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ILLICIT FINANCIAL FLOWS AND THE EXTRACTIVE INDUSTRY IN GHANA

IBIS Education for development Ghana

ACEP Africa Centre for Energy Policy

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EXECUTIVE SUMMARY

The quest for structural transformation in Africa requires raising the continent's productive capacity. This can only be achieved by increasing investment in infrastructure, promoting technology transfer and innovation for value addition, and boosting agricultural productivity, among others. However, achieving this developmental state in Africa has been significantly constrained by the financial structures of illicit financial flows (IFFs). IFFs undermine the potential for economic transformation in the continent through, draining tax revenues and scarce foreign exchange resources, stifling growth and socio-economic development, and weakening governance (UNECA, 2013). In fact, according to United Nations Economic Commission for Africa (UNECA-2013), IFFs perpetuate Africa's economic dependence upon other regions and undermine the capacity of the African governments to pursue a developmental state approach that prioritizes capacity-expanding, transformative and distributive economic and social development policies.

The challenge posed by IFFs is even more pronounced in the extractive sectors and in oil and mineral exporting countries (Billon, 2011 and others). This study conducts a literature review of the causes, nature and extent of illicit financial flows in the natural resources sectors of Africa with emphasis on Ghana and makes recommendations for addressing this menace. Available research evidence shows that illicit financial flows in the extractive sectors occur through three main sources, namely corruption, illegal exploitation, and tax evasion. For instance, during the period 2003-2012, Sub-Saharan Africa (SSA) lost an estimated US$528.9 billion through illicit outflows, with mineral and fuel producing African countries estimated to be losing about US$50 billion per annum through illicit financial flow (Kar and Cartwright-Smith, 2010). These are usually prevalent in the oil and gas, industrial and artisanal mining sectors. The pattern of illicit flows masks significant variations across the region. West and Central Africa are by far the dominant driver of illicit flows from the Sub-Saharan region—due mainly to the influence of Nigeria—followed by Southern Africa. In Ghana, cumulative gross illicit flows from trade misinvoicing amounted to US$14.39 billion over the ten-year period 2002–2011 or about US$1.44 billion per year on average. Measures to combat the menace include improving collaboration, information sharing, enforcement of sanctions and effective monitoring among countries.

1. INTRODUCTION

Africa has experienced robust and remarkable economic growth over the past decade, averaging more than 5 percent between 2000 and 2012. Sub-Saharan African (SSA) posted the most impressive performance with growth rates averaging 5.6 percent over the same period. The high economic growth observed in oil exporting countries such as Angola and Chad can be directly linked to increases in oil price which more than quadrupled to US$112 per barrel in 2012 from less than US$ 20 per barrel in 1999. About 30 percent of Africa's gross domestic product (GDP) of between 2000 and 2010 was linked to the natural resource sectors (Africa Development Bank, 2011). For instance, close to a half of Ghana's outstanding growth of 15% in 2011 was due to oil production. The importance of the natural resource sector is also reflected in the export earnings of these countries. According to Mills and Herbst (2012) the export of oil, metals, minerals, and agricultural products, accounts for some 70 percent of the export revenue for SSA.

Africa's quest for development and structural transformation requires significant upgrading of its infrastructure, technological transfer, innovation, agricultural productivity and human capital development. These require massive financial investments. The rich natural resource endowment of the continent could potentially finance a greater part of the most needed investments in the region. Yet, SSA countries do not reap the full benefits from their natural resource wealth. A greater chunk of the region's resources is being lost through illicit financial outflows, that is, money that ends up benefiting a few local and foreign elites rather than the general population. This often takes the form of corruption, illegal exploitation, and tax evasion. During the period of sustained economic growth in SSA, the pace of illicit flows from the region also accelerated relative to previous decades (Murisa, 2013). Available evidence suggests that there is a statistically significant positive relationship between oil exports and illicit financial flows—for each extra US dollar in oil exports, an additional 11 to 26 cents leaves the country as illicit capital flight (Boyce and Ndikumana, 2011). An International Monetary Fund (IMF-2000) study observes that faster economic expansion with rising income levels can actually drive capital flight if growth is not accompanied by genuine economic reform and better governance. Some analysts attribute this to the low levels of transparency and high corruption in the natural resource sectors (Williams 2010).

According to the December 2014 Global Financial Integrity (GFI) Report, the developing world lost a substantive US$6.6 trillion in illicit outflows between 2003 and 2012 alone. The situation is more alarming especially in Sub-Saharan Africa (SSA), where the natural resources sector (fuel and minerals) accounts for a significant share of total exports. For instance, during the period 2003-2012, SSA lost US$528.9 billion through illicit outflows. Mineral and fuel producing African countries are losing an estimated US$50 billion per annum through illicit financial flow (Kar and Cartwright-Smith, 2010). Other estimates showed that approximately US$854 billion has been moved out of Africa over a 39 year period, making Africa a net creditor to the rest of the world (Ndikumana and Boyce, 2003, 2008). The vast majority of illicit financial outflows are due to trade misinvoicing (Kar and Spanjers, 2014). In Ghana, illicit financial flows through trade misinvoicing (inflows plus outflows) amounted to US$40 billion between 1960 and 2012, more than enough to wipe out Ghana's total debt and even finance the country's critical infrastructure. Illicit flows, therefore, constitute a major source of domestic resource leakage, which drains foreign exchange, reduces tax collections, restricts foreign investments, reduces government capital and social spending and consequently worsens poverty in the poorest developing countries. According to Taylor et al., (2011), there are a number of international standards that help to manage illicit financial flows, including (1) contract and revenue transparency instruments, (2) certification instruments, and (3) broad governance standards. The threat posed to Ghana's socio-economic development from illicit financial flows from the extractive industry is widely acknowledged but has not been empirically studied in greater detail. The purpose of this paper is to examine the causes, nature and extent of illicit financial flows in the natural resources sectors of Africa with emphasis on Ghana and make recommendations for addressing this menace.

The remainder of the paper is structured as follows. Section 2 deals with the method of analysis. Section 3 examines the trends and pattern of illicit flows from Africa. Section 4 looks at the extent and causes of illicit financial flows in Ghana's extractive sectors. Section 5 discusses some measures to improve governance of resource revenue while section 6 draws conclusion.

2. ILLICIT FLOWS: MEANING AND MEASUREMENT

2.1 Definition

There are various definitions of illicit financial flows, but essentially they are generated by methods, practices and crimes aiming to transfer financial capital out of a country in contravention of national or international laws. Box 1 provides definitions of illicit [financial] flows.

Box 1: Definition of Illicit Financial Flows

According to the Global Financial Integrity, "illicit flows are all unrecorded private financial outflows involving capital that is illegally earned, transferred, or utilized, generally used by residents to accumulate foreign assets in contravention of applicable capital controls and regulatory frameworks. Thus, even if the funds earned are legitimate, such as the profits of a legitimate business, their transfer abroad in violation of exchange control regulations or corporate tax laws would render the capital illicit". Kar and Cartwright-Smith (2008) define illicit money as "money that is illegally earned, transferred, or utilized. If it breaks laws in its origin, movement, or use it merits the label". According to the United Nations Development Programme (UNDP), "illicit [financial] flows include, but are not limited to, cross-border transfers of the proceeds of tax evasion, corruption, trade in contraband goods, and criminal activities such as drug trafficking and counterfeiting." The Organisation for Economic Cooperation and Development defines the term illicit financial flows to include (a) abusive transfer pricing between subsidiaries of the same group for the purposes of tax avoidance (b) tax evasion and (c) manipulative trade mispricing. Further classifications are (d) money laundering and (e) bribery. In extractive sectors, these flows mostly originate from corruption, illegal resource exploitation, and tax evasion (including through smuggling and transfer mispricing).

The narrow definition of illicit financial flows only refers to illegal transactions that are prohibited under the legal systems of the country of origin and the destination country, or that are improperly accounted for in the case of internal transactions within a company. However, a broader definition of the term also covers practices which are not officially unlawful but are nevertheless detrimental to development. The term covers financial transactions by companies as well as by private individuals. For the purpose of this study, we define the concept following Baker (2005) as money that is illegally earned, transferred, utilized and which might have broken a law through its origin, movement or use.

A distinction between capital flight and illicit financial flow is necessary to provide further clarity. According to Global Financial Integrity, capital flight takes two forms. The legal component stays on the books of the entity or individual making the outward transfer. The illegal component is intended to disappear from records in the country from which it comes. By far the greatest part of unrecorded flows are indeed illicit, violating the national criminal and civil codes, tax laws, customs regulations, value-added tax (VAT) assessments, exchange control requirements, or banking regulations of the countries out of which the unrecorded/illicit flows occur.

2.2 Measurement

According to UNECA (2013), illicit money can be classified into three main forms: (i) the proceeds of theft, bribery and other forms of corruption by government officials; (ii) the proceeds of criminal activities including drug trading, racketeering, counterfeiting, contraband, and terrorist financing; and (iii) the proceeds of tax evasion and laundered commercial transactions. An estimate by Baker (2005) shows that laundered commercial money through multinational companies constitutes the largest component of IFF, followed by proceeds from criminal activities, and lastly corruption.

Trade misinvoicing has been identified as being responsible the majority of illicit outflows from developing countries. According to Baker et al., (2014), trade misinvoicing refers to the intentional misstating of the value, quantity, or composition of goods on customs declaration forms and invoices, usually for the purpose of evading taxes or laundering money. The authors identified four basic categories of trade misinvoicing, namely, (1) import under-invoicing, (2) import over-invoicing, (3) export under-invoicing, and (4) export over-invoicing. The practice is mainly as a result of the collusion between the two principals parties to a transaction—seller and the buyer.

According to GFI's previous reports (see Dev Kar and Brian LeBlanc, 2011), trade misinvoicing makes up over 80 percent of illicit outflows. The damage done by this practice to a country's economy and development, therefore, cannot be overemphasized. For example, trade misinvoicing robs governments of tax revenue and deprives the economy of domestic capital for infrastructure investment with the concomitant reductions in economic growth and opportunity. It also limits potential resources for expanding social services thereby severely undermining efforts to develop a country's economy and raise billions of people out of severe poverty (Baker et al., 2014).

The term trade "mispricing" and trade "misinvoicing" are often used interchangeably but as Baker et al. (2004) noted, the term trade mispricing is less accurate since it does not include manipulations to the quantity or composition of the goods. This paper however ignores these limitations and treats the terms as similar.

2.3 Sources of Illicit Financial Flow

Philippe Le Billon (2011) identifies three main sources of illicit financial flows in the extractive sectors, namely corruption, illegal exploitation, and tax evasion (see Table 1). These three sources, are not mutually exclusive, and indeed are often found together. For example, a company might pay a bribe to illegally exploit a resource outside its concession area. The product may then be shipped without export duties, the bribe itself being paid to an overseas account. Available evidence suggests that illicit financial flows are intimately linked to large-scale corruption in developing countries (Reed and Fontana 2011).

TABLE 1: SOURCES OF ILLICIT FINANCIAL FLOW (IFF)

	Curruption	Illegal Exploitation	Tax Evasion
Main financial flow	Facilitation payment (bribes by companies, money embezzeled from tax collection and allocation	Undeclared corporate revenues from illegal resource exploitation	Inflated costs deducted from taxable revenues smuggling of resources
Main beneficiaries	Corrupt government officials and companies gaining undue advantage	Domestic companies, local subsidiaries of foreign companies	Parent or holding companies, exporting companies

Source: (Philippe Le Billon 2011)

Illicit financial flows from many developing countries tend to originate from the poor governance of extractive industries. Thus, large resource revenues may facilitate rent seeking and patronage, resulting in higher levels of corruption, diversion of time and talent from productive activities, inefficient public spending, and low political accountability (Billon, 2011).

2.4 Illicit Financial Flows in the Extractive Sectors

According to Billon (2011), different extractive sectors are exposed to distinct risks of illicit financial flows, reflecting the specific characteristics of the resources and modes of production involved as shown in Table 2. For instance, the risk of corruption tends to be high in the oil and industrial mining sectors due to the high confidentiality and concentration of decision making while illegal exploitation is high in the oil and artisanal mining sectors (Table 2).

TABLE 2: IFF RISK LEVELS FOR DIFFERENT EXTRACTIVE SECTORS

	Curruption	Illegal Exploitation	Tax Evasion
Oil	High, due to confidentiality and concentration of decision making and monitoring	High, due to biased metering, siphoning, and bunkering	Medium, due to homogeneity of international prices according to oil quality
Gas	Medium, due to limited market options	Low,since gas theft is very difficult expect at transit hubs between markets	High, as gas prices vary widely because of fragmented markets
Industrial mining	High, due to confidentiality and concentration of decision making and monitoring	Low, expect in measurement and ore grading	High, due to transfer mispricing
Artisanal mining	Medium for grand corruption but high for pretty corruption, due to diffuse resource flows expect at official export channel	High, due to accessibility of deposits and in monitoring	High, due to smuggling

Source: (Philippe Le Billon 2011)

Tax evasion is also prevalent in the gas and industrial and artisanal mining sectors due to factors such as market fragmentation, transfer mispricing, and smuggling respectively (see Table 2). The level of illicit financial flows is also found to depend on the size of the resource sector, resource dependence, or the relative importance of the extractive sector to the economy and government revenues (Billon, 2011). More resources provide a larger potential for IFF. Similarly, high dependence indicates an undiversified economy, and most often weak political institutions as well. Such countries are more susceptible to IFF.

3. THE TRENDS AND PATTERN OF ILLICIT FLOWS FROM AFRICA

Available evidence suggests African countries have experienced massive outflows of illicit capital mainly to Western financial institutions, ostensibly turning the continent as a whole into a net creditor to the world. Ndikumana and Boyce (2008) estimate illicit flows (or illegal capital flight) for a sample of 40 SSA countries over the period 1970-2004 and find that, over the 35-year period, real capital flight (in 2004) US dollars from the SSA countries amounted to US$420 billion, excluding imputed interest earnings. By including imputed interest earnings the figure would jump to US $607 billion. Table 3 presents a historical account of illicit financial flows in Africa over the period 1970 to 2008.

TABLE 2: IFF RISK LEVELS FOR DIFFERENT EXTRACTIVE SECTORS

GROUP	Total IFFs				
	1970s	1980s	1990s	2000-2008	1970-2008
Africa	57,291	203,859	155,740	437,171	854,061
North Africa	19,161	72,020	59,813	78,742	229,737
Sub-Saharan	38,130	131,839	95,927	358,429	624,324
Horn of Africa	2,354	14,131	5,108	15,603	37,197
Great Lakes	6,925	16,079	4,978	10,285	38,267
Southern	5,894	20,581	31,447	116,828	174,751
West and Central	22,956	81,047	54,394	215,715	374,109
Fuel-exporters	20,105	67,685	48,157	218,970	354,917
Nonfuel-exporters	7,867	26,517	22,375	23,342	80,102

Source: Kar and Carthwright-Smith (2010)

A seminal publication by the Global Financial Integrity (2010) show that African countries lost an astonishing US$854 billion cumulatively in illicit financial flows over a period of 39 years between 1970 – 2008. This amount was more than enough to not only wipe out the region's total external debt outstanding of around US$250 billion (at end-December, 2008), but potentially leave US$600 billion for poverty alleviation and economic growth. Cumulative illicit flows from the continent increased from about US$57 billion in the decade of the 1970s to US$437 billion over the nine years 2000-2008 (Table 3).

The pattern of illicit flows masks significant variations across the region. West and Central Africa are by far the dominant driver of illicit flows from the Sub-Saharan region—due mainly to the influence of Nigeria—followed by Southern Africa. On average, Africa lost around US$29 billion per year over the period 1970-2008, of which the Sub-Saharan region accounted for US$22 billion. Petroleum exporters including Nigeria lost nearly US$10 billion per year, far outstripping the US$2.5 billion dollars lost by non-petroleum primary commodity exporters per year. Annual average rates of illicit outflows from Sub-Saharan Africa registered a sharp increase in the 9-year period 2000-2008 relative to the earlier decades. This was driven mostly by increased average outflows from the West and Central Africa and Southern regions. A large part of this sharp increase in illicit flows seems to have been financed by rising income levels, due largely to unprecedented increases in oil prices during this period (Kar and Carthwright-Smith, 2010).

TABLE 4: ILLICIT FINANCIAL FLOWS TO OFFICIAL DEVELOPMENT ASSISTANCE IN AFRICA: 1970 – 2008

GROUP	IFF/ODA (ratio)				
	1970s	1980s	1990s	2000-2008	1970-2008
Africa	2.10	2.41	1.05	2.38	1.92
North Africa	2.38	3.31	1.42	3.35	2.40
Sub-Saharan	1.98	2.10	0.90	2.24	1.79
Horn of Africa	1.41	1.42	0.49	0.77	0.88
Great Lakes	1.18	1.01	0.22	0.28	0.47
Southern	1.80	1.49	1.04	3.33	2.12
West and Central	2.71	3.48	1.24	3.19	6.61
Fuel-exporters	5.74	7.02	3.70	5.65	5.47
Nonfuel-exporters	1.51	1.38	0.67	0.51	0.77

Source: Kar and Carthwright-Smith (2010)

As shown in Table 4, illicit outflows actually outpaced official development assistance by a factor of around 2 to 1 for most of the historical period. It is significantly higher for petroleum-exporting countries, North Africa, and West and Central Africa. The ratio of illicit flows to official development provides a somewhat misleading picture of the seriousness of the issue of capital flight from Africa. In fact, as noted by Kar and Carthwright-Smith (2010), the comparatively low ratios are not only because illicit flows are understated for many regions due to missing data but also because Africa is the largest recipient of external aid in the world.

The study by Kar and Carthwright-Smith (2010) show that illicit flows from Africa was around 2 percent of GDP in 1970, peaked at around 11 percent in 1987, fell sharply to below 4 percent for much of the 1990s, and rose again to 8 percent of GDP in 2007 before declining to around 7 percent in 2008. According to the authors, the seeming decline of illicit flows relative to the regional GDP does not imply improvement in the state of affairs; rather it merely reflects the fact that Africa's GDP growth outpaced the growth in such flows due to the boom in oil and primary commodity prices (Kar and Carthwright-Smith, 2010). In fact, available evidence shows that during the period 2000-2008, when SSA enjoyed its strongest period of sustained economic growth, the pace of illicit flows from the region also accelerated relative to previous decades, largely supporting an IMF (2000) view that faster economic expansion with rising income levels can actually drive capital flight if growth is not accompanied by genuine economic reform and better governance.

Several studies have cited a number of factors responsible for the illicit financial flow phenomenon in Africa. According to Baker (2005), these include lack of transparency and supervision, lack of existing regulation or enforcement of onshore and off-shore financial regulations, underdeveloped financial markets and corruption. The enormous volumes of financial resources Africa forfeits each year through illicit outflows no doubt have serious implications for the continent's medium and long-term development prospects. According to the ECA (2013), this disturbing phenomenon has damaging effects on African countries, including: (i) draining resources and tax revenues, (ii) stifling growth and socio-economic development and (iii) weakening governance. Further, illicit financial flows also deepen the unequal distribution of economic and political power since beneficiaries of the scheme become wealthier and more powerful to the detriment of the masses.

4. THE EXTENT AND NATURE OF ILLICIT FLOWS IN GHANA'S EXTRACTIVE SECTOR

Ghana is often touted as a beacon of democracy, having enjoyed over two decades of stable democracy, characterised with free and open elections, comparatively low levels of corruption and generally peaceful political terrain. This, coupled with relatively rapid economic growth averaging about 8percent over the last 5 years, has helped bolster an investment climate in the country and has attracted foreign direct investment to various sectors of the economy, particularly the natural resource sectors such as oil and gas, and mining. Foreign direct investment increased from US$2.89 billion in 2009 to US$3.23 billion in 2013, with more half of the total inflows going into the extractive industry in Ghana. Ghana is among the top 10 global leading producers of gold and among the top 50 oil producing countries.

The Extractive sector alone accounted for 9.8 percent of Ghana's GDP in 2013. This industry, driven mainly by oil, gold and other minerals, accounts for a significant portion of export earnings in Ghana. The significance of the industry is further buttressed by the fact that, the extractive industry in 2013 accounted for about 65.6 percent of total exports with gold and oil exports accounting for about 98 percent of total value of exports from the sector. The following table sets out the composition of selected exports and imports in Ghana for the years 2009 to 2013:

	IFF/ODA (ratio)									
	2009		2010		2011		2012		2013	
	GHS millions	%	GHS millions	%	GHS millions	%	GHS millions	%	GHS millions	%
EXPORTS	5,839.68	100.0	7,960.10	100.0	12,785.27	100.0	13,541.66	100.0	13,751.91	100.0
Gold	2,551.36	43.7	3,803.52	47.8	4,920.22	38.5	5,643.27	41.7	4,965.71	36.1
Cocoa Beans	1,422.38	24.4	1,594.36	20.0	2,027.94	15.9	2,192.70	16.2	1,612.06	11.7
Timber and Timber	179.84	3.1	189.47	2.4	165.66	1.3	121.43	0.9	165.76	1.2
Aluminium Ingots	0.0	0.0	0.0	0.0	88.78	0.7	71.77	0.5	53.4	0.4
Cocoa Products	443.65	7.6	625.19	7.9	842.94	6.6	635.92	4.7	655.23	4.8
Residual									0.0	0.0
Oil/Cracked	0.0	0.0	68.37	0.9	21.52	0.2	0.0	0.0		
Electricity	95.90	1.6	124.94	1.6	65.71	0.5	51.82	0.4	48.99	0.4
Crude (Jubilee) Oil	n/a	n/a	n/a	n/a	2,778.52	21.7	2,976.05	22.0	3,885.07	28.3
Diamonds	7.34	0.1	11.31	0.1	18.32	0.1	10.37	0.1	5.76	0.0
Bauxite	11.08	0.2	15.15	0.2	7.09	0.1	22.25	0.2	32.56	0.2
Manganese	49.37	0.8	58.21	0.7	117.17	0.9	92.77	0.7	133.69	1.0
Non-Traditional										
Commodities &									2,193.68	16.0
Others	1,078.76	18.5	1,469.58	18.5	1,731.40	13.5	1,723.31	12.7		
IMPORTS	8,046.25	100.0	10,922.11	100.0	15,837.73	100.0	17,762.79	100.0	17,600.27	100.0
Oil	1,488.97	18.5	2,235.93	20.5	3,165.45	20.0	3,330.23	18.7	3,550.45	20.2
Non-Oil	6,557.28	81.5	8,686.18	79.5	12,672.28	80.0	14,432.56	81.3	14,049.82	79.8

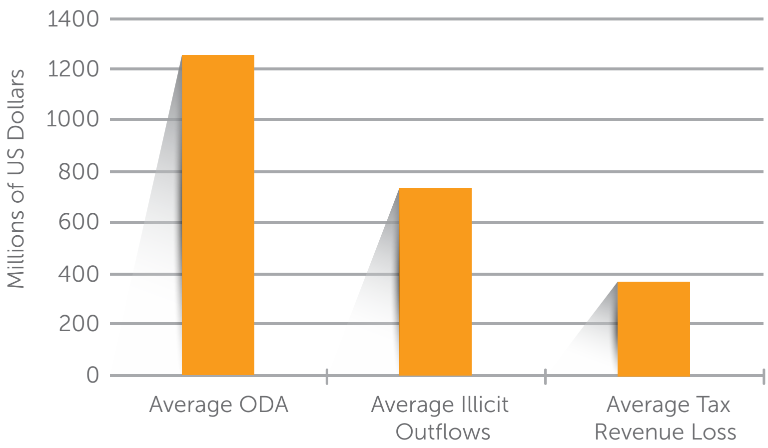
Ghana's extractive sector remains highly susceptible to IFFs. Despite its contribution to economic growth, it is traditionally associated with corruption, illegal exploitation of mineral resources, tax evasion through various illegal deals by mining companies like transfer pricing, TIN capitalization manipulations, and resource smuggling as well as illegal mining activities such as 'Galamsey', etc. A recent publication on illicit flows from developing countries, show that Ghana ranks 93rd out of 145 countries (Dev Kar and Brian LeBlanc, 2013).

The recent upsurge in illegal mining is an increasingly sensitive issue in Ghana. In 2013, Ghanaian authorities arrested a number of miners for unlicensed gold mining, many of whom were foreign nationals. It is estimated that, illicit mining has attracted about 50,000 foreign mine workers (Jamasmie, 2014). This situation is further worsened by a growing trend of Ghanaians who have sub-leased their mining concessions to non-Ghanaians. It is however difficult to estimate the total value of illegal mining in Ghana, most of which is smuggled outside of the country. The total mineral revenue is estimated at US$ 4.8 in 2013 (Chamber of Mines, 2013). The Ghana Chamber of Mines estimates that about 35 percent of total gold output to the sub-sector, which is 10 percent higher than the output of the Gold Fields Group, the largest mining company in the country. At current revenue levels, we estimate that illicit financial flows from illegal mining in 2013 to be about US$1.7 billion. Another area of potential concern is the reported price of gold proceeds by mining companies' relative the market price for gold during the same period. Although in recent times, on average there seem to be some convergence, there is very little transparency in the pricing of gold sales by mining companies.

According to Baker et al. (2014), cumulative gross illicit flows in Ghana from trade misinvoicing amounted to US$14.39 billion over the ten-year period 2002–2011 or about US$1.44 billion per year on average. Illicit outflows through export under-invoicing amounted to US$5.11 billion over the period, averaging US$568 million per year with most of them occurring between 2007 and 2011. Import over-invoicing was estimated at US$2.21 billion in illicit outflows over this period, which is less than half the amount transferred out of the country through export under-invoicing. With respect to inflows, it is found that import under-invoicing, which amounted to US$4.64 billion outstrips export over-invoicing (US$2.43 billion) over this period. Over the period studied (2002–2011), it was found that about US$7.32 billion in capital had drained out of Ghana illicitly through trade misinvoicing while illicit inflows amounted to US$7.07 billion during the same period. The combined effect of these illicit flows may have cost the government some US$3.86 billion in lost tax revenue.

Monies transferred illegally out of Ghana over this period alone accounted for more than half (56 percent) of total official development assistance to Ghana (US$13,029 million). A significant amount of tax revenue was also lost through illicit inflows through import under invoicing and export overinvoicing. As shown in Figure 1, the sum of illicit financial outflow and tax losses is almost equal to the total Official Development Assistance (ODA) from 2002 to 2011. Figure 1.0 provides a graphical representation of average annualised ODA, average illicit financial outflow and the average annualized tax losses.

FIGURE 1: ANNUAL AVERAGE ODA, AVERAGE ILLICIT OUTFLOWS AND AVERAGE TAX REVENUE LOSS IN GHANA (2002-2011)



Source: Baker et al (2014)

Though illicit flows, a significantly large proportion of scarce resources are diverted away from the domestic economy and other productive activities. These funds which could be used to finance critical investments in infrastructure and social services (including health, education, and social protection) are transferred illegally out of Ghana. This has the potential of weakening the financial system and dampening economic growth as well as worsening the income inequality situation.

Though illicit financial flow is a global problem, it also has a perverse effect on the average Ghanaian. Every dollar that leaves the country illegally is a dollar lost to investment in crucial sectors such as agriculture, health and education, and infrastructure, which are critical for addressing the numerous challenges the country is facing, including unemployment, poverty, and infrastructure deficits. For instance, the US$1.4 billion that Ghana loses per year through illicit financial flow means fewer hospitals, schools, road network and access to electricity.

Illicit financial flows also have negative consequences on the financial market. A sound financial market depends on integrity and honesty. The estimated US$702 million dollars of illicit financial inflows to Ghana annually have the potential of undermining the integrity of the country's financial system. Similarly, an outflow of about US$739 million annually has obviously denied the financial system the needed resources for financial deepening and improved financial intermediation.

A United Nations Office on Drugs and Crime (UNODC) 2011 report show that illicit financial flows thrive on criminal activities, including smuggling, illegal weapons collections and criminal infiltration in the public sector. Some of these activities are not conducive for the general business climate and potentially drive investment away from the country. IFFs, such as trade misinvoicing, are found to have a strong link with the underground economy, which serves as safe haven for criminal activities.

4. MEASURES TO IMPROVE GOVERNANCE OF RESOURCE REVENUE

With illicit outflows in Ghana accounting for more than half of its official development assistance, there is need for some drastic measures to combat this menace which is depriving the country of hard earned currency for financing much need infrastructure development. In line with this, the Ghanaian government has put some policies in place to effectively deal with illicit financial flows. These measures include streamlining customs operations, implementing transparency and governance initiatives, and working towards effective anti-money laundering regulations and financial oversight. Some specific measures taken include the integration of the main revenue agencies, namely IRS, VAT, and CEPS under into the Ghana Revenue Authority, the computerized Ghana Custom Management System (GCMS) and signing the World Trade Organisation (WTO)'s Customs Valuation Agreement.

Despite the progress made so far, more needs to be done if illicit financial flows are to be significantly curtailed. First, there is a need for effective collaboration among regional and international bodies (such as the Africa Union and International Monetary Fund (IMF), government, civil society, and the banking sector. This involves strengthening tax administration and enforcement through better regionally integrated systems, facilitating tax information exchange between governments from development and developing countries, moving towards a consistent and globalized regulatory system on transfer pricing including the use of advance transfer pricing system and increasing global asset recovery capacity.

Secondly, three key factors should be considered to fight illicit financial flow. These are strong institutions, a powerful anti-corruption constituency and better remuneration of public servants (UNECA, 2009).

Moreover, since up-to-date information exists on average world market prices for a number of goods and commodities, customs officials could use this information to determine the tax due and whether the values stated on the invoice are consistent with international market prices. Access to such reliable information increases the chances of detecting the illicit flows in turn providing the government the opportunity to control the practice.

Again, there must be strong sanctions for illicit financial flow. These may include large fines, withdrawal of licences or suspension of operations, or even imprisonment.

Effectively curtailing illicit flows also requires not only improving customs administration to better track trade documentation, but also limiting the methods through which illicit money is transferred and absorbed by strengthening the financial system with improved laws.

Further, greater transparency is required in designing new or improved policies to address these illicit transfers of capital out the country. Governments need to be able to see where, how, and at what value trade flows are moving across their country's borders, so that they can try to detect, deter, and prosecute any abuses of the laws governing these transactions.

Customs officials should use information on the beneficial owner(s) of trading companies and information from cross-border tax information sharing agreements in order to question suspect transactions. Pursuing these recommendations will go far towards curtailing each country's illicit financial flows and corresponding domestic revenue and capital losses. Applying the principles of transparency and curtailment to address trade misinvoicing and the shadow financial system will allow governments and societies to strike a balance between open markets on one side and accountability and rule of law on the other side. It is up to each country, with input from public officials, the private sector, and civil society and with support from its development partners, to determine where that point of balance is on the spectrum based on that country's circumstances and priorities

6. CONCLUSION

Ghana, just like other resource rich African countries has experienced robust economic growth over the last decade spurred by the growing volumes of foreign direct investment, especially in the extractive sectors. Safeguarding this development requires that adequate mechanisms are put in place to ensure that extractive revenue is not misdirected and that reforms continue to improve the domestic investment climate and increase the availability of health and education facilities, especially in rural areas. In line with this, various governments in Africa have been implementing policies and measures to combat illicit financial flows through trade misinvoicing particularly in the extractive sectors. In Ghana, the government has streamlined customs operations, implemented transparency and governance initiatives, and introduced effective anti-money laundering regulations and financial oversight. However, the rapid growth of the Ghanaian economy and its international trade has made it difficult to keep up with demands for capacity and technical ability. This means that more has to be done in terms of collaboration, information sharing, enforcement of sanctions and effective monitoring system

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