

SUSTAINABLE DEVELOPMENT GOALS

Curbing illicit financial flows: How to raise \$770b for Africa's development

If we think about development priorities for the next 15 years — with the Millennium Development Goals expiring in 2015 — adequate nutrition and basic education immediately come to mind. Illicit financial flows (IFF) would not be top priority, but in a paper for the Copenhagen Consensus Centre, economist Alex Cobham argues that they are important enough to be included in the post-2015 goals now being debated by the international community.

If we look at the costs of IFF, he clearly has a point: 20 sub-Saharan Africa countries are estimated to have lost more than 10 per cent of their GDPs since 1980, while Africa as a whole is still estimated to be losing 3.4 per cent of GDP, that is, \$76 billion each year. The Washington-based think tank Global Financial Integrity (GFI) estimates illicit flows to total ten-times the current level of international aid.

Nigeria offers a particularly egregious example of the problem. The well-respected governor of the central bank, Lamido Sanusi, was suspended for blowing the whistle on an apparent \$20 billion difference between the country's recorded oil exports and those reported to the bank.

Illicit cash flows are not necessarily strictly illegal. Money laundering — transferring the proceeds of crime through apparently legitimate channels — is clearly illegal and the subject of stringent checks in the banking sector. Abuse of power by kleptocratic regimes to skim off a country's wealth into Swiss bank accounts at the expense of the rest of society is morally wrong and often also criminal.

What is less clear-cut is the avoidance of tax; while being



The revenue lost through misinvoicing by African countries could have been invested in development, including into education, healthcare, or infrastructure improvements. Picture: File

COMMENTARY

DR BJØRN LOMBORG

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legal in the strict sense of the word, this is frowned on by society. Recently, this has become a big story in some countries as multinational companies have, quite legitimately, minimised their tax liabilities by being registered in a low-tax country and declaring their profit there while in practice doing most of their business elsewhere.

A recent study by GFI found that between 2002 and 2011, \$60.8 billion moved illegally into or out of Ghana, Kenya, Mozambique, Tanzania, and Ugan-

da using trade misinvoicing. This practice means that companies alter the value of their exports and imports to justify illicitly moving money in and out of a country.

The potential average annual tax loss from trade misinvoicing came to about 12.7 per cent of Uganda's total government revenue between 2002 and 2011, followed by Ghana (11 per cent), Kenya (8.3 per cent), and Tanzania (7.4 per cent), GFI states. This tax revenue could have been invested in develop-

ment, including into education, healthcare, or infrastructure improvements.

While public exposure is often enough for companies to change practices to protect their reputation, Cobham — research fellow at the Centre for Global Development — suggests transparency should be achieved via statutory public registers rather than investigative journalism and naming and shaming.

He makes three proposals: to make public full details of company ownership (that is, no shell companies with the real owners remaining hidden), ensure that there is automatic exchange of tax information between jurisdictions and require multinationals to report on a country-by-country basis. This transparency should greatly reduce illicit transfers.

Cobham proposes that one of

the key targets for the UN system should be "Reduce to zero the legal persons and arrangements for which beneficial ownership info is not publicly available." If this gave just a 10 per cent reduction in the average losses to IFF in the decade from 2002, the benefit would be \$768 billion, but reducing current losses by half would raise this to a staggering \$7.5 trillion.

A wide range of compliance costs have also been estimated, but even using the highest of these (\$66 billion) with the lowest benefit scenario gives a very attractive benefit-cost ratio: for each dollar spent on the above goal, \$13 would be gained.

Not reassuring

However, these transparency proposals have to be as closely adhered to universally as possible, if there is to be a substantial impact — otherwise more money will simply pass through other channels which remain open. The precedent of the existing anti-money laundering framework is not reassuring.

This system is universally accepted and most countries obey the letter of the law without stemming the flow of illegal money in practice. Even major international banks are sometimes found to have flagrantly flouted the rules. However, these systems are complex and varied and the wider transparency proposals have the benefit of greater simplicity, so perhaps we should be more optimistic about them.

In an ideal world, it would not be possible for criminals to move their money about with impunity; neither should companies and individuals pay less tax than society deems to be fair in comparison with others. It is now up to us to consider whether it is worth putting scarce resources into trying to make the financial world more ideal, or whether there are better ways to use them.

Dr Bjorn Lomborg, an adjunct professor at the Copenhagen Business School, directs the Copenhagen Consensus Centre



Transparency should be achieved via statutory public registers rather than investigative journalism and naming and shaming.

Research Fellow, Alex Cobham

Endemic violence inflicted daily on children at home, says Unicef report

By SOMINI SENGUPTA

New York Times News Service

ONE IN 10 girls worldwide have been forced into a sexual act, and 6 in 10 children ages 2 to 14 are regularly beaten by parents and caregivers, according to a Unicef report.

The report, drawing on data from 190 countries, paints a picture of endemic physical and emotional violence inflicted daily on children, mostly at home and in peacetime rather than on the streets or during war. Homicide is especially common in some of the Latin American countries from which children are fleeing by the tens of thousands into the US: It is the leading killer

of adolescent boys ages 19 and younger in El Salvador, Guatemala and Venezuela. Central and Eastern Europe report the lowest rates of homicide among children.

Overall, war accounts for a small share of violence against children. But during conflicts and other humanitarian crises, domestic violence against women and children rises measurably, according to the authors of the study.

"Most violence against children occurs at the hands of the people charged with their care or with whom they interact daily - caregivers, peers and intimate partners," the report says.

About 6 in 10 children, 1 billion

worldwide, are subjected to corporal punishment as a form of discipline by their caregivers, including parents, although the report concludes that "the most severe forms of corporal punishment — hitting a child on the head, ears or face or hitting a child hard and repeatedly — are less common over all."

Among girls ages 15 to 19, almost

60pc

Or 6 in 10 children aged 2 to 14 are regularly beaten by parents and caregivers, according to a Unicef report.

one-fourth said they had been the victims of "some form of physical violence since age 15." They said they suffered most at the hands of the men to whom they were closest. In countries as varied as India and Zambia, for instance, more than 70 per cent of girls named their current or former husbands or partners as the perpetrators of physical violence against them.

There seems to be widespread social acceptance of the practice: Half of all girls ages 15 to 19 said they believed a man was sometimes justified in hitting his wife.

Likewise, girls worldwide reported being subjected to sexual violence at the hands of their hus-

bands and boyfriends. One in 10 said they had experienced "forced intercourse or other forced sexual acts at some point in their lives." Boys were found to have experienced sexual violence, too, but to a lesser extent.

In the US, 35 per cent of girls ages 14 to 17, and 20 per cent of boys in the same age range, had experienced such violence.

Separately, an advocacy group called the Watchlist on Children and Armed Conflict issued a report Thursday documenting the recruitment of child soldiers by the militant group Boko Haram in Nigeria, and by a civil defence group formed to counter the militants.