FOLLOW THE MONEY. THE IMPACT OF THE ILLICIT FINANCIAL FLOWS HOME AND ABROAD. A COMMON EUROPEAN-AFRICAN PERSPECTIVE

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Abstract: *The recently documented impact of Illicit Financial Flows (IFFs) challenged global organisations to propose solutions and sign agreements. Multilateral conventions and international cooperation programmes were placed on agendas by global organisations like OECD, IMF, G20, World Bank. Combatting IFF combines the purposes of addressing vulnerabilities, protecting people and resources, bringing financial stability, economic development, human development and diminishing crime. IFF is primarily of a political nature, however it happens because of money laundering, trade mispricing, bad financial reporting, tax avoidance, shell companies, etc. As well as being an African issue, IFF is a European one as well. Regional bodies like the European Parliament and African Union are specifically addressing the effecting issues further. In the process of legislation making, under the umbrella of the ACP-EU Parliamentary Partnership, is the Stolojan-Kaba report on the Impact of Illicit Financial Flows on Development Finance. This piece of legislation is of particular importance as it shows common interest and two-headed leadership from both the EU and African side. The purpose of this article is to analyse the policy coherence on the subject matter around the world and how efforts done separately, home and abroad, are put together. A second purpose of the article is to follow the money by presenting the accountability dimension of accounting and discover who is paying the price.*

Keywords*: illicit financial flows; policy; European Union; African Union*

JEL Classification: *G28, H87*

Nowadays world challenges require globally-national solutions with a certain degree of uniformity, policy transfer and coordination among international, trans-national and

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domestic institutions. [1]Some of the agendas have a ‘think big frame’ like the United Nations Millennium Development Goals while others are more national and even local dimension. These policies are done by state actors like the United Nations, G20, European Union (EU), African Union (AU), etc. while others by private institutions that play the state, like International Accounting Standards Board (IASB), Public Interest Oversight Board (PIOB), etc. The global crises of 2008 and the more recent issues discovered by the Panama Papers and LuxLeaks made decision makers to acknowledge policy fails, vulnerability, in-built undesirable characteristics of world’s financial system and find solutions. The purpose of this study is to look how states’ similar problems are treated at home, how international negotiations for common goals are materialising and what separate and common solutions are there. Cross tabulation among international and regional policies will be done as part of an empirical research to cross check solutions.

The European Union is a working leading example for regional integration projects. Structures like the African Union plan to create by 2028 an African Monetary Union, as well as hopefully unite at least some of the Common Regional African Markets into an EU like Single Market. Furthermore, both the EU and AU are creating military structures like the European Defence Agency and Common African Defence and Security Policy in order to protect boarders and citizens, addressing vulnerabilities. [2] Key common discussions in between European Union and African Union reference broader partnerships, trade, climate change, aid effectiveness, migration, food security, sustainable fishing and the good governance concept. [3]

Worth mentioning is that both of the regions have paradoxes characterised by co-existing contradictions and conflicting politic and economic situations. In most of the 54 African states there is a joint determination of economic growth and economic poverty. The African continent is home to about 30% of world fossil minerals, some of the countries being among world leaders in extraction, however its young human resource manpower is employed at little capacity. In spite of this potential and huge flows of money, combining local business and Foreign Direct Investment, half of the Africans leave on less than 1.25 dollars a day (in some countries massively more than half). At the other end, President Biya of Cameroon has a salary of more than half a million dollars a year [4] and common MPs in Ghana earn about 5000 euro monthly. [5] Also, the continent numbers 29 billionaires and 83 000 millionaires, displaying big discrepancies in between ordinary Africans and elites. Official studies, investigative journalism and think tank studies blame the situation on corruption, nepotism, mispricing, gaming business in between high tax environments for costs and tax heaves for profits and even illegal activities. All these affairs lead to moral societal hazard and terrible social and societal effects, creating an odd concept of middle class, and countries where even average pay is not enough, leading to huge problems making communities and even countries vulnerable from inside. [7]

Paradoxes happen as well in the European Union. On one hand, the EU is the richest place in the world accordingly to United Nations, IMF and World Bank rankings. On the other hand, in 2014, 16.9% of the EU population, about 85 million people, were reference to live in poverty. [8]The EU 2020(20) Strategy has in plan to take out of poverty 20 million people as of 2020. In his report of 20 October 2016 MEP Alfred Sant deplores that this goal will not be reached, in spite of the fact that Commission's calculations and previsions for 2016 show potential growth rates of 1.6 % for the euro area and 1.8 % for the EU. [9]

IFF – Illicit Financial Flows. Preventing victimisation

The terms itself, Illicit Financial Flows primarily refers to Africa. IFF means that money is actually pumped in and out of the African continent. The name itself shows black money affecting security, business climate, justice and ultimately economy. Official data show that most African countries are far below World Average GDP, and for the past six decades many countries could not surpass 2, 000 dollars GDP per capita per year. [10] In fact, there are only two countries that surpass the 16 000 dollars (Global GDP per Capita): Equatorial Guinea and almost Seychelles, [11] with the mention that the latter is a fiscal paradise for dirty money. [12,13] There is also a third want to be success story: Angola, which rocketed from about 600 American dollars in 2000 to almost 4 000 dollars in 2014. [14]The European Union has its vulnerabilities as well, especially with the new Member States like Romania, Bulgaria and Croatia, where the GDP per capita gets a low as 7 500 USD per capita and certain ethnical groups being very vulnerable and more affected, like the Roma (Romani) communities. [15]

United Nations Economic Commission for Africa calculated that Africa lost in the past 50 years 1 trillion dollars. [16] In 2015, an educated guess reveals that the cost of IFFs was $50 billion, which is more than the total amount of Official Development Assistance (ODA) received by the African countries. Accordingly, developing countries lost an estimated USD 189 billion in tax revenue, while the developing assistance for the same year was 131 USD billions. The situation is due to stay the same and replicate over the coming years, unless serious action is taken. In effect, supposedly developing economies suffer a depressing effect or slowing down of pace of about 5 %, making goals like eradication of poverty and economic growth much harder. Oxfam presented the practicalities of such losses: billions USD lost in tax revenues every year, money that could build enough schools with enough teachers and avoid death of 4 million children due to poor sanitation. [17]

If in the EU white collar crime involves sophisticated techniques, legal loopholes and complicated economic and accounting schemes, in Africa the situation is more brutal. One specific example relate to the Congolese President Laurent-Desire Kabila who "transferred ownership of at least $5 billion of assets from the state-mining sector to private companies under its control... with no compensation or benefit for the State treasury", making CNN to comment that the vast and rich natural resources of Africa does not make ordinary working class Africans wealthy. [18] Another example is Angola which in spite of its recent progress, made its resources available only to a thin layer of elites. Even so and even more, by bad financial reporting practices, 32 billion $ disappeared from accounting books as an IMF audit revelled in 2011. This happened as the Angolan political and economic elites do not place great importance on the accountability side of accounts, transparency and other western democratic values. [19]

For the Western world, *The Economist* reported that because certain practices in City of London and Delaware, US, 20 trillion dollars are missing. [20] Accordingly, the European Commission estimated 1 trillion euro loss in tax evasion in the EU, reducing the Gross National Income (GNI) of Member States. An EU study reveals that financial corporations are making profit at the expense of state budgets. Tax avoidance, aggressive tax planning is not only socially unjust, it is as well undemocratic and anti-democratic. Such activities generate a human impact and sometimes have deeper purposes like further criminal activities involving money laundering, financing terrorist groups, arm trafficking, human trafficking and drugs, eventually affecting states, nations, communities, and ultimately families and individuals. [21] In this respect, the civil society launched the 'New Haven Declaration on Human Rights and Financial Integrity' that explicitly links human rights with the need for financial transparency. The text calls for 'an economic framework that is open, accountable, fair, and beneficial for all". [22] Also, there are more organizations that look world-wide for situations to be reported and make information available throughout internet like business-humanrights.org and www.taxjustice.net. Worth mentioning is these organizations followed the same purpose of LuxLeaks originator Antoine Deltour, who claimed public good as a reason and driving force. [23]

The Stolojan-Kaba report. Thinking and speaking with one voice. Cross-cheeks of regulation

The Stolojan-Kaba report was presented in the European Parliament for the first time for consideration of the draft report on 13 October 2016 and contains the common work of Theodor Stolojan, Member of the European Parliament and Ousmane Kaba, Member of the Guinea National Parliament, as part of the EU-ACP Joint Parliamentary Assembly. The report has a heavy economic dimension aiming at protecting developing countries that may find themselves in the vulnerable positions. Inflows of illicit untaxed funds and outflow of capital constitutes a major problem and puts obstacles in developing appropriate education, health systems, infrastructure, etc. MEP Stolojan and MP Kaba claim IFF happens due to inadequate legislation, lack of political will and some issue to do with the global financial transaction system design, as well as lack of transparency, which fosters social inequalities. Even though IFF happens primarily to the political permissive environment, money laundering, tax evasion and avoidance, bad financial reporting, non-political agents play their role. The report states that there might be a decreasing aid in the future and poverty and vulnerabilities of any nature must be addressed more rapidly.

African and European economic and financial vulnerabilities have a rolling snow ball effect over societies. Better international coordination and calls for more integrated economic and social objectives in the to-come Agenda 2003 for Sustainable development are saluted. A Common Global Standard for the Automatic Exchange of Information on Financial Accounts, Exchange of Information on Erosion of Tax Base and Profit Shifting are though of solutions. Rather interesting is that in spite of the big number of reports and regulations, in a short period of time, a certain amount are non-binding, while some are in between developed countries and developing countries, when in fact deals could have been done first at an alike level for better results: developing countries among themselves and developing countries to follow. As important steps forward, as far as now, one can name UN Model Double Taxation Convention between developed and developing countries, the UN Committee of Experts on International Cooperation in Tax Matter, the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (OECD), the Commission communication of 18 March 2015 on tax transparency to fight tax evasion and avoidance, the High Level Panel on Illicit Financial Flows from Africa, chaired by Thobo Mbeki, African Tax Administration Forum, African national legislation, the Commission communication of 21 April 2010 entitled ‘Tax and Development: Cooperating with Developing Countries on Promoting Good Governance in Tax Matters, BEPS, EU Anti-Money laundering directive, Capital Requirement Directive, etc. [27, 28] As it can be seen, most of the referenced papers and rather communications, meetings, reports, forums, etc. Biding legislation is difficult to be done at international level due to various regional interest and different international framework and the different strengths of different institutions, negotiation power of various official and non-official actors. Some countries are part of some organisation but not of some treaties. Two such examples are Cuba and Sudan, which are part of the ACP, however one is not African and it did not signed Cotonou Agreement at all, while the other one withdrawn. [24] OECD tried as well to address some of the issues, however some EU countries are not part of the OECD, not to mention the developing countries. For now, it looks the situation is still at capacity building and working groups.

Also, low fiscal jurisdiction exist on both sides, the EU and Africa [25] and one cannot accuse another of various practices. Africa would need additionally 650 000 new tax officials to be able to handle the problem, however this would not be enough. Most of the IFFs from Africa have their destination developed countries. Apart from states, big corporations are the direct and "by far the biggest culprits of illicit outflows". Even though goods are shipped over from Africa, transactions and papers are done by subsidiaries in Switzerland, the UK or elsewhere. The transactions themselves are not necessary illicit, but unfair, to some social justice standards and practices. The High Level Panel on Illicit Financial Flows (IFF) report mentions '22.5% of the illicit flows emanating from Nigeria's oil sector end up in Spain, while 11.7% of IFF from Algerian oil ends up in Italy and 23.6% of IFF from Cote d'Ivore's cocoa sector ends up in Germany'. [26]

Accounting. Trick of trade

Some blame accounting, "the language of business" for various economic wrong-doing of investors, managers and political decision makers. Accounting standards are created by a private organisation for public use named IASB, while other organisations like PIOB "was established to ensure that international auditing and assurance, ethics, and education standards for the accountancy profession are set in a transparent manner that reflects the public interest". [29] The accountability side of accounting means that there is a 'public interest' in disclosure and financial stability is encouraged. Nowadays accounting mentality addresses both shareholders and stakeholder as well as the larger society: potential investors, employees, governments, customers, etc. Scholars such as Professor Paddy Irland think that some style of accounting like Fair Value Accounting de-temporalize assets and can bring moral hazard to societies, fostering and multiplying risks and even impairments in between assets and liabilities by diminishing the equity buffer, while Haslam observed a huge difference in between tangible and intangible assets, possibly hiding another bubble in the economy. [30]

Accounting, must be True and Fair, follow the prudence principle, steward resources because accounting is ultimately a control device. Primarily, accounting has to "keep capitalist honest". [31] For this reasons accounting principles must consist of the terms such as public good in the way it was recently defined by the European Commission and as Haslam et al argued "it is necessary to assess whether accounting standards could be detrimental to the economy or to particular stakeholders, such as long-term investors."

A full army of accountants and lawyers, charging huge amount of money, help corporations to register in tax heavens, where their commercial activities was rather limited and money got transferred at convenience. For example, two companies Northern & Shell Group and Portland Investment Limited, even though got a combined turnover of 301 million British pounds and net profits of £5.6 million, taxes paid were of only of 200,000 GDP, an effective rate of about 3 per cent, while the UK government required 30%. One report, *No accounting for tax heaves,* by academics and one British MP claim that “ordinary people pay ever-increasing taxes but get worse public services.” Corporations are obviously good for societies, by providing jobs and even charity [32], however their tax contribution is regarded as not enough. There is nothing illegal in their activities, unless proved elsehow, however while billions are kept away, even in developed countries like the UK, children are lacking some textbooks, medical staff and teachers are paid poorly, hospitals are in need, not to mention far more dramatic situations in African countries. [33]

In conclusion, this paper presented the economic and legal situation of economic distribution around the world. It tried to provide some clarity why certain events happen and further points of improvement. For now, the accounting standards are rather uniform, the global economy reached 78 trillion dollars, where 62 people own as much as half of the planet. [34] Nine out of ten companies from top 200 had been registered in a tax heaven, and currently there still is an estimated of at least 7.6 trillion dollars untaxed. Oxfam calculated that poor countries lose 170 billion in tax revenues, which can address vulnerabilities.

African and European economic and financial vulnerabilities have a rolling snow ball effect over societies. Lack of appropriate funding and corruption affects health, education, social cohesion, labour market access, justice, and wellbeing of individuals, making the vulnerable to pay the price for their own poverty equally in developed places like the EU and in developing countries in Africa.

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