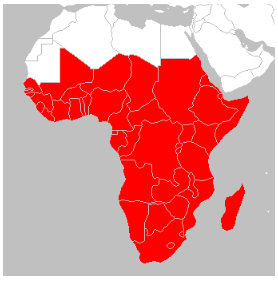
tax justice network for Africa

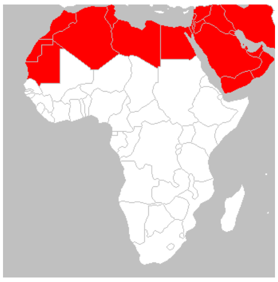
LOOTING AFRICA: SOME FACTS AND FIGURES

Africa's economies are often viewed as being in desperate need of external resources, dependent on inflows of foreign aid. In fact, recent estimates show that Africa is a net *creditor* to the rest of the world, with around 30% of sub-Saharan Africa's GDP being moved offshore. Tax havens and capital flight mean that Africa's wealth is flowing to bank accounts in Monaco, Switzerland, Jersey and London, with the collusion of some of the world's wealthiest countries and companies.

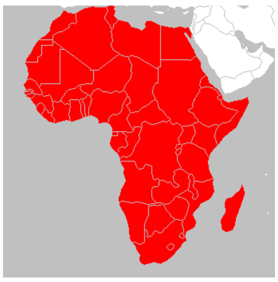
Capital flight and Africa's debt



Capital flight from Sub-Saharan Africa, estimated at $274 billion (including interest earnings), was equivalent to 145 per cent of the total debt owed by these countries in the mid-1990s. Thus despite incurring massive debt in the past, Sub-Saharan Africa is a net creditor to the rest of the world in the sense that external assets (the stock of flight capital), exceed external liabilities (external debt).[i]



The Middle East and North African region is reckoned to have incurred capital flight of US$526 billion, largely in the form of income from oil rents being used to finance the external accumulation of private assets.[ii]



Although continent-wide estimates are scarce, the African Union believes that US$148 billion leaves the continent *every year* because of corruption.[iii] Most analysts agree that the outflows of illicit money originating in Africa tend to be permanent, indicating that between 80 – 90 per cent of such flows remain outside the Continent.[iv]

Roughly 80% of Africa's external borrowings has been captured by ruling elites and channelled offshore in the form of capital flight. As a result, external debt contract by African governments and private firms with government guarantees have been transformed into private assets held in offshore accounts and companies.[v]

The tax gap - undercutting development

Tax evasion, tax avoidance and other forms of corruption are estimated to reduce tax revenues in some countries by as much as 50 per cent, dramatically reducing the funds available for public spending.[vi]

Globally, the Tax Justice Network estimates that **$11.5 trillion** has been siphoned offshore by wealthy individuals alone (i.e. not including the massive offshore wealth of corporations).[vii] If the income from this offshore wealth was taxed at the moderate rate of 30%, the resulting revenue - around $255 billion annually - could finance the United Nations Millennium Project in its entirety.

Put simply, making the rich pay their due taxes could immediately fund measures to halve world poverty.

Research by the Ghanaian Ministry of Justice has revealed that 12 sampled companies owed nearly Cide 12 billion in unpaid taxes between them. Grossing up the results to include all companies suggests that government revenues from corporate profits could be boosted by approximately 50 per cent by tackling organised tax avoidance in Ghana.[xi]

One third of Sudan's potential tax yield is lost to tax evasion.[viii] Tackling this problem would go a long way towards overcoming the government's budget deficit (estimated at $429 million in 2005).

In South Africa, up to R30 billion (45% of government revenue) of due taxes remain uncollected, according to the South African Revenue Service, largely due to evasion by rich individuals and avoidance by companies.[ix] Recent calculations suggest that from 1980 to 2000 an average of 6.6% of GDP has left South Africa each year as capital flight.

This represents a major rupture of the country's resources, averaging 34 per cent of gross fixed capital formation (GFCF) from 1980-2000 (and up to 58 per cent of GFCF in the second half of the 1990s).[x]

The offshore infrastructure of African corruption

It is estimated that Africa's political elites hold somewhere between US$700 to $800 billion in offshore accounts outside the Continent.[xii] Critics of African corruption often ignore the fact that this continent-wide theft is enabled by a 'pinstripe infrastructure' of (mainly Western) bankers, lawyers and accountants, and a network of tax havens in wealthy jurisdictions.

Nigeria: According to *The Economist*, *"When Sani Abacha was dictator of Nigeria at the end of the 1990s, the Central Bank had a standing order instruction to transfer US$15 million or so to his Swiss bank account every day."* Over 100 banks around the world were involved in handling Abacha's loot, including **Citigroup**, **HSBC**, **BNP Paribas, Credit Suisse, Standard Chartered** and **Deutsche Morgan Grenfell.**[xiii]

Zaire: Mobutu Sese Seko of Zaire is widely regarded as a pioneer of the African kleptocracy. During the period of his presidency (1965-1997) millions of diamonds were exported via the state owned company **Gecamines** at invoice prices as low as $8.55 per carat (way below market price). The difference between the invoice price and the price achieved on the true value of the stones was deposited in Mobutu's offshore accounts. Mobutu embezzled US$5 billion from the people of Zaire. A report prepared by the UN after Mobutu's downfall implicated 54 government ministers and **85 multinational companies based in Europe, the British Channel Islands, Canada, US, the Caribbean, Asia and Africa** for violations relating to the illegal exploitation of Congolese resources.[xiv]

Corporate profit laundering

The largest means of shifting capital out of Africa is reckoned to be transfer mispricing. Multinational companies avoid taxes by mispricing trade transactions between different jurisdictions and subsidiaries, allowing their profits to be moved offshore without being taxed. Tax administrations of many African countries lack sufficient staff to be able to devote time to tackling the complex transfer pricing strategies of multinationals. The result is that no African country has raised a successful challenge to a transfer pricing arrangement: yet the practice is on the increase.

- **Capital flight due to transfer mispricing exceeds US$10 billion a year.**[xv] **Fake transactions are estimated to account for an additional $150-200 billion a year.**[xvi] 60 per cent of trade transactions into or out of Africa are estimated to be mispriced, by an average of 11 per cent.

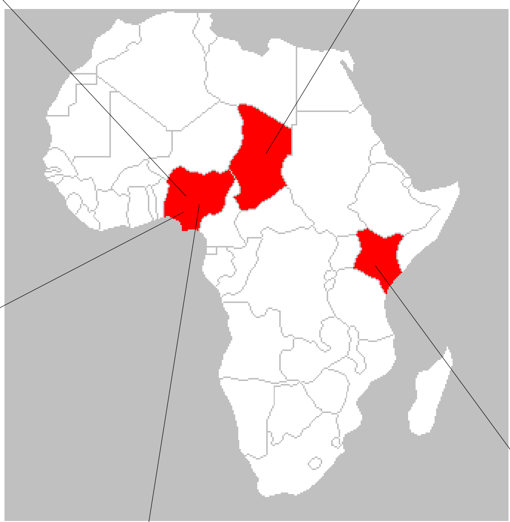
- **The incidence of transfer mis-pricing to achieve capital flight out of Africa has accelerated significantly.** A study of import and export transactions between Africa and the United States found that between 1996 and 2005 net capital outflows to the US grew from $1.9 billion to $4.9 billion (+257%) through the use of low-priced exports and high-priced imports.[xvii]

Corporate tax dodging

Major multinational corporations use their international structure to avoid paying taxes on their African operations. In some cases, such activities also involve fraud and money laundering. The following are a selection of recent cases. The toll of these cases is not simply corruption, but the impoverishment of countries whose governments' revenues are eroded by fraud and tax evasion.

Nigeria: Under investigation by the **Nigerian Economic and Financial Crime Commission**, the US oil services company **Halliburton** admitted that its officials had paid bribes amounting to US$2.4 million to tax officials in return for favourable tax treatment worth more than $14 million. Halliburton is also under investigation for making illegal payments amounting to around $180 million to offshore accounts belonging to Sani Abacha in return for contracts to build a natural gas plant in Nigeria.[xxii]

Chad: In August 2006 US based oil major **Chevron** was forced to concede that it and consortium partner **Petronas** jointly owed the government of Chad US$450 million in unpaid back taxes.[xviii] Chevron was given 24 hours to pay or face eviction from the country. In early September, ***Reuters*** reported that Chevron had agreed to pay the taxes owed.[xix]



Nigeria: Chevron has also been investigated for tax evasion in Nigeria. In August 2006, the **Nigerian House of Representatives' Committee on Petroleum Resources** ordered **Chevron Nigeria Limited** to pay $492 million in settlement for additional taxes arising from tax evasion. Chevron and its associates are under investigation for corruption, fraud and tax evasion amounting to $10.8 billion.[xx]

Kenya: Charterhouse Bank was closed by the **Central Bank of Kenya** in 2006 after it was revealed that Charterhouse had deliberately flouted know-your-client rules and assisted its client, **Nakumatt** (a supermarket chain), to evade tax and launder money. The loss of revenues to the Kenyan government is estimated at US$240 million.[xxiii]

Nigeria: In 2006 **Shell Petroleum Development Corporation**, after extensive denial and litigation, including a failed appeal to the **Federal Inland Revenue Commissioner** and the **Court of Appeal**, was forced to settle a disputed tax liability amounting to US$17.8 million owed to the **Federal Inland Revenue of Nigeria**.[xxi]

[i] Boyce, J.K. and Ndikumana, L. (2005) 'Africa's Debt: Who Owes Whom?' In Epstein, G.A. *Capital Flight and Capital Controls in Developing Countries,* (Edward Elgar, Cheltenham UK)

[ii] Almounsor, A (2005) *A Development Comparative Approach to Capital Flight: the Case of the Middle East and North Africa, 1970-2002*

[iii] See UK Africa All Party Parliamentary Group (2006), *The Other Side of the Coin: the UK and Corruption in Africa* (p14)

[iv] Raymond Baker from the Center for International Policy, Washington, quoted from oral evidence given to the UK Africa All Party Parliamentary Group in January 2006.

[v] Ndikumana, L and Boyce, J.K. (2003) 'Public Debts and Private Assets: explaining capital flight from sub-Saharan African countries', *World Development*, volume 31, no.1

[vi] Interview with David Kaufman, Global Governance Director, World Bank, quoted in UK Africa All Party Parliamentary Group (2006) *The Other Side of the Coin: the UK and Corruption in Africa*, p12

[vii] Tax Justice Network (2005), *Tax Us If You Can,* pp.34-37, www.taxjustice.net/cms/upload/pdf/tuiyc_-_eng_-_web_file.pdf

[viii] Suliman, K.M. (2005) 'The Impact of Trade Liberalization on Revenue Mobilization and Stability in Sudan', in *African Development Review*, volume 17, no.3

[ix] http://www.moneyweb.co.za/economy/tax/153684.htm

[x] Mohamed, S. and Finnoff, K. (2005) *Capital Flight from South Africa 1980-2000*

[xi] 'Who pays taxes in Ghana', *Daily Graphic*, 5 December 2006, and Ghanaian Ministry of Finance

[xii] David Murray from Transparency International UK, quoted from oral evidence given to the UK Africa All Party Parliamentary Group in December 2005.

[xiii] Baker, R (2005) *Capitalism's Achilles Heel* (John Wiley & Son, UK)

[xiv] UN Security Council (2001) *Report of the Panel of Experts on the Illegal Explooitation of Natural Resources and Other Forms of Wealth of the Democratic Republic of the Congo* S/2001/357 (April 12)

[xv] Baker, R, *op cit*

[xvi] Tax Justice Network written submission to the UK Africa All Party Parliamentary Group, September 2005.

[xvii] Pak, S.J. (2006) *Estimates of Capital Movements from African countries to the United States through trade mispricing* (paper given at tax research workshop at Essex University, England on 7th July 2006)

[xviii] http://www.mercurynews.com/mld/mercurynews/news/breaking_news/15392106.htm

[xix] http://today.reuters.com/news/articleinvesting.aspx?view=CN&storyID=2006-09-08T145852Z_01_L08839926_RTRIDST_0_ENERGY-CHAD-CHEVRON-UPDATE-1.XML&rpc=66&type=qcna

[xx] http://www.tribune.com.ng/09082006/news/news6.html

[xxi] Bakre, O.M. (2006) 'The Spoils of Oil: How multinationals and their professional advisers drain Nigeria of much needed resources', *Tax Justice Focus*, vol 2, no.3, pp4-5

[xxii] Bakre, O.M., op cit

[xxiii] Tom Mogusu, 'Charterhouse distances itself from money-laundering claim', *The Standard (Kenya)*, 24 June 2006