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 per cent 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.

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.

	CORRUPTION	ILLEGAL EXPLOITATION	TAX EVASION
Main financial flow	Facilitation payment (bribes by companies, money embezzled 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

FIGURE1. SOURCES OF IFF

METHOD OF ANALYSIS

There are various definitions of illicit financial flows (IFF) 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. 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"

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.

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.

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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

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

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