers insists the methodology behind this valuation process is confidential. While they supply rough gems to their clients, what they do with their purchase is up to them. The company would not also comment on how or whether prices of rough exported diamonds might change. One internal government report claims Botswana's average diamond values-the prices allocated by De Beers-are "estimates" rather than reflections of true value (Ibid, 2017). Botswana's 15% share in De Beers, according to the company's own report, was designed to ensure that while Debswana was, according to De Beers, a "minority acquiring shareholder… its diamond production is fully attributable to the De Beers Group." This means that Botswana could not mine the diamonds without De Beers' help. This potentially shifts Botswana's leverage from a position of strength to one of dependence as De Beers finances half of the government budget at a minimum (Ibid, 2017). The Botswana government is therefore losing significant tax revenues if the diamonds are being undervalued on export only to assume a higher value abroad.

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to select diamonds themselves. If a sightholder rejects a parcel, future parcels may be of lesser quality- or the sightholder may be excluded from future sights (Khadija, 2017).

Nexus between Illicit Financial Flows and Corruption:

IFSsare so interconnected to corruption such that they are Siamese twins, for example corruption and money laundering are closely intertwined financial cancers that drain resources form the developing countries. It is apparent to note that however the proceeds of these components of IFF are closely connected to each other that it is almost impossible to separate these components into concrete unified units (UNECA, 2013).The strict classification of the 'components' of illicit financial flows also takes a very narrow operational view of 'corruption' as a conduit of IFF. To the extent that these flows are illicit or illegal, they are in one way or another facilitated if not driven by corruption. Disentangling corruption from other sources of funds such as tax evasion and criminal activities becomes therefore difficult at both the conceptual and empirical levels, for example, in the case of mis-invoicing, exporters and importers are able to manipulate invoices to channel money abroad or launder money by paying off regulators and inspectors.Corruption and money laundering are symbiotic: not only do they tend to co-occur, but more importantly the presence of one tends to create and reciprocally reinforce the incidence of the other. Equally, corruption would facilitate transfer pricing. Multinational corporations are also able to buy off the relevant national authorities or even lobby in favour of low taxes, lax regulations and weak oversight provisions (Chaikin and Sharman, 2009).

Nexus between Natural Resources and Illicit Financial Flows:

States that are heavily dependent on natural resources such as those in Africa are more prone to illicit financial flows. Much evidence suggests that extractive sectors are associated with high levels of illicit financial flows. Some oil and mineral exporting countries are perceived as among the most corrupt. The release of statistical data by diamond producing and importing countries through the Kimberly Process Certification Scheme revealed that global production was nearly twice as large as previously estimated, underlying massive smuggling, underreporting, and tax evasion (Rodgers 2006). Fuel exporters accounted for nearly half of the illicit financial flows from Africa between 1970 and 2008 (Le Billon, 2011). Acceleration in illicit outflows was undoubtedly driven by oil price increases (Baker and Kodi, 2010:12). This was principally the result of greater opportunities for trade mispricing, a result of corroborating findings on capital flight from the Middle East and North Africa between 1970 and 2005 (Almounsor, 2005).

Generally resource-rich countries tend to underperform in revenue collection (measured by tax as a proportion of GDP). This is especially the case in Sub Saharan Africa, where a higher share of fuel in total exports is associated with higher levels of illicit financial flow and revenue lost to the state (Ndikumana and Abderrahim 201; Ndikumana and Boyce 2011). Boyce and Ndikumana (2011) find a statistically significant positive relationship between oil exports and illicit financial flows; for each extra US dollar in oil exports, they estimate that an additional 11 to 26 cents leaves the country as illicit capital flight (Boyce and Ndikumana, 2011). More broadly, recent findings also indicate that high natural-resource dependence reduces the level of transparency and increases corruption (Williams, 2010).

Solutions for Africa:

There are several solutions that Africa can pursue in order to minimise illicit financial flows which are undermining democratic governance and security in the continent:

1)-There is need for harmonisation of regional and international laws covering extractive sectors, trade and technology so that perpetrators of illicit financial flows do not take advantage of some lax regulations in some states.

2)-African states need to craft or amend concessions previously signed with foreign extractive companies so that they make their natural resources truly theirs. Previous provisions and agreements that put African states in a dependent relationship prejudice them and therefore deprive them of direct ownership of their resources. Such agreements and concessions should therefore be revisited and revised for African states' betterment.

3)-Africa needs to keep abreast with the ever-changing technology in order to be able to detect, thwart or restore illicitly transferred money. Since perpetrators of illicit financial flows devise new methods of evading legitimate systems through the internet, African governments should also develop expertise to be able to proactively design counter measures to thwart such moves.

4)-An African culture of impunity, camaraderie, and patronage should be done away with. This is because many cases of illicit financial flows such as corruption go unpunished especially for those state officials who are staunch supporters of ruling parties.

5)-Though privacy issues may sometimes seem to contravene transparency, government officials' domestic and offshore accounts and assets should be known and satisfy the legitimacy and transparency test, of which failure to do so, such assets or finances should be sequestrated or frozen, for example Swiss bank accounts.

6)-African governments should move away from the business tendency of contracting, sub-contracting and working in partnership with foreign companies that have a gargantuan appetite for gain. They should thus develop their domestic remedies to be able to extract their resources with their own machinery and technology. This will eliminate adverse effects such as profit shifting, transfer mispricing and under-pricing of their natural resources.

7)-Where a foreign company has been contracted to conduct sampling of resources in an African country, the local authorities should keep a watchful eye and closely monitor such sampling activities so that forms of illicit financial flows such as extracting huge amounts of minerals in the guise of sampling are minimised.

8)-African governments should de-politicise essential sectors such as the extractive sectors so that politicians and other senior government officials do not compromise such sectors through kickbacks, tax evasion and avoidance practices.

9)-Since many African states are currently experiencing limited fiscal space due to illicit financial flows, tough punitive measures should be imposed on officials and companies that indulge in illicit financial flows that bleed the continent. Many African states have such punitive provisions in their municipal laws but these are mostly idealistic due to a culture of impunity, political patronage and camaraderie.

2. CONCLUSION

Illicit financial flows to a greater extent have undermined democratic governance and security in Africa. Such illicit financial flows spring from illicit activities such as corruption by government officials, the activities of multinational companies who prejudice African states' resources by perpetrating unethical business practices such as transfer-mispricing, unfair corporate secrecy and profit shifting, as well as criminal activities such as human trafficking and trading, as well as trade in drugs. This undermines democratic governance; peace and security in that it empowers those who operate outside the law as such finances are sometimes used to sponsor insurgencies, insurrectionists, rebels and terrorists wholater fuel mayhem in the African continent. Such illicit money has also been used to purchase weapons to sponsor terrorist organisations such as Boko Haram, al Shabaab and Al Qaeda in East Africa thereby destabilising the continent. Technology has also been utilised to transfer illicit money into terrorist organisations' accounts electronically hence there is need for African states to fight technology with technology as well. If Africa could be able to starve these supply methods of illicit financial flows, it will also be able to starve the destinations of these flows hence will lead to the amelioration of continental democracy, peace and security.

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