Money laundering and tax evasion : Do international measures have a significant impact in sub-Saharan Africa?

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Government to step up efforts against
money laundering and terrorist financing?

Source: © Stano Olonde, *The New Times (Rwanda), 29 November 2017*

Abstract: Sub-Saharan Africa (SSA) accounts for a third of the countries on the Financial Action Task Force (FATF) grey list. In the Money Laundering and Terrorist Financing (ML/TF) Ranking and Risk Assessment Tool, the region performed poorly in terms of resilience to ML/TF, with more than 60% of countries falling into the high-risk category. Although countries on the grey list are not subject to sanctions, inclusion on the list has a significant impact on their economies. This includes a significant reduction in capital inflows and foreign direct investment. The four main sources of illicit financial flows from SSA, South Africa, the Democratic Republic of Congo, Ethiopia and Nigeria, accounted for more than 50% of total illicit financial flows. While SSA received nearly $2 trillion in foreign direct investment (FDI) and official development assistance (ODA) between 1980 and 2018, it issued over $1 trillion in illicit financial flows. These illicitly acquired funds and diverted from the region continue to pose a development challenge. Illicit financial flows increased overall, but not concerning trade. In the 38 years from 1980 to 2018, they increased significantly in the 2000s, in parallel with the growth of African trade. Emerging and developing countries in Asia and the Middle East have become key targets. Previous initiatives to curb money laundering and improve the exchange of tax information between countries have largely failed, including the three most important: the Financial Action Task Force (founded in 1998), the Global Forum on Transparency and Exchange of Information for Tax Purposes (founded in 2009) and the Inclusive Framework on Base Erosion and Profit Shifting (founded in 2016). First, African countries lack the resources and capacity to address illicit financial flows. Second, many advanced economies are not sufficiently engaged in these initiatives. However, the repatriation of illegal funds is an important tool for strengthening the resource base of African countries. In 2020, for example, the United States and the self-governing British Crown Dependency of Jersey, one of the world's most notorious tax and money laundering havens, reached an agreement with Nigeria to repatriate more than $300 million stolen by Nigeria's former military dictator General Sani Abacha.

Keywords: Money laundering, Money Laundering Control Act, Embezzlement, Corruption, tax evasion, Terrorism financing, Informal economy, Illegal drug trade, Human trafficking, Blood diamonds, Good governance, Sub-Saharan Africa, South Africa, Kenya, DR Congo, Ethiopia, Mozambique, Uganda, Rwanda, Nigeria, Ghana, Mali, Cameroon

JEL-Code: D23, D25, D53, D63, D74, E21, E26, E42, F35, F38, F53, F54, G28, H26, K42, N27, N47, O17, Z13

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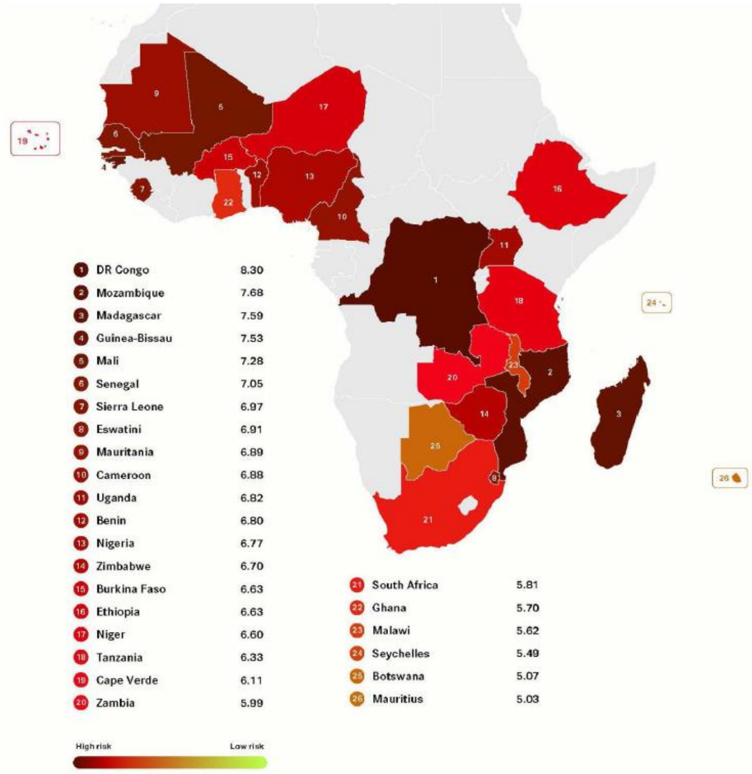
1. Introduction

Cartoon 2: *Kickbacks, one of Africa's most common forms of corruption*

Source: © Mdogo, *Pan African Visions*, June 2015

Organised criminal activity is endemic in many parts of the world. Whether in the form of drug trafficking, fraudulent activities or scams, no market is immune from the threat. Illicit funds find their way into the financial system wherever there is organised criminal activity, especially in Africa. Criminals use a variety of legitimate business activities to conceal the source and destination of illicit funds. Understanding how money laundering works and common tactics can help prevent legitimate businesses from becoming vehicles for laundering criminal proceeds is therefore crucial (West, 2021).

Graph 1: *Money laundering in Sub-Saharan Africa in the Basel AML Index*

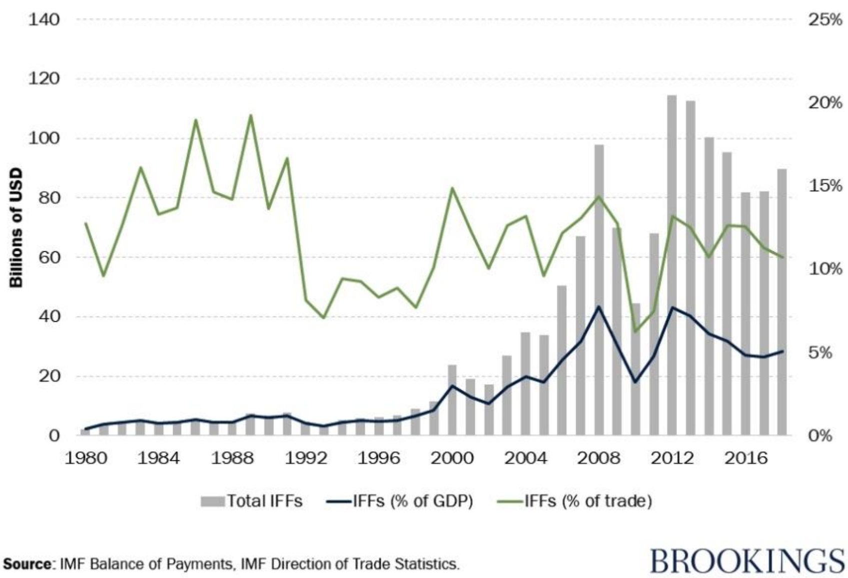


Source: © Boguslavska, 2022

Money laundering and tax evasion can undermine the stability of a country's economy and financial system. It can facilitate corruption by allowing perpetrators to hide the proceeds of corruption, including at the transnational level. Most tax revenues are negatively affected by corruption, which undermines compliance. For example, taxpayers can avoid paying taxes by paying bribes or other illegal compensation. Or, companies prefer to join the informal economy if tax exemptions are granted due to bribes. In countries with weak institutions, governments may also use investment spending as a vehicle for rent-seeking, reducing the efficiency of public investment (Newiak & Segura-Ubiergo & Wane, 2022).

Illicit financial flows are not new to Africa. While sub-Saharan Africa (SSA) received nearly US$2 trillion in foreign direct investment (FDI) and official development assistance (ODA) between 1980 and 2018, it emitted more than US$1 trillion in illicit financial flows. These flows, illegally acquired and largely channelled out of the continent, continue to pose a development challenge to the region, as they drain domestic resources crucial for the continent's development. Illicit financial flows most often result from trade misinvoicing, which is one of the main ways of illegally transferring money to another country. It occurs when exporters or importers deliberately misreport the value, quantity or nature of goods and services to evade taxes, benefit from tax incentives, avoid capital controls or launder money (Madden, 2020). Transfer pricing, i.e. the underpricing of outbound transfers from the source of profits, e.g. in African tax jurisdictions, to tax heavens, and the overpricing of inbound transfers of goods and services, constitute a severe case of profit shifting and tax arbitrage (Ray, 2023).

Graph 2: Evolution of aggregate illicit financial flows out of Africa



Source: © Madden, 2020

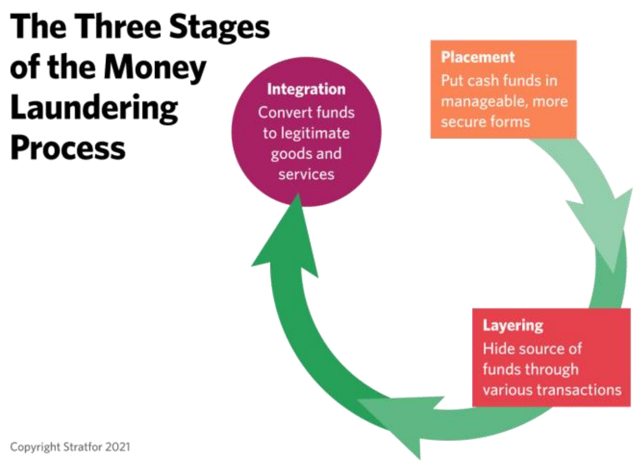
According to the largest and most detailed survey of citizens' views on bribery and other forms of corruption in Africa, conducted by Transparency International in partnership with Afrobarometer between September 2016 and September 2018, more than 1 in 4 people who accessed public services, such as health care and education, paid a bribe in the previous year. This is equivalent to approximately 130 million people (International Editor, 2019).

Sub-Saharan Africa now accounts for a third of countries worldwide on the so-called 'grey list' of the Financial Action Task Force (FATF) (see graph 1). In October 2022, the DR

Congo, Mozambique and Tanzania were added to the list. According to the Basel Institute of Governance's AML Index, a ranking and risk assessment tool for money laundering and terrorist financing (ML/TF), sub-Saharan Africa performed poorly in terms of ML/TF resilience in 2022. More than 60% of countries fell into the high-risk category. Although grey-listed countries are not subject to sanctions, being on the list has serious consequences for their economies. These include a significant reduction in capital inflows and foreign direct investment (Boguslavska, 2022).

Illicit financial flows from Africa have been increasing overall, but not in terms of share (% of trade). Over the 38-year time span from 1980-2018, Africa exported an aggregate of US$1.3 trillion of illicit financial flows. Illicit financial flows saw a notable increase in the 2000s in correspondence to increases in trade from Africa. While the high aggregate amount of illicit financial flows may appear alarming, it is important to note that the relative share of illicit financial flows seems to be steady or declining (Graph 2). In general, larger economies have higher levels of illicit financial flows than small economies. For example, the four largest African sources of illicit financial flows, South Africa, DR Congo, Ethiopia and Nigeria, account for more than 50 % of total illicit financial flows from SSA (Madden, 2020). Higher taxes and inflation lead to higher illicit financial outflows. Emerging and developing economies in Asia and the Middle East have become major destinations for these illicit flows from Africa in recent years. The three initiatives to curb the outflow, the Financial Action Task Force (set up in 1998), the Global Forum on Transparency and Exchange of Information for Tax Purposes (2009) and the OECD comprehensive framework on base erosion and profit shifting (2016), have so far had little impact. Many SSA countries lack the resources and capacity to tackle illicit financial flows. In addition, the reluctance of many advanced economies to fully commit to these initiatives has prevented full transparency and contributed to the continuation of harmful tax practices, including a lack of cooperation in the recovery of funds. Under these constraints, the repatriation of illicit funds appears to be the easiest way to consolidate the domestic resource base of African countries. Thus, in 2022, the U.S. and British Crown Dependency of Jersey, one of the world's most notorious tax and money laundering havens, reached an agreement with Nigeria to repatriate more than US$300 million, stolen by Nigeria's former military dictator, General Sani Abacha. However, there seems to be a lack of cooperation from developed economies when it comes to recovering funds (Madden, 2020).

Graph 3: *three stages of money laundering process*



Source: © West, RANE, Stratfor, 2021

Offenders use a variety of legitimate business activities to conceal the source and destination of illicit funds. Both legitimate and illegitimate business activities generate revenue distributed to employees, organizational leaders, investors, and outside vendors that provide essential services. For criminal organizations, the process of collecting and distributing revenue is fraught with legal challenges. In most countries, drug traffickers cannot simply open a bank account under their own name, deposit proceeds from cocaine sales, and redistribute the funds to various leaders, employees and vendors. The transaction records left behind would allow investigators to identify and arrest the entire criminal network. Instead, they have to rely on clouding to manage their financial resources and move them around. Also, governments can engage in money laundering. Examples reach from North Korea, seeking to repatriate funds from financially motivated cyberattacks to Iran, trying to evade U.S.-led sanctions on its economy (West, 2021).

Cartoon 3: *One in four people in Africa pay bribes to access services*

Source: © *International Editor, 11 July 2019*

Money laundering can take many forms. The three most important are: Firstly, 'placement', i.e. placing illicit assets (typically cash) in a financial network where the funds can be more easily stored and transferred, or seeking to place their proceeds in more manageable and secure bank accounts, financial instruments or other assets such as real estate, precious metals or works of art. Second, 'layering', which is the process of disguising the source of the funds and the destination where they end up, or at least creating enough confusion to avoid legal liability. Third, 'integration', which is the final step in converting illicit funds into legitimate goods and services. Once the origin of the funds has been sufficiently disguised, the recipient can use them to buy property or luxury items or invest them in financial products that are indistinguishable from goods and services purchased with legally obtained funds (West, 2021). To achieve these steps, money laundering schemes rely on a variety of tactics. These include exchanging illegal currency on the black market, breaking up the total amount transferred into smaller amounts, e.g. below the US Suspicious Activity Report threshold of $10,000, using front companies such as bars, restaurants, etc. for fraudulent invoices, or using shell companies for offshore accounts, as revealed by the Panama Papers (West, 2021).

Cash-based money laundering is the primary means by which criminal organisations and terrorist financiers launder money, not only in SSA but globally. The proceeds of crime are often generated in cash, even when other methods such as mobile banking are used (Cusack, 2020). A long-standing notorious major player in money laundering and embezzlement of public funds in francophone SSA is the informal network of Françafrique because of non-compliance with constitutional norms (M'Paka, 2017; Kohnert, 2022a).

A core problem is the linkage of terrorism with transnational crime, money laundering and trafficking of all sorts, notably drugs, human beings (migrants, child and sex labourers) and firearms. Money laundering, illegal money transfers and trafficking grew alarmingly in the past years both for the Sahel and coastal West African states. West Africa is a strategic hub for smugglers shipping drugs from Latin America to Europe and the Middle East. Therefore, the joint combat of money laundering and financing of violent extremism is a counterinsurgency measure of utmost importance. Although the figures on illicit financial flows (IFFs) are difficult to evaluate and therefore heavily disputed, experts agree that IFFs, including commercial practices that contribute to them, such as trade misinvoicing, transfer pricing, tax evasion and avoidance, exceed the amount of ODA provided to Africa (Kohnert, 2022).

Cartoon 4: '*State terrorism is as dangerous and contagious as Jihadism*'

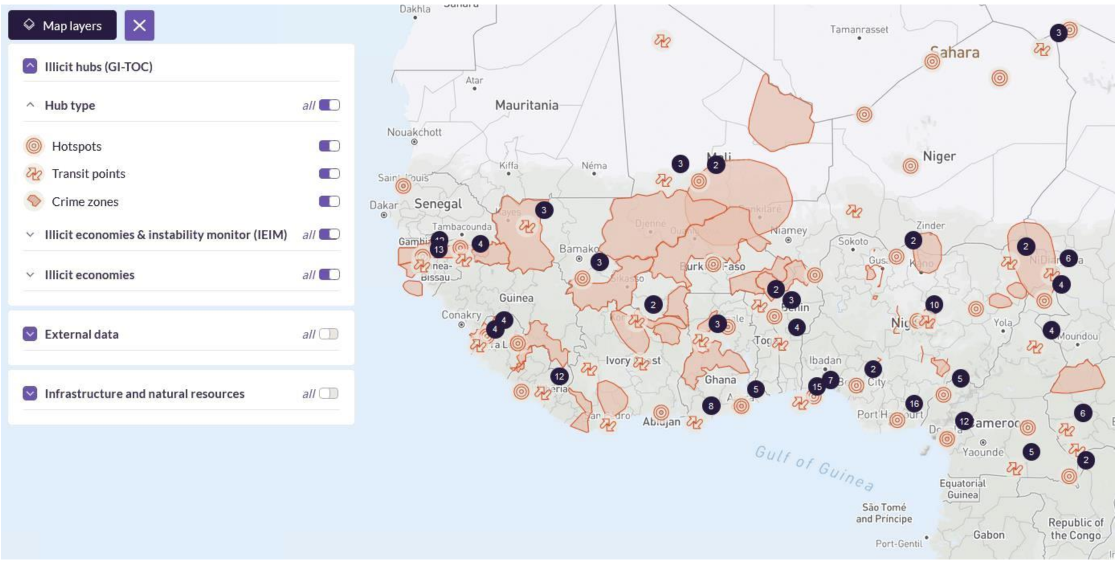
Source: *L'Alternative*, iStock, 11 August 2022 [2]

The legal and illicit sectors are increasingly interwoven in West Africa, which is largely due to the size of the informal economy, estimated to constitute as much as 60 % -70 % of total economic activity in the region. It is also a product of the elite protection networks that profit from illicit financial flows (IFF) using local powerbrokers as well as criminal and terrorist groups. Financial transactions are often conducted in cash or through informal systems of money transfer because the formal banking system is out of reach for the majority of people.

Togo became an outstanding example as a major hub of drug trafficking and money laundering in West Africa. This was related, among other things, to profits from re-exports of used cars from Western Europe to neighbouring markets, mostly smuggling to Nigeria. The high level of IFF strongly, correlated with money laundering, attracted the concern of the international donor community. These IFF came mainly from three sources, i.e. commercial tax evasion, trafficking of bills in international trade and abusive transfer prices, criminal activities such as drug dealing, illegal transactions on weapons, smuggling, active corruption and the conclusion of corrupt civil servants. In comparison, IFF represented almost 500 % of the Togo government's tax revenues, which ranked Togo second in the world (Kohnert, 2022).

[2] Illustration : *iStock* : « Confiscation du Pouvoir par la Force, Un Terrorisme d'Etat aussi Dangereux et Contagieux Que le Djihadisme ». *L'Alternative* - www.27avril.com , 11 August 2022. © (all rights reserved).

Graph 4: West Africa's illicit hubs:
hotspots, transition points and crime zones, 2022



Source: [Global Initiative](), 2022

Research into the mechanisms of terrorist financing in [Central]() and [West Africa](), and in particular the central role of illicit financial flows, has shown that one of the most effective ways of weakening terrorist groups is to develop and implement appropriate policies to control financial flows in Africa and around the world. One source of illicit funds derived from corruption is the involvement of politicians and senior authorities in organised crime, such as the trafficking of drugs and other illicit goods. Also, the deliberate or abusive use of [NGO]()s, nonprofit organisations ([NPO]()s) and [charitable donations]() as front companies to finance terrorism in Central and West Africa is also used for money laundering. In actual fact, the activities of these organisations generally escape administrative control of government financial institutions, making them particularly vulnerable to being used by terrorist groups to raise and transfer funds, including (enforced) contributions (collections) from members of a terrorist group and financing by foreign supporters passing through an NPO and ambushes, looting and hostage-taking (Ngalé, 2019).

In short, by connecting political power and a criminalized economy, [Sub-Saharan Africa]() is constructing a distinctive path. It puts historical trading practices, indigenous religious affiliations, and lineage dynamics together in a new way (Botte, 2002).

2. Money laundering and countermeasures in SSA: case studies

Cartoon 5: *No funding available for police operations ?*

Source: © Basati, *Pan African Visions*, TI, 2015

2.1 Mozambique

Already with the advent of Frelimo rule in Mozambique in the mid-1970s, capital flight by the former Portuguese settler community began, facilitated by the banks through direct transfers and payments for fictitious goods. It was estimated that 90 % of Portuguese left the country within five years of independence. The trend does not appear to have abated. Part of the reason for this is that the factors driving the trend have remained virtually intact. Some sectors seem to attract foreign money more than others (Goredema, 2005),

Meanwhile, even the World Bank is questioning its 'success' in Mozambique, because the country's 'remarkable growth' has been achieved with high levels of income and wealth for a few oligarchs, accompanied by large-scale corruption, growing inequality and poverty for the masses. Under the IMF strategy, the government was forced to create incentives that led to asset stripping and privatisation rather than wealth creation (Hanlon, 2022). The shock therapy was designed to get the communist elite, who had power over land, resources and contracts, to take control of these assets and then make deals with the West to exploit them. The power elite became, in effect, rentier- and comprador capitalists. This quickly attracted substantial foreign currency deposits, including from Russian oligarchs, which did not seem justified by the market, suggesting money laundering. Donor support seemed to grow in tandem with criminalisation. The IMF and World Bank rewarded ‘good performance’ and showed the oligarchs that the international community apparently accepted serious theft and murder as part of the new free market (Hanlon, 2022). The first new private bank, Banco Internacional de Moçambique (BIM), opened in 1994, and the former state banks, BPD and BCM, were eventually privatised. All three banks became embroiled in scandals involving new oligarchs and foreign partners. In each case, a person who tried to investigate the scandal was murdered. There has been no prosecution for the mismanagement of the banks, for illegal lending, no further investigation into money laundering, or who ordered the killing of the whistle-blowers (Hanlon, 2022). On the other hand, the minimum wage was cut from US$30 per month to US$15 between 1990 and 1995. According to UNDP and UNICEF, two-thirds of Mozambican civil servants were below the absolute poverty line and could not buy enough food (Hanlon, 2022).

Money laundering also appears to have fuelled the Islamist insurgency in Cabo Delgado province since 2018. The main insurgent group is Ansar al-Sunna, an indigenous extremist group with weak international links, which claimed its first attack against Mozambican security forces in June 2019. Bandits have also taken advantage of the insurgency to carry out raids. Available evidence suggests that the insurgency is directly funded by the country's deeply entrenched illicit economy, including informal channels for illicit financial flows, such as *hawala* networks, which create grey areas through which insurgents can send and receive money (Lucey & Pate, 2021).

2.2 Nigeria

Large-scale corruption, tax evasion and embezzlement have been a problem in Nigeria since independence in 1960. The ongoing controversy over the terms of Nigeria's federalism and the quest for independence by state governors, who show little inclination to share resources with their fellows, is accompanied by growing religious confrontation, including the introduction of Sharia law in the 12 northern emirates in 1999, and weakening state control, as well as disagreements over development ethics and the secular nature of the state (Bach, 2006).

Threats of international sanctions by the Financial Action Task Force (FATF), set up in 1989 at the initiative of the G7 to develop policies to combat money laundering and terrorist financing, have so far had little effect. Nigeria has been on the FATF blacklist since 2001 and still is on the current FATF greylist (on rank 12, 2024, beside Mozambique and the Philippines). The Economic and Financial Crimes Commission (EFCC), set up in 2003 in the capital, Abuja, to combat corruption, 419 fraud and money laundering, has offered no hope of improvement. Once the EFCC was established, its broad powers proved contested due to their instrumentalization at the expense of the adversaries of the presidency in a certain number of cases (Bach, 2006). Nigeria remains one of the world's most corrupt states, ranking at the bottom of the world's countries (145 out of 180; score: 25/100) in 2023 according to Transparency International's corruption perception index. Within the 36 states, any control over the management of funds available to governors and public officials remains largely illusory due to the immunity granted to governors by the 1999 constitution (Bach, 2006).

Although Nigeria already has robust anti-money laundering and counter-terrorist financing laws, the problem lies in their effective implementation. The Central Bank of Nigeria (CBN) and the EFCC have important roles to play in this regard (Eze, 2024). Again, the role of the Nigerian Financial Intelligence Unit (NFIU) is critical to successfully disrupting the flow of illicit funds to both criminal and terrorist groups in the country. Nigeria needs to expand and strengthen its financial intelligence unit. It is the gateway for sharing financial intelligence locally and internationally. It analyses the inflow and outflow of financial transactions from Currency Transaction Reports, Cross-Border Currency or Monetary Instrument Reports, Foreign Bank Account Reports and Suspicious Activity Reports. If any of the transactions in these reports meet a specified suspicious threshold, they must be flagged and the appropriate law enforcement agency notified (Eze, 2024).

Various Nigerian Presidents tried in vain to break with the culture of impunity that usually surrounds the misappropriation of funds in Nigeria. Thus, the Nigerian government was the first to sign the Extractive Industries Transparency Initiative (EITI), founded in 2003 to introduce greater transparency into resource management oil companies. Mallam Nuhu Ribadu, the chairman of the EFCC, estimated in June 2005 the sums wasted or embezzled between Nigeria's independence and the return from military to civilian rule in 1999 at

£220bn (Bach, 2006). Nigeria's military dictator Sani Abacha (1993-1998), for example, ranked fourth among the most corrupt dictators of the twentieth century, allegedly embezzling US$2-5 bn, according to Forbes list of the World's All-Time Most Corrupt Leaders, just behind Zaire's Mobutu Sese Seko.

Another startling money laundering case involved the governor of Plateau State, Joshua Dariye. Arrested in Britain for money laundering, he could not be prosecuted in Nigeria, where he remained in office. He fled Britain after being charged and was impeached and removed from office in Bayelsa State in December 2005 (Bach, 2006). His trial resumed in 2016 after a delay of about nine years. On 12 June 2018, the Federal Capital Territory High Court sentenced Dariye to 14 years imprisonment for criminal breach of trust and misappropriation of funds (1.6 billion naira; 978.004 €) while he was governor of Plateau State. On 14 April 2018, the Federal Government of Nigeria granted Dariye a presidential pardon. The action has been criticised by civil society organisations and the general public (Akintade, 2022).

In 2021, Nigerian influencer Ramon Abbas, also known as Hushpuppi, pleaded guilty to money laundering in a US court. He was known for posting photos of his lavish lifestyle on Instagram and was considered one of the most high-profile money launderers in the world. In another case in 2017, a man named Alade Atoyebi and one other person were arraigned before the trial Court on a 54-count charge wherein they were accused of the offence of money laundering (Eze, 2024).

Nigeria was also notorious for internet-based cybercrime such as the 419 advance-fee scam, which increased over the years during the COVID-19 pandemic. Cybercriminal groups proved capable of setting up sophisticated schemes. In August 2019, US federal investigators indicted 80 members of a Nigeria-based cybercriminal group that laundered at least US$6 million in illicit funds. Two US-based members of the group set up dozens of front companies with associated bank accounts and business registrations, often imitating the names of legitimate businesses to deceive victims. The group layered the illicit funds by transferring them to illicit money changers who arranged payments in local currency to the Nigeria-based organisers. The perpetrators are believed to remain at large in Nigeria, free to continue their operations and recruit further money laundering associates abroad. In March 2020, US federal investigators charged and arrested 24 individuals for carrying out similar online scams that earned the group upward of US$30 million by compromising online accounts and convincing individual and commercial victims to transfer up to hundreds of thousands of dollars at a time. However, the group used less sophisticated money laundering processes, making it easier for investigators to shut down the entire criminal operation rather than just the money laundering aspect (Rasfan, 2021).

2.3 Ghana

The threat of terror financing in Ghana is generally moderate. Nevertheless, the country recently experienced a few cases of nationals joining the Islamic State (ISIS) as foreign terrorist fighters and Ghana's proximity to terrorism-prone countries, such as Nigeria, Côte d'Ivoire, Mali, Niger and Chad potentially increases the vulnerability of Ghana to the risk of terrorism and terrorist financing. Ghana has developed a national counter-terrorism strategy, however, the strategy is not directly linked to terror financing (GIABA, 2018). In general, financial intelligence and other relevant information are available and used by Law enforcement agencies for financial investigation, including asset tracing in relation to money laundering. However, Ghana should significantly increase the use of financial intelligence to identify ML and TF cases, in accordance with its risk profile and in particular, its TF risk (GIABA, 2018).

Cryptocurrencies such as Bitcoin help anonymize financial assets and make them easily transferable worldwide. Money laundering operations are most successful when they link several techniques together, so adding new technologies into the mix provides more tools to obfuscate the origin and destination of illicit funds (Rasfan, 2021). In 2021 for example, six members of a Ghanaian cybercriminal group were accused in the US of laundering and transferring US$55 million in illicit funds they stole through business email compromise and fraudulent applications, e.g. for COVID-19 financial relief, to organizers in Ghana from 2013-2020. The suspects also established at least nine import/export front companies that layered the funds through trade-based money laundering. The suspects used the illicit funds to purchase items such as vehicles or food products, which they then exported to Ghana via the import/export companies they had established. Once in Ghana, local co-conspirators sold the products on the local market and directed the proceeds to the criminal organizers based there for integration. While police were able to arrest the six suspects based in the United States, the criminal organizers in Ghana presumably remain at large (Rasfan, 2021).

2.4 DR Congo

Since the 2010s, the terrorist group Hezbollah has raised millions of dollars internationally to fund its activities in SSA. In addition to the well-known West African funding rings, a major hub for the terrorist group's fundraising network has emerged in the Democratic Republic of Congo (DRC). This included ties to local dictatorships, involvement in the blood diamond trade, trade-based money laundering, use of financial institutions, human trafficking and counterfeiting., Hezbollah's fundraising in the DRC is as sophisticated, if not more so, than in West African countries (Levy, 2013).

Sub-Saharan Africa offers Hezbollah lucrative fundraising opportunities for many reasons. First, African countries have vast natural and energy resources, ranging from gold, blood diamonds, copper, uranium and oil. Second, the absence of the rule of law and deep democratic deficits in most countries allow malicious actors to evade state control and repression. Third, SSA as a whole has development potential and an urgent need for foreign direct investment. As a result, many African countries have enacted laws to facilitate the flow of money into and out of their territory (Levy, 2013).

Hezbollah-affiliated perpetrators targeted in Latin America moved first to West Africa to resume their activities. However, under the Kabila regime (1997-2001), the DR Congo became increasingly targeted because of the country's unique situation. Vast natural resources, such as coltan, diamonds, copper, gold and uranium, are found throughout the country in regions where government control is weak or non-existent. Lawlessness and a chaotic environment loom large over the country, inviting extremist organizations and their operatives to easily blend in with the diasporas of their respective communities (Disengomoka, 2004). Under these conditions, Hezbollah was able to use all its fundraising and money laundering techniques, whether relying on donations (voluntary or forced), working with local governments, smuggling blood diamonds, engaging in terror-based money laundering in cooperation with banking institutions, or engaging in other illicit enterprises. Kabila's authoritarian regime appeared to tolerate Hezbollah's presence as long as senior officials benefited. As international efforts began to thwart Hezbollah's fundraising focus on lucrative activities in West Africa, the organisation's presence in the DRC increased. The DRC's immense natural resources remained vastly under-exploited, providing Hezbollah operatives with profitable and 'legitimate' new sources of funding. It appeared that Hezbollah's new actors in Africa were operating much more discreetly, and in a more decentralized manner, allowing them to avoid various forms of repression while continuing to raise and launder funds for the group (Levy, 2013).

In 2024, also neighbouring Rwanda was accused of laundering profits from the exploitation of Congolese minerals. A Dutch law firm asked U.S. technology company Apple to clarify the origin of the tin, tungsten and tantalum (3T) used in its supply chains on behalf of Congolese authorities (SGSA, 2024). US companies such as Apple, Intel, Sony, Motorola and Lockheed Martin had been informed that many of the minerals used in their companies' supply chains were illegally sourced from eastern Congo. The law firm accused Rwanda of laundering large quantities of 3T minerals sourced from the DRC with the help of leading electronics manufacturers such as Global Advanced Metals. The parties directly and indirectly involved in Rwanda's laundering of Congolese minerals risked liability for racketeering, aiding and abetting trade-based money laundering, and of fraudulently misrepresenting the origin of the minerals they purchase in the U.S. Securities and Exchange Commission disclosures. Yet, Western economic sanctions targeting Rwanda's minerals sector appear unlikely in the immediate term. Rwanda is likely to sustain its military support to M23 rebels in eastern Congo (SGSA, 2024).

3. Tax evasion and countermeasures in SSA: case studies

Cartoon 6: *Smuggling in Nigeria: Blurred lines*

Source: © Peter Schrank, The Economist, 28 April 2016

The goal of free movement of goods and people without barriers, promised by the creation of the African Continental Free Trade Area (AfCFTA) in 2018 and the five regional economic communities (RECs) ECOWAS, SADC, EAC, COMESA and ECCAS, is ultimately constrained by the facilitation of large-scale smuggling and other criminal activities (Kohnert, 2023). Although the level of intra-regional trade in SSA is very low, informal cross-border trade flourishes almost everywhere in sub-Saharan Africa, not least due to artificial and porous borders inherited from the colonial area. Although most informal trade is illicit in the narrow sense, that it is unreported, and does not comply with legal tax rates and other regulations, the products involved are not necessarily illegal in themselves (Golub, 2015).

Where the shadow economy thrives, it undermines the formal economic structures and poses a major challenge to macroeconomic stability. The impact goes beyond fiscal losses, affecting domestic industries and initiatives. For example, the influx of unregulated, often substandard goods distorts markets and often poses public health risks. The influx stifles the growth of domestic industries, making them unable to compete with lower-priced smuggled goods (Yonathan, 2024).

Major drivers of illicit trade are the lack of employment and formal income, and the gap between demand and supply in the formal economy. However, trading in contraband undermines government revenue, increases the tax burden on formal operators and eventually drives them out of the formal economy into informal, non-tax-paying arrangements. Also, it reduces incentives for investment and innovation, diminishes foreign exchange that a country may earn from legal trade and creates unfair competition (Yonathan, 2024).

Lawbreakers and rebels are becoming more resourceful, smart, and connected. Criminal syndicates are increasingly using modern technology to commit crimes in ways and manners that are extremely daring, transnational and global. Meanwhile, the capacity of local, state and security forces to stem the tide of crime and insurgency is being decimated by dwindling state resources due to large-scale corruption in public administration, downsizing of public institutions and fierce competition for resources between security and other development agencies. A new wave of crime, characterised by cyber insecurity, the financing of terrorism, the proliferation of small arms and light weapons, and the transnational networking of criminal syndicates, is affecting Africa's socio-economic and political development.(Tar &Dawud, et al., 2022).

Money laundering is inextricably linked with contraband, tax evasion and capital flight. The scale and scope of smuggling in SSA are undiminished, partly because of the powerful interests involved and largely because of the porous nature of African borders in the face of official corruption by law enforcement agencies. In particular, the proliferation of small arms and light weapons, which fuel conflicts throughout SSA, as well as that of drugs, is highly lucrative. It has continued unabated, contributing to the level of insecurity on the continent (Mashi & Mohammed 2021).

The availability of weapons, the existence of international smuggling networks, the presence of ex-combatants with little hope of integration into the formal economy, and the growing transnational drug trade in many SSA countries are clear indicators of the growing scale of crime. While legal instruments have been created, often as a result of international pressure, to combat criminal activity, including organised crime, there is often insufficient capacity within the police forces themselves. The increasing sophistication of organised crime in SSA has generally not been matched by an increase in the sophistication and capability of the security services. Indeed, tackling such security threats may not be the primary role of the police. For the political elites involved in this smuggling trade in some African countries, effective and impartial law enforcement may be more of a threat to the established order than something to be welcomed. Moreover, few culpable members of African governments have been prosecuted for unlawful activities (Shaw, 2001).

The joint effects of government integrity and government size on capital flight in Sub-Saharan Africa may vary across different income groups but are difficult to measure. A study of 20 SSA countries from 1996 to 2015 finds that a percentage increase in government integrity reduces capital flight by at least 0.0173 % and 0.0153 % in the long and short run, respectively. On the other hand, a percentage increase in the tax burden is also found to increase capital flight by at least 0.0390 % in the long run. The joint effect of government integrity and government spending increases capital flight by 0.0065 %. while the same effect of government integrity and tax burden induces capital flight by 0.0407 % in the long run (Kubah, 2019).

3.1 Nigeria

Cartoon 7: *Nigeria: Why Rice Smuggling may not stop*

Source: © Mooyiwa Adetula, 27 December 2018, African cartoons.

Nigeria is awash with contraband. Chatham House, a British think-tank, estimates that at least 70 % of trade between Africa's largest economy and its neighbours goes unrecorded (Editor-The Economist, 2016). Global interconnectedness facilitates an increase in trans-border crimes, especially in Nigeria where the unofficial border crossings surpass the port of entries. Therefore, drug and arms trafficking, trafficking of persons, car smuggling and internet fraud are prevalent trans-border crimes in Nigeria. The socio-economic implications of trans-border crimes are mostly felt in fuelling corruption, infiltrating businesses, hindering development and endangering lives and national security. Identifiable causes of increased trans-border crimes in Nigeria include porous borders, political corruption, and compromised security systems (Babajide & Opakunbi, 2022).

Cross-border smuggling is one of the most serious economic, political and security problems in Nigeria's relations with its neighbours. Nigeria shares international borders with six countries: Benin to the west, Niger to the north, Chad and Cameroon to the east, and Equatorial Guinea and São Tomé and Príncipe in the Gulf of Guinea (Onuoha & Uche, 2022). Arms trafficking, in particular, is a major problem. Porous border security and the lucrative arms trade have exacerbated ethno-religious conflicts, increased banditry and kidnapping, herder-farmer clashes, electoral violence, deterred foreign direct investment, displaced farmers and other people from their homes and jobs, and led to high expenditure on arms as opposed to other vital socio-economic needs. In Nigeria, civilians, including rebel groups and militias, possess more than 40 million small arms and light weapons, while pro-government forces possess no less than 11 million. Such an amount of firearms in the hands of unrecognised actors can cause monumental insecurity in all its ramifications and serve as a threat to Nigeria's national security (Hamidu, 2023).

Smuggling of petroleum products, especially fuel (petrol), thrives in Benin, Niger, Chad and Cameroon. Up to now, successive governments tried in vain to stem the tide of cross-border smuggling of crude oil and petroleum products (Onuoha & Uche, 2022). The mounting illegal activities on the Benin-Nigeria border led to its closure for 71 days by the Nigerian federal government in August 2019 (Abegunde &Fabiyi, 2020). Illegal transnational migration and illicit drug trafficking along the Sahel and other borderlines pose another serious problem. Trafficking is facilitated by well-organized criminal syndicates, which are ready to force their way through if challenged (Targba, 2023).

3.2 Ethiopia

Cartoon 8: *contraband strives in Ethiopia*

Source: © Yonathan, *Addis-Fortune*, 19 January 2024

Ethiopia also has a thriving parallel market based on smuggling. Its roots go back to the 1960s, particularly along the Tog Wajaale-Jigjiga corridor. The scale of the problem is exacerbated by the country's porous 5,300km border with five countries. Smuggling sustains hundreds of thousands of livelihoods. Despite decades of legislative efforts, including an existing law passed by Parliament in 2009 when smuggling was outlawed by law or international agreement, the illicit trade persists (Yonathan, 2024). The smuggling of goods across borders, such as electronics, clothing, cosmetics and even weapons, continues unabated, feeding a clandestine market that reaches deep into the economy.

The economic impact of smuggling can be seen in several sectors. It affects sectors such as livestock, pharmaceuticals, tobacco and textiles. For example, the smuggling of livestock is estimated to account for 90 % of all Ethiopian livestock exports. The most commonly smuggled goods into Ethiopia are electronics, clothing, perfumes, cosmetics and weapons, while the most commonly smuggled goods out of Ethiopia are coffee, livestock, cereals, animal skins and fuel. In addition to goods, foreign currency is smuggled in and out of the country. The value of these smuggled goods in the four years from 2012 to 2016 was estimated at 1.85 billion Birr (€30 million).

There has been a significant increase in the volume and variety of items smuggled in recent years. Fiscal losses due to smuggling account for approximately 4.47% of the Federal Government's annual customs revenue. However, the impact goes beyond fiscal losses, affecting domestic industries and initiatives. Local producers, from tobacco to steel, complain of an influx of unregulated, often substandard goods that distort markets and pose a threat to public health. Habit-forming drugs and substandard goods can cause widespread health problems. This in turn affects productivity, development and growth.

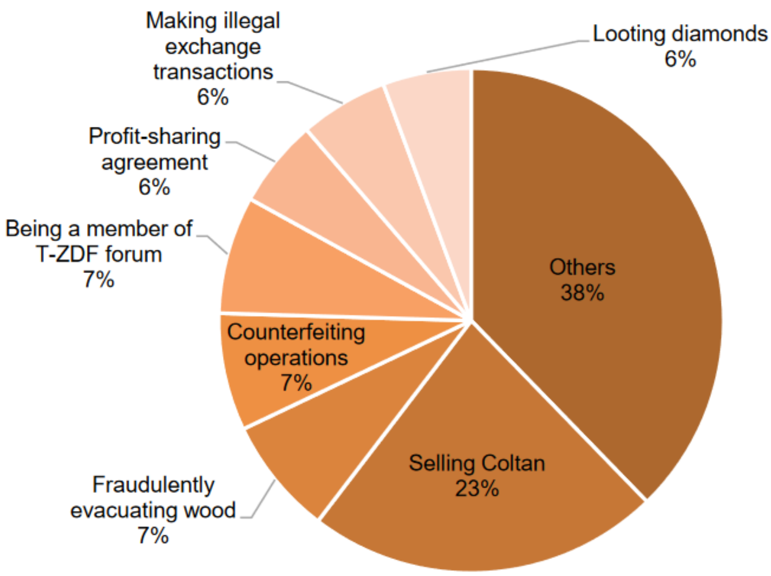
Over the decades, the government has tried to implement various strategies to combat the illicit trade. They disbanded the Customs Police in 2008 and replaced it with the Federal Police while amending customs and tax laws to streamline the process and strengthen law enforcement. These include simplifying trade procedures, introducing tax incentives for legitimate trade, and providing information and assistance to small traders at the border. However, corruption remains a persistent problem that undermines these efforts. Sustainable solutions would require greater community involvement, especially in border areas (Yonathan, 2024).

Human trafficking is also a major problem, for example between Ethiopia and Sudan as well as between Ethiopia and Eritrea. It is deeply rooted in the local social environment. Since the 1990s, there has been significant irregular overland labour migration from Ethiopian towns and villages to the Sudanese capital of Khartoum, via the border towns of Metemma on the Ethiopian side and Gallabat on the Sudanese side. This smuggling is organised by independent criminal organisations. This mobility is facilitated by smugglers who are involved in transnational social relations, material practices and knowledge production about migration, including informal money transfer practices, transport and communication infrastructures. Smugglers not only bribe border guards but also capitalise on their ethnic, religious and economic connections along the Ethiopian-Sudanese borderlands (Ayalew & Adugna & Deshingkar, 2018). Eventually, smuggling emerges as a system of refugee protection from below because it is a socially embedded collective practice that seeks to facilitate the safe exit and transition of Eritrean refugees despite the criminalisation of migration, the militarization of borders and the potential and existing criminal activities along the Eritrean, Sudanese and Ethiopian migratory corridors. The irregular transitions of migrants reproduce a collective system of migratory knowledge aimed at bringing refugees to safety (Ayalew, 2018).

3.3 DR Congo

It is widely believed that reliance on natural resources should lead rebels to abuse civilians, but cross-group research using existing data finds no support for this relationship. For example, the M23 rebel movement operated in the resource-rich eastern DR Congo, but rarely controlled mining areas, relying instead on external support and criminal activities for funding (Walsh & Conrad & Whitaker & Hudak, 2018).

Graph 5: Economic subcategories of contraband trade in DRC



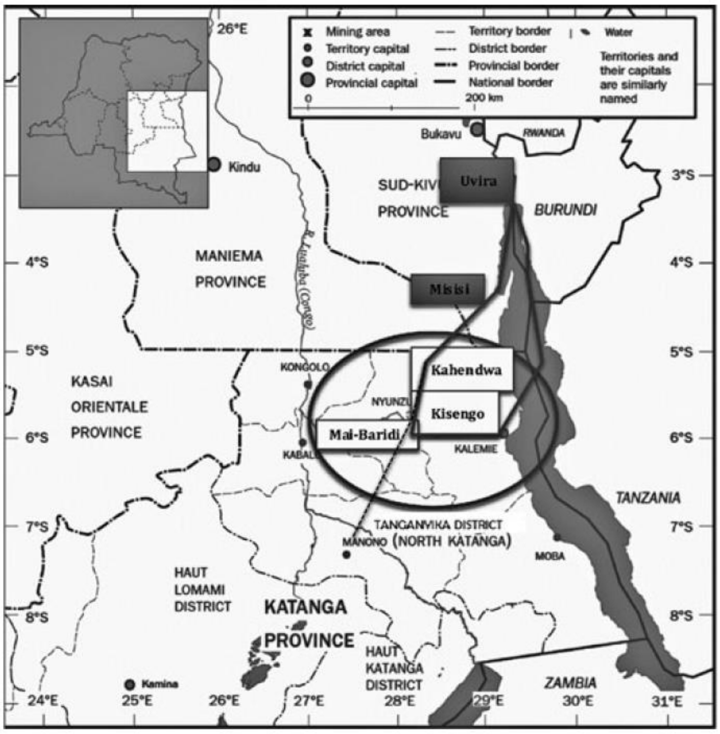
Source: © Lopez & Salcedo-Albarán, 2016

Trafficking in gold, diamonds and coltan is widespread as noted above. According to scholarly studies, the private sector plays a crucial role in the articulation of criminal networks, accounting for 65%, while public officials account for 28.7% and 'pure' criminals for 6.10%. Only 1% of the interactions identified by the study were purely criminal interactions, such as those based on violence and coercion. This means that the operation of criminal networks is mostly based on genuine and usually unregulated economic interactions, such as informal trade, as well as other sophisticated interactions consisting of money laundering schemes and fake companies. Trafficking in coltan, commercial links with transnational criminal networks for counterfeiting operations, and fraudulent evacuation of timber are the three main types of economic fraud (Lopez & Salcedo-Albarán, 2016).

Smuggling from the DRC has accelerated because of the long years of war in eastern DRC since the Rwandan genocide in 1994. This has led to large and widespread gold production through small-scale artisanal mining and smuggling into neighbouring countries, including Uganda, Rwanda, Burundi and Tanzania. This contraband trade is in large measure because of the violence in the region, as well as the absence of infrastructure in the DRC for the international trade in gold, along with the absence of refining capacity. Neighbouring countries have therefore become the principal conduits and substantial beneficiaries of this international trade (Grynberg &Singogo, 2021).

Graph **6:** *Coltan smuggling routes in Northern Katanga* [3]

- - - - - *Vrages' routes;* ________ *Coltan smuggling routes*



Source: © De Koning, 2010 : p. 10 ; Wakenge &Dijkzeul &Vlassenroot, 2018

In 2015, the smuggling of coltan into and out of artisanal mining areas in northern Katanga was investigated by the ITRI Tin Supply Chain Initiative (iTSCi), a policy initiative on conflict minerals launched in 2010. It seeks to improve transparency in the trade of tin, tantalum (coltan) and tungsten on the assumption that its activities could contribute to Congolese state- and peace-building by cutting off armed actors from mineral-based financing.

[3] Adapted from De Koning, R. (2010).

However, the expectations were not realised. On the contrary, artisanal miners and mine-based middlemen (*négociants*) assisted smugglers in trafficking coltan. This suggests that the social networks in which miners and mine-based *négociants* are embedded allow miners, *négociants* and smugglers to maintain close relationships and to circumvent official regulations, but that miners and mine-based *négociants* also rely on these same networks to cheat in their dealings with smugglers (Wakenge &Dijkzeul &Vlassenroot, 2018). Findings suggest that similar developments can be found also in other post-conflict economies apart from northern Katanga, where networks formed around *hiboux*, who are 'big men' in terms of their financial resources and links to urban black markets, have been very flexible in adapting their smuggling activities. However, ordinary miners, who may be seen as 'less powerful' actors, were also involved in these activities. The mining areas where the iTSCi policy is implemented are linked to the wider region. There is, therefore, a need to develop both a contextualised and global approach to conflict minerals policies such as iTSCi and to pay more attention to the logic behind existing informal networks of which miners and négociants are part (Wakenge &Dijkzeul &Vlassenroot, 2018).

4. Conclusion

Cartoon 9: *money laundering by the multinational lending group HSHC*

Source: © Frank, 2012

Money laundering and tax evasion are pervasive challenges in sub-Saharan Africa, undermining economic development, governance, and financial integrity. To address these issues, international measures such as the Financial Action Task Force (FATF) standards, anti-money laundering (AML) frameworks, and tax transparency initiatives have been implemented. This article examines the efficacy of these international measures in curbing money laundering and tax evasion in sub-Saharan Africa.

International efforts to combat money laundering and tax evasion are multifaceted. The FATF has established a comprehensive set of recommendations that countries are encouraged to adopt to combat money laundering and terrorist financing. These include the criminalization of money laundering, the establishment of financial intelligence units (FIUs), and the implementation of customer due diligence requirements for financial institutions.

Additionally, the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes promotes international cooperation on tax matters through the exchange of information and the implementation of standards for transparency. Moreover, initiatives like the African Union's High-Level Panel on Illicit Financial Flows, a body established by the

United Nations Economic Commission for Africa (ECA), and chaired by former President of South Africa, Thabo Mbeki, aim to stem the outflow of illicit capital from Africa.

The impact of these international measures in sub-Saharan Africa has been mixed. On one hand, there have been notable improvements in legislative and regulatory frameworks across the region. Many countries have enacted laws aligning with FATF recommendations, established FIUs, and enhanced their financial regulatory environments. For example, Kenya and Nigeria have made significant strides in AML compliance, with Nigeria being removed from the FATF's list of high-risk jurisdictions in 2013.

However, the practical enforcement of these measures remains inconsistent. Corruption, lack of technical expertise, and limited resources impede effective implementation. In many cases, regulatory bodies lack the capacity to conduct thorough investigations or to enforce penalties adequately. The informal economy, which constitutes a significant portion of economic activity in many sub-Saharan countries, further complicates enforcement efforts, notably in the important three SSA countries, South Africa, Nigeria and Kenya.

Kenya, for example, has been a regional leader in adopting AML measures, including the establishment of the Financial Reporting Centre (FRC) and enacting the Proceeds of Crime and Anti-Money Laundering Act. Despite these advancements, challenges such as weak enforcement and political interference persist, limiting the overall effectiveness of these measures.

Also, South Africa has implemented robust AML and tax evasion frameworks, aligning closely with international standards. The South African Reserve Bank and the Financial Intelligence Centre play pivotal roles in monitoring and enforcement. However, high-profile corruption scandals have highlighted gaps in the system, particularly regarding political will and institutional independence.

Nigeria's efforts to combat money laundering and tax evasion have seen progress with the establishment of the Economic and Financial Crimes Commission (EFCC) and reforms in financial regulation. Yet, pervasive corruption and systemic weaknesses continue to undermine these efforts, as evidenced by ongoing high-profile cases of financial misconduct.

In short, the following three major challenges hinder the effectiveness of international measures in sub-Saharan Africa:

- Corruption: High levels of corruption within governments and financial institutions undermine AML and tax evasion efforts.
- Resource Constraints: Many countries lack the financial and human resources necessary to implement and enforce complex regulatory frameworks effectively.
- Technical Expertise: Limited technical expertise in financial forensics and regulatory enforcement impedes effective action against sophisticated money laundering schemes.

To enhance the impact of international measures, the following major counter-measures would be required:

- Capacity Building: Investment in training and capacity building for regulatory authorities and financial institutions to enhance technical expertise and enforcement capabilities.

- Strengthening Institutions: Fostering the independence and strength of institutions tasked with combating money laundering and tax evasion to reduce political interference and corruption.
- International Cooperation: Enhancing cooperation and information sharing between sub-Saharan African countries and international bodies to track and curb cross-border illicit financial flows.

While international measures have led to some progress in combating money laundering and tax evasion in sub-Saharan Africa, significant challenges remain. The success of these measures largely depends on the capacity, integrity, and political will of local institutions and their international partners. Strengthening these areas is crucial for realizing the full potential of international frameworks in mitigating financial crimes and fostering economic development in the region.

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Résumé : *[Les mesures internationales contre le blanchiment d'argent et l'évasion fiscale, ont-elles un impact significatif en Afrique subsaharienne ?]* - L'Afrique subsaharienne (ASS) représente un tiers des pays figurant sur la liste grise du Groupe d'action financière (GAFI). Dans l'outil de classement et d'évaluation des risques du blanchiment d'argent et du financement du terrorisme (BC/FT), la région a obtenu de mauvais résultats en termes de résilience au BC/FT, avec plus de 60 % des pays entrant dans la catégorie à haut risque. Bien que les pays figurant sur la liste grise ne soient pas soumis à des sanctions, leur inscription sur la liste a un impact substantiel sur leur économie. Cela comprend une réduction significative des entrées de capitaux et des investissements directs étrangers. Les quatre principales sources de flux financiers illicites en provenance d'Afrique subsaharienne, d'Afrique du Sud, de République démocratique du Congo, d'Éthiopie et du Nigeria, représentaient plus de 50 % du total des flux financiers illicites. Alors que l'ASS a reçu près de 2 000 milliards de dollars d'investissements directs étrangers (IDE) et d'aide publique au développement (APD) entre 1980 et 2018, elle a émis plus de 1 000 milliards de dollars de flux financiers illicites. Ces fonds acquis illégalement et détournés de la région continuent de poser un défi au développement. Les flux financiers illicites ont globalement augmenté, mais pas en ce qui concerne le pourcentage de commerce. Au cours des 38 années allant de 1980 à 2018, ils ont considérablement augmenté dans les années 2000, parallèlement à la croissance du commerce africain. Les pays émergents et en développement d'Asie et du Moyen-Orient sont devenus des cibles privilégiées. Les initiatives précédentes visant à lutter contre le blanchiment d'argent et à améliorer l'échange d'informations fiscales entre les pays ont largement échoué, y compris les trois plus importantes : le Groupe d'action financière (fondé en 1998), le Forum mondial sur la transparence et l'échange d'informations à des fins fiscales (fondé en 2009) et le Cadre inclusif sur l'érosion de la base d'imposition et le transfert de bénéfices (fondé en 2016). Premièrement, les pays africains manquent de ressources et de capacités pour lutter contre les flux financiers illicites. Deuxièmement, de nombreuses économies avancées ne sont pas suffisamment engagées dans ces initiatives. Cependant, le rapatriement des fonds illégaux constitue un outil important pour renforcer la base de ressources des pays africains. En 2020, par exemple, les États-Unis et la dépendance autonome de la Couronne britannique de Jersey, l'un des paradis fiscaux et de blanchiment d'argent les plus notoires au monde, ont conclu un accord avec le Nigeria pour rapatrier plus de 300 millions de dollars volés par l'ancien dictateur militaire du Nigeria, Sani Abacha.

Zusammenfassung: *[Haben internationale Maßnahmen gegen Geldwäsche und Steuerhinterziehung erhebliche Auswirkungen in Afrika südlich der Sahara?]* - Subsahara-Afrika (SSA) macht ein Drittel der Länder auf der grauen Liste der Financial Action Task Force (FATF) aus. Im Ranking und Risikobewertungstool für Geldwäsche und Terrorismusfinanzierung (ML/TF) schnitt die Region in Bezug auf die Widerstandsfähigkeit gegenüber ML/TF schlecht ab, wobei mehr als 60 % der Länder in die Hochrisikokategorie fielen. Obwohl Länder auf der grauen Liste keinen Sanktionen unterliegen, hat die Aufnahme in die Liste erhebliche Auswirkungen auf ihre Wirtschaft. Dazu gehört eine deutliche Reduzierung der Kapitalzuflüsse und ausländischen Direktinvestitionen. Auf die vier Hauptquellen illegaler Finanzströme aus SSA, Südafrika, die Demokratische Republik Kongo, Äthiopien und Nigeria, entfielen mehr als 50 % der gesamten illegalen Finanzströme. Während SSA zwischen 1980 und 2018 fast 2 Billionen US-Dollar an ausländischen Direktinvestitionen (FDI) und offizieller Entwicklungshilfe (ODA) erhielt, emittierte es über 1 Billion US-Dollar an illegalen Finanzströmen. Diese unrechtmäßig erworbenen und aus der Region abgeleiteten Gelder stellen weiterhin eine Entwicklungsherausforderung dar. Die illegalen Finanzströme nahmen insgesamt zwar zu, nicht jedoch im Verhältnis zum Handel. In den 38 Jahren von 1980 bis 2018 stiegen sie in den 2000er Jahren deutlich an, parallel zum Wachstum des afrikanischen Handels. Schwellen- und Entwicklungsländer in Asien und im Nahen Osten sind zu Hauptzielen geworden. Die bisherigen Initiativen zur Eindämmung der Geldwäsche und zur Verbesserung des Austauschs von Steuerinformationen zwischen Ländern sind weitgehend gescheitert, darunter die drei wichtigsten: die Financial Action Task Force (gegründet 1998), das Global Forum on Transparency and Exchange of Information for Tax Purposes (gegründet 2009) und das Inclusive Framework on Base Erosion and Profit Shifting (gegründet 2016). Erstens mangelt es den afrikanischen Ländern an Ressourcen und Kapazitäten, um gegen illegale Finanzströme vorzugehen. Zweitens engagieren sich viele fortgeschrittene Volkswirtschaften nicht ausreichend in diesen Initiativen. Allerdings ist die Rückführung illegaler Gelder ein wichtiges Instrument zur Stärkung der Ressourcenbasis afrikanischer Länder. Im Jahr 2020 einigten sich beispielsweise die Vereinigten Staaten und das selbstverwaltete britische Krongebiet Jersey, eines der berüchtigtsten Steuer- und Geldwäscheparadiese der Welt, mit Nigeria auf die Rückführung von mehr als 300 Millionen US-Dollar, die vom ehemaligen nigerianischen Militärdiktator General Sani Abacha gestohlen worden waren.