

Research Article

Effects of Illicit Financial Flows on Economic Growth and Development in Sub-Saharan Africa

Aminu Osman ¹, Mubarik Salifu ^{2,*}¹ Department of Economic Studies, School of Economics, University of Cape Coast, Cape Coast² Department of Economics, University for Development Studies, Ghana

*Correspondence: Mubarik Salifu (smubarik@uds.edu.gh)

Abstract: Using a desktop review of literature, the effect of illegal capital flows on the economic performance of Sub-Saharan Africa is examined. The review focus on articles with attention to illegal capital flows and their effects on the economic performance of Sub-Saharan Africa as a whole. By way of sampling method, purposive sampling was used, and so the desktop review focused purposively on articles published on issues of illicit financial flows and their effects on the economic performance of Ghana and Sub-Saharan Africa as a whole. The review found a high propensity of trade mis-invoicing and thus high illicit financial flows, transactions across borders from developing countries and for that matter Sub-Saharan Africa to the developed economies. Therefore, the research recommends that customs divisions in sub-Saharan Africa should have up-to-date commodity-level world pricing information to make relatively better comparisons to detect mis-pricing and avoid such falsification and manipulation in trade. Given the high propensity of trade mis-invoicing resulting in high illicit financial flows, we recommend that cross-border transactions from developing sub-Saharan African countries be subjected to heightened scrutiny to curtail any potential traces of falsification in trade for tax evasion.

Keywords: Illicit Financial Flow, Economic Growth, Sub-Saharan African, Capital Flight**How to cite this paper:**

Osman, A., & Salifu, M. (2022). Effects of Illicit Financial Flows on Economic Growth and Development in Sub-Saharan Africa. *Universal Journal of Finance and Economics*, 2(1), 31–41. Retrieved from <https://www.scipublications.com/journal/index.php/ujfe/article/view/436>

Received: August 22, 2022**Accepted:** October 10, 2022**Published:** October 12, 2022

Copyright: © 2022 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license (<http://creativecommons.org/licenses/by/4.0/>).

1. Introduction

The effect of illegal financial drifts from developing countries, specifically on the sub-Saharan African economies, has been enormous over the years (Badwan and Atta, 2019). Multinational Companies in domestic economies and other related partners indulge in these illegal practices through mis-invoicing of imports and exports and abusive transfer pricing to evade taxes from the host nations, thereby reducing the domestic country's revenue generation for developmental purposes (Binawa and Ihendinihu, 2018). In the extractive sector like the petroleum and mining industries, Illicit financial flows come in manners of illegal resource exploration, tax evasion via transfer pricing, and smuggling and corruption (Lemaitre, 2019).

Generally, illicit financial movement involves the illegal flow of financial funds across borders through transfer pricing and trade mis-invoicing (Bhusal, 2016). This is usually done by the way of money laundering, multinational companies involving in bribery, avoiding taxes that were to serve as revenues to the host economies and trade mispricing (Ogbonnaya & Ogechuckwu, 2017). Trade mis-invoicing in domestic economies by related parties is usually in the form of misrepresentation of price or volumes of goods and services for cross-border trade to reduce tax bills by avoiding customs duties and other eligible taxes. Transfer mispricing comes in the form of manipulation of prices with the intention of shifting profit from host countries, usually with high taxes, to the low-tax economies. Money laundering through trade mispricing is yet another form of

illicit financial flows where mispricing is tactically applied to disguise illegal income generated within a host country to another country of interest, usually to the developed economies (Clausing, 2003).

According to the *Global Financial Integrity (GFI) (2019)*, the annual percent increase in illegal capital moving out of the developing economies averaged 3.8% since 2006 and expected to increase further considering the growing strengths of the developed economies. In 2015, illegal capital flowing out of developing economies amounted to about One Thousand Six Hundred and Ninety US Dollars (US\$ 1,690). The percentage of total developing country trade that escapes through transfer pricing has shown a downward trend, as shown in *Figure 1*. The absolute amount of trade that spills out of developing economies illegally has rather been increasing. From *Figure 1*, sub-Saharan Africa lies above all the sub-groups of developing economies in terms of the percentage share of trade that goes through illegal financial flows over the years (from 2006 to 2015). Though developing Europe leads in absolute amounts of capital flight, sub-Saharan Africa has more proportions in terms of share of international trade volumes that escapes as illegal funds (capital) to the developed economies.

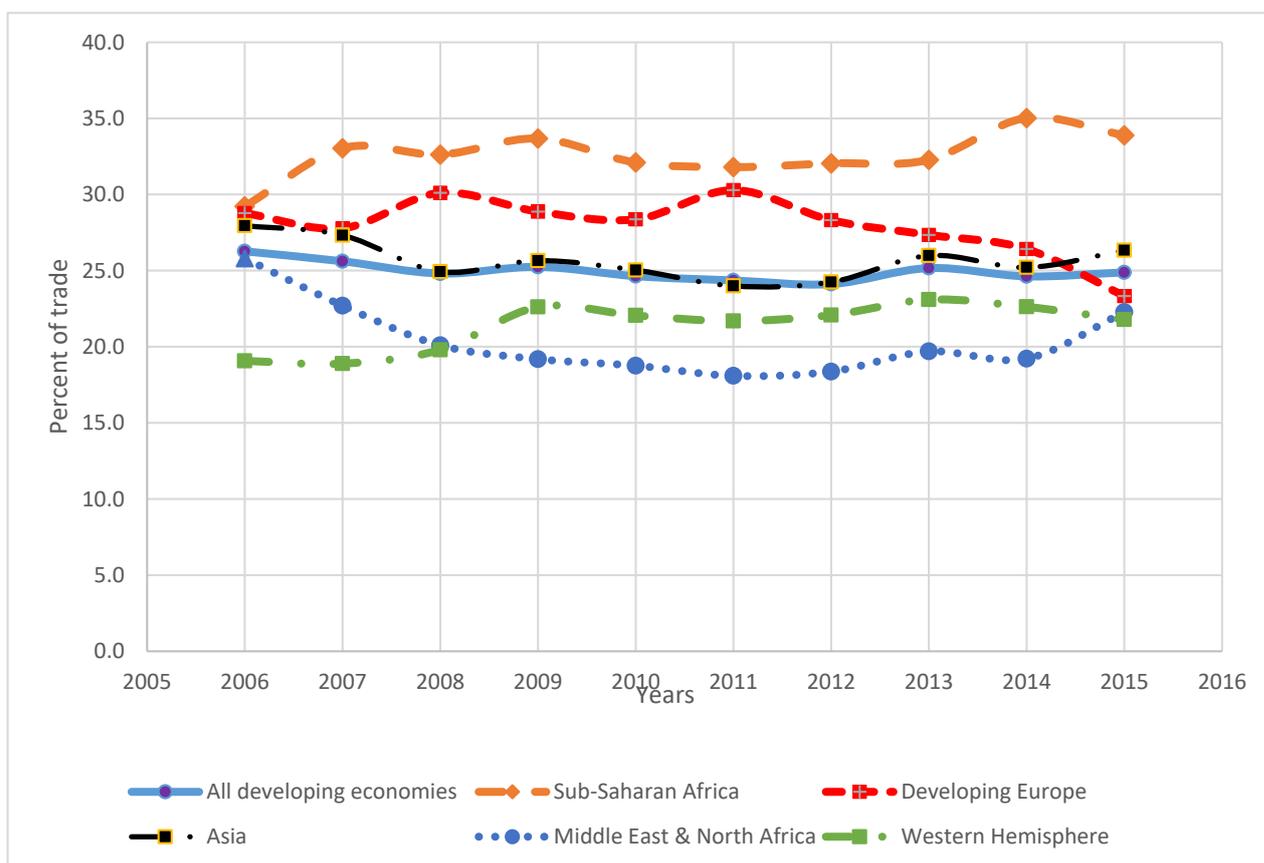


Figure 1. Percent of total Developing Country Trade that flows through Illegal Funds; Source: (Global Financial Integrity [GFI], 2019)

Many Sub-Saharan African countries, including Ghana, have been easing restrictions to attract Foreign Direct Investment (FDI) through economic policy reforms such as granting tax concessions and subsidies, thriving to maintain a good macroeconomic environment, and strengthening bilateral relationships. It is expected to propel economic growth, boost exports, create more jobs, boost budget revenue to finance annual government expenditure and consequently significantly improve the performance of the macroeconomic

indicators of the economy. Illicit Financial flow rather has come to thwart these good intentions. Multinational companies, through transfer pricing, remit their profits as royalties to their subsidiary companies or through trade mispricing to economies where taxes are low just to evade paying huge taxes to the host countries (Fumpa-Makano, 2019). Illicit financial flows done differently by related parted end up reducing revenues that could finance national annual budgets, thereby slowing economic growth and development.

In the year 2013, Ghana was ranked ninety-third out of the 145 developing economies on the extent of the flow of illicit financial resources (GFI, 2019). According to the Global Financial Integrity, Ghana is losing an amount of US\$ 3.2 million as illicit financial flow from Ghana to the developed economies. No matter the form and amounts involved in the illicit financial flow, it erodes the financial resources of the developing countries that could be put into effective and efficient utilization through annual budget financing on education, agriculture, health, security, and justice upturn the fortunes of the very poor. The effect of these illegal capital flows to the developed countries yield adverse effect on countries within sub-Saharan Africa, of which Ghana is not an exception. Domestic economies bedeviled with illicit financial flows are often restricted to maximize domestic revenue mobilization and weaken their capacity to adequately finance economic activities that could make them more competitive internationally.

Adequately funding the annual national budgets of Ghana and sub-Saharan Africa as a whole could have been easier if these illicit financial resources were retained and made maximum used of. This puzzle is what motivates the study. The research will perform a desktop analysis to analyze the impact of illegal financial flows on Sub-Saharan economic activities. Specifically, the study sought to find out evidence of illicit financial flows from sub-Saharan economies, identify the causes and scale of illicit financial flows and examine the effect of illicit financial flows on Sub-Saharan Africa's economic growth and development particularly.

2. Materials and Methods

The study is a desktop review of literature on the impact of illegal capital flows on the economic performance of Sub-Saharan African. The design of the study is a desktop review. The review focus on articles with attention to illegal capital flows and its effects on the economic performance of Sub-Saharan Africa as a whole. By way of sampling method, purposive sampling was used and so the desktop review focused purposively on articles published on issues of illicit financial flows and its effects on the economic performance of Ghana and Sub-Saharan Africa as a whole.

3. Theoretical Review

3.1. Neoclassical View of Capital Flow

Illicit financial flow is seen by the Neoclassicals with their lenses from the free market base as a portfolio selection decision made by partners whose aim is to maximize utility (Bhusal, 2016; Letete & Sarr, 2017). From this neoclassical assumption, it is therefore viewed as how agents try to be responsive to variations in portfolio packages that result from the traditional risk diversification motive of domestic investors or economic agents (Letete & Sarr, 2017). There are other significant factors worth discussing as far as this paper is concerned. They include relative risk rewards and return differentials.

Incentives from a relative risk involve comparing counterfactual outcomes of after-tax domestic and foreign. Relative risk is usually done with adjustment for variables such as returns volatility, expected depreciation, potentially higher taxes or projected lower domestic returns, liquidity premiums, and investment risk measures. Evidence from such judgment has proven that net returns are typically assumed to be higher overseas due to tax differences that prevail in domestic and foreign economies. This results in projected currency depreciation in the domestic economy, affecting returns and, consequently, high

economic risk. The latter is the result of increased uncertainty in developing countries' returns. It also suggests that financial flow is triggered by market distortions asymmetric threats compared to the developed economies.

Apart from taxes as incentives to illicit capital flight, inflation has also been found to cause illicit financial flows. Parties like Multinational Companies prefer to transfer capital out of countries where there is high inflation. High inflation always devalues the currency of the host economy where these parties operate, and hence if these parties prefer to flow their profits and resources out of the countries, they operate for fear of the low value of their money. Even domestic investors also respond the same to high inflation rates, not to talk of parties who are not citizens.

Consequently, standard economic development models that evaluate illegal financial movements across borders based on the neoclassical portfolio choice theory assume the following thematic areas in [Figure 2](#).

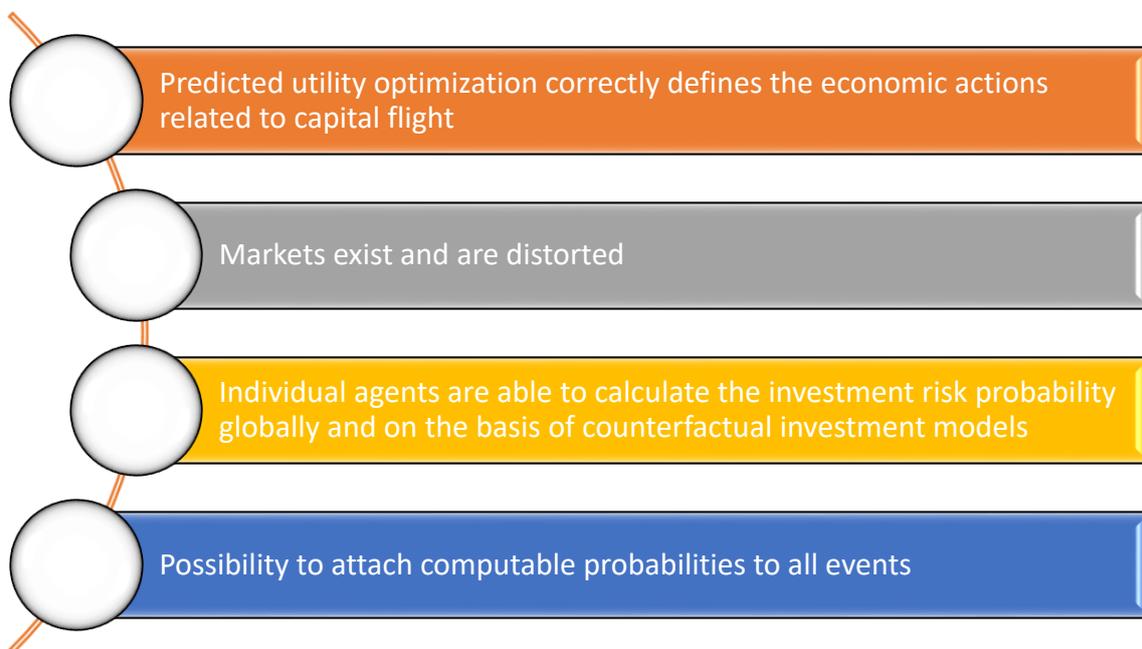


Figure 2. Thematic Areas of Neoclassical Theory of Portfolio Choice; Source: Adapted from (Letete & Sarr, 2017)

Capital flow that seeks more risk adjustment return is not a problem for the less-to-do economies provided that the high risk can be surmounted. This is of much relevance to policymakers as far as capital flight is concerned ([Jain, 1988](#)).

4. Discussions

4.1. Where Do Illegal Financial Movements Emanate From?

Illicit capital flows have been defined by the Organization for Economic Cooperation and Development (OECD) as capital flow via cross-border done through fake misinformation or other unlawful activities. Thus, abusive transfer pricing among subsidiaries of related companies is tactically done to avoid tax. In extractive sectors, illicit capital flow is characterized by corruption, illegal resource exploitation, and tax evasion (including, through smuggling and transfer mispricing). Many researches have indicated that the illegal financial flows from developing countries manifest in the definition provided by the OECD.

Consider an instance of a company paying a bribe to illegally access a resource, not within its legally demarcated concession area. Without export duties, this company finds its way to exporting its products and bribe paid to overseas accounts. Evidence shows that illicit financial transactions in developing countries are closely linked to large-scale corruption (Reed & Fontana, 2011). Criminal activities among parties are often a significant source of illegal financial flow. This is mostly executed through trades in medicines, terrorist funding, human trafficking, etc. – the proceeds of criminal activities such as drug trading, human migrations, racketeering, counterfeiting, contraband, and terrorist financing.

Through illegal capital outflows, an amount of Five Hundred and Twenty Billion US Dollars is lost by sub-Saharan Africa (SSA) over the period 2003-2012. African countries exporting minerals and fuel are expected to lose around US\$ 50 billion annually through illegal capital flow (Kar & Cartwright-Smith, 2010). Thus, illicit financial flow is more pronounced in the oil and gas, industrial, and artisanal mining sectors. A report of the high-level panel on IFFs estimated Africa's loss in IFFs at more than \$1 trillion over the last 50 years, a sum nearly equivalent to all the official development assistance the continent received during the same period.

Ghana's cumulative illegal capital that left the economy between the periods of 2002 to 2011 from trade mis-invoicing amounted to Fourteen Billion US Dollars thirty-nine cents with an annual average of US\$1.44 billion over the period under study. This proves much better evidence to the Government of Ghana that stringent efforts must be put in place towards dealing with the situation through the Customs Divisions of the Ghana Revenue Authority.

In a study by Ndikumana & Boyce (2011), illegal capital flight is observed to accompany economic growth. The study indicated that countries with high growth in economies are always characterized by illegal capital flights as a result of high trade with other countries. The study, however, also suspected the lack of transparency on the invoicing of goods and services across the borders as a critical cause of this capital flight.

4.2. *Illegal Capital Flight: Evidence from Developing Countries and sub-Saharan Africa*

Literature has shown that Developing Economies and, thus African countries have suffered greatly from massive financial outflows illegally to the developed economies. Global Financial Integrity (2019) reported that the annual percentage change in illicit financial flows from 2006 to 2015 averaged 2.6% in Sub-Saharan Africa. Overall annual change in the developing economies averaged 3.8%. In sub-Saharan Africa, illicit financial flows for the year 2015 amounted to \$84 billion in illicit flows to the developed economies, with illicit outflows of \$43 billion and illicit inflow of \$41 billion.

Table 1. Illicit Financial Flows from Developing Economies: 2006 - 2015

Group	Potential Trade Mis-invoicing	Total Trade	Average annual percent change since 2006
Sub-Saharan Africa	22	111	-1.7
Asia	537	2899	4.7
Developing Europe	171	912	1.5
Middle East & North Africa	77	385	5.8
Western Hemisphere	132	906	1.1
All developing economies	940	5213	3.4

Sources: Global Financial Integrity [GFI] (2015)

In Sub-Saharan Africa, Burundi has the highest outflow of capital, with a total amount of US\$ 95.28 million as of 2015. The country is followed by the Democratic Republic of Congo, Eritrea, and the rest, as seen in [Table 2](#). The top economies where such huge capital is flown out are the same countries suffering from external debt to GDP. They could have used these monies to pay off their external debt and even have a surplus to be used for other economic activities that could propel development. The Government of Burundi could have improved the per capita income (GDP) of her citizens by US\$ 8.77 each to set the country above all economies in Africa as the country with the highest per capita income (GDP) in Africa.

Table 2. Amount of Capital flight (transfer mispricing) for top 13 African Countries

No.	Countries	Amount of Capital Outflow
1	Burundi	95.28
2	Democratic Republic of Congo	79.81
3	Eritrea	63.60
4	Lesotho	56.56
5	Malawi	48.74
6	Mozambique	48.05
7	Namibia	44.10
8	Niger	44.03
9	Rwanda	42.95
10	Sierra Leone	40.26
11	Sudan	38.68
12	Zambia	38.20
13	Zimbabwe	32.85

Source: (GFI, 2019)

With the amount of US\$9 billion representing Ghana's trade with advanced economies, over 35.5% (US\$ 3.2 billion) of the country's international trade was lost to illicit flows through import and export mis-invoicing in 2015. This amount could service 15% of the country's external debt of US\$ 20.1 billion (as the third quarter of 2019) (BoG, 2019). This incidence has partly been blamed on the inability of revenue collection agencies in the country not doing due diligence in the judicious mobilization of funds from both domestic and foreign companies who dodge tax through transfer mispricing and trade mis-invoicing.

Sub-Saharan Africa lost US\$ 854 billion in capital flight accumulated from 1970 to 2008. This cumulated illicit capital flow was big enough to have paid off the continent's total external debts outstanding, which was around US\$ 250 billion as of December ending 2008, and even still make a saving of US\$ 604 billion (GFI, 2012).

Illegal capital flight manifests in the trend of trade mispricing. GFI (2019) found trade mispricing to account for 80% of the year on sum (2001 to 2010) illegal capital flight from developing economies for the period 2006 to 2015. The drivers and trends of the illicit flows are seen in trade mispricing, which was found to account for an average of 80 percent of cumulative illicit flows from developing countries from 2001-2010 and is also the major channel for the transfer of illicit capital.

[War and Want \(2015\)](#) reported a former Zambia's Deputy Finance Minister, Miles Sampa, asserting that companies were evading tax through transfer by related companies trading at artificial and arbitrary prices to minimize taxes. Mr. Sampa added that some of these companies loan their subsidiary companies at a high-interest rate to increase production costs and lessen their tax bills.

4.3. Effect of Illegal Capital Flight on Economic Growth and Development

Every successful government across the globe depends on economic growth and development as a measure of performance. As the world is becoming more globalized, the Ghanaian economy and other sub-Saharan African economies are open to international trade, they enjoy benefits from international interdependence and also suffer its adverse impacts therefrom.

Ogbonnaya & Ogechuckwu (2017) found that illegal capital flow substantially affects the economic performance of Sub-Saharan Africa. The paper, however, left out essential components of illicit financial flows as it concentrated only on trade mis-pricing, neglecting other aspects of illicit financial mispricing such as abusive transfer pricing, money laundering, bribery, and corruption for the purpose of avoiding tax, tax evasion, and corruption. Therefore, the study results could mislead the understanding of illicit financial and flow components and hence influence interpretations thereof.

In a related study by Dev (2015) show that the extent of illegal capital outflows from Africa, with Ghana, not an exception, indicates that the region could effectively make optimum utilization of external aid and other transfers if the illegal capital flow is curtailed. The measure of illegal capital outflow of this research corroborates with the methods used by Global Financial Integrity, 2019. Their results imply that Ghana and, for that matter, sub-Saharan Africa must, with immediate dispatch, formulate smart controls that will counter every source of illicit capital flight. Through this, Africa could be achieved the Beyond-Aid Agenda as a whole as proposed by Ghana. This approach can be critiqued on the fact that the aspect of transfer pricing in illicit financial flow is ignored and so does not speak to the overall illegal funds that leave Sub-Saharan countries illegally. The payment of royalties by Multinational Companies to their subsidiaries is silent and has not been estimated by the study.

Obasi (2015) revealed that transfer pricing (one of the components of illicit financial flows) with the unemployment variable negatively relates to economic growth. The study measured transfer pricing using trade mis-invoicing as a proxy for transfer pricing. This approach is most likely to yield spurious inference as trade mispricing looks broader than transfer pricing and does not necessarily measure activities of unrelated companies across countries but also captures trade mis-pricing among individuals who do it for purposes of avoiding tax. The definition of transfer pricing particularly establishes not transactions between individuals but abusive pricing against the arm's length principle of a domestic economy between related companies in different states. It also accounts for other aspects of abusive practices in the form of reduced profits to reduced corporate tax payment. The measure of transfer pricing does not succinctly portray the cases for related entities' transaction prices not reflecting market prices.

In Africa, comparing related entities' sales and related entity expenses, Wausi (2015) finds a potential threat of related company transactions on revenue generation in Kenya. This goes a long way to affect the economic growth and development of the country. The model used by the study can be critiqued on the fact that the model could yield false estimators due to limited explanatory variables and, thus, model mis-specification. The model concentrated largely on two variables that explained variations in the dependent variable (revenue generation by multinational companies): sales related to party sales and related party expenses. These two variables are not enough to explain variations in the revenue generation of the companies.

Nkurunziza (2013) studied capital flight as a limitation to turning the fortunes of the very poor. The research underscored the need for developing economies to deal aggressively with bottlenecks in revenue generation through capital flight controls to be enabled to realize enough revenues for budget financing. The paper claimed that African leaders need a strong political will to combat this ugly phenomenon of illicit financial flow. The

study provokes further discussions on the link between economic development and poverty. Does economic growth result in improving people's livelihood and hence poverty reduction? This is what the study failed to link up. It is not just a warble logic that economic growth should necessarily bring about poverty reduction and hence improved general livelihood of the people.

Capital flight in the form of abusive transfer pricing is primarily the medium for benefit shifting, according to [Heckemeyer & Overesch \(2012\)](#). They found that differences in taxes across jurisdictions and tax havens have presented concussive room for Multinational Companies to use transfer mispricing to transfer revenues from high tax jurisdiction to low tax jurisdiction. According to them, under-declaring taxable profits by these companies results in a reduction in corporate tax paid in the country concerned and low revenues realized by the host economy. The study recognized international trade in crippling sub-Saharan Africa instead of improving their lives. Countries worldwide and their tax authorities are adopting measures to protect their taxes and domestic revenue generation.

IFF is clouded by a lack of terminological clarification that obstructs its interpretation. [Reed & Fontana \(2011\)](#) opined that this has resulted in the diverse interpretation of illicit illegal capital flight and IFF. They opined that legislation should focus on anti-money laundering policies and other measures that could combat illegal financial flows across the border. Aggressive attempts by rich countries to hide havens of secrecy or the proceeds of great corruption should be pursued and revealed.

Similarly, [Kar & Freitas \(2011\)](#) empirically analyzed the sum of developing countries' illegal financial flows over the decade ending 2009. The study presented estimates of developing countries' illicit financial flows (IFFs) over the decade 2000-2009 based on member countries' balance of payments (BOP), bilateral trade, and external debt results. Their findings corroborated with estimates of Global Financial Integrity, 2017. They used the approach of the residual model to do the analysis. Our results are that developing-country IFFs led by the top ten illegal capital exporters, most of who are in Asia and the region of the Middle East, and North Africa, have declined by 41 percent over the past year. They found that developing-country IFFs led by the top ten illegal capital exporters, most of who are in Asia and the region of the Middle East, and North Africa, have declined by 41 percent over the past year. They also considered this to be due to global economic crises that appeared to decrease the source of funds (new external loans and net foreign direct investment).

To establish the extent to which the investment-inhibiting effect of IFFs impact growth, [Ndikumana & Boyce \(2011\)](#) used data from several African developing countries to conduct an econometric simulation. The study's central question is how much additional growth the affected countries might have achieved without illicit financial outflows. The findings are plagued by a number of uncertainties; however, the trend is impressive. Ndikumana concludes that the thirty-nine countries studied over the period from 2000 to 2010 might have been able to achieve, on average, three percent more economic growth had been a radical stop to all IFFs. The finding corroborates a series of studies that affirm the adverse effects of capital flight in Sub-Saharan Africa. The study found a percentage of 3.9 additional growth of illicit financial flows from oil-exporting countries that are especially prone to illicit financial outflows.

The AU / ECA group (2011) reported damming-related illicit financial flow activities in some African countries. Based on differences in national income accounts and trade date (trade mispricing), they analyzed the existence, extent, and developmental problems of African IFFs. The study also explored to what extent financial secrecy had increased the risk of IFFs among African countries. They used the residual method of the World Bank and the trade mispricing approach based on the International Monetary Fund Directorate of Trade Statistics. Given the major variations, it was concluded that the continent's IFFs have risen over time and oil exporting countries tend to top the world's list of African net creditors.

In a report from the GFI (2015), abusive trade mispricing through mis-invoicing constitutes eighty percent of the sum of illegal capital flow in internal trade over the years. Their report revealed that China always maintains its position in illegal flights to other developed economies globally. China loses four hundred and twenty billion American dollars as at 2010 through this illegal capital flow. Chinese economy seems much better than the developing countries, and so the effects of the transfer mispricing on the China's economy will not be of greatness compared to the case of the struggling and fragile economies of sub-Saharan Africa.

Transfer pricing is mostly misconstrued to mean trade mis-invoicing. According to OECD, the latter means fraudulent misreporting of transactions, especially on information on the invoice for cross-border illicit financial flows. The former refers to where related multinational companies engage in transactions with prices that violates the arm's length principle practice. Transfer pricing is a neutral term. Transfer prices may fall anywhere in the spectrum from entirely appropriate to mistaken to fraudulently misreported. In most countries, cross-border transactions between related parties must be priced for tax purposes in accordance with the arm's length principle. Transfer prices must be determined as if the transaction occurred between independent parties. In many cases, however, this can be difficult to determine precisely because exact analogies for the intra-group transactions may not be available, and a degree of approximation and judgment may be required. This means that reasonable people can disagree as to what is the correct transfer price in a particular case.

Readhead (2016) reported a senior transfer pricing official at the Ghana Revenue Authority to have commented that the problem with developing economies is mostly misled by the huge amounts in dollars, which just be one percent of return to asset and alluded to seem to be big money for a tax agency meanwhile, it might be small in relation to the investment. Readhead study further noted that the problem of illegal capital flight from Ghana in the form of transfer mis-pricing is not to do with capacity, but it has to do with access to relevant information on transfer pricing of the multinational enterprises for comparison. As evidence of abusive transfer pricing practices in Ghana, an official of the Ghana Revenue of Authority found a textile company recording losses consistently to reduce profit and decrease their corporate tax bill.

There is no absolute clarity on the term "mis-invoicing" — with some parties appearing to include matching "mis-invoicing" (including between related parties). In contrast, others refer to mismatched invoices, which show up more readily in the customs data used. It is, therefore, sensible to avoid the term or clarify how it is interpreted if used. With regard to the approach to mis-invoices, estimates as to the degree of "trade mis-invoicing" should, in theory, involve related parties with non-related transactions. It should not cover to a large extent the transfer mis-pricing, as this would require comparing trade scripts of volumes involved in the business — export and import. The Central Bank of Nigeria's data on trade mis-invoicing is most like to be the case of data used by Global Financial Integrity for estimating trade. Though it is evidenced that related parties engaged in trade mispricing to transfer financial resources, using trade mis-invoicing data illicitly does not allow for the examination of individual transactions among individual parties. The data cannot account separately whether the parties to a transaction are related or not and will be difficult to clearly indicate aspect of the trade mis-invoicing that account for abusive transfer pricing.

5. Conclusion

In the latest theoretical and analytical studies, substantial research has been conducted on illegal financial flows. Empirically, there are several studies on illegal financial flows, some focusing on trade mis-invoicing and some focusing on coercive transfer pricing in Ghana, developing countries, and Africa in general. None of the empirical studies has been able to take the combined measure of illicit financial flow (incorporating all the

components – transfer pricing and trade mis-invoicing) on economic growth and development. Nonetheless, these studies have exposed the effects of illegal capital flights on developing countries' economic growth and development, and Ghana, for that matter. Different international and local studies have shown that the field of illegal financial transactions will forever remain an exciting topic for governments, tax experts, and regulators, corporate and multinational corporations that participate

It is difficult to accurately measure the direct economic effect of illegal financial transactions on developing countries. Nonetheless, empirically established that they are not only negative, but also of great consequence can be considered. It is emphatic that IFFs deprive the affected countries of significant amounts of investment funds that could otherwise stimulate economic growth and supplement international loans and assistance payments within public sector funding.

In view of this, it would also be much appropriate for countries across the globe especially developing countries and thus Ghana, to initiate policy aimed at curbing IFFs as simply addressing the symptoms in terms of development policy. Therefore, there is definitely a greater need for international financial and technological cooperation, such as in the fight against corruption and the reform of tax systems. Nevertheless, IFFs are not just a symptom but also a causal factor of pressing developmental issues. It is therefore incumbent on offshore financial centres to take countermeasures in their spheres of influence, which render these flow possible in the first place through various secrecy mechanisms.

Governments of development economies, sub-Saharan countries, and thus Ghana need to adopt and implement laws that explicitly frown against any form of illegal financial flows. International relations must be strengthened to counter funds flow from host countries to the receiving developed countries. Administrative assistance, especially the Custom Divisions, needs to be expanded to ease the automated exchange of information on tax issues, comprehensive identification and disclosure of the effective economic beneficiaries of corporations, trusts, and foundations; and detailed breakdown of corporate group accounts by sector and by nation. Capacity and equipment requirements of the Ghana Revenue Authority need to be strengthened especially in the Customs Division and the Domestic Tax Revenue Division. The Divisions must be better trained and equipped to detect mis-invoicing in cross-border transactions. GFI recommends that customs divisions should have up-to-date commodity-level world pricing information to make relatively better comparisons to detect mis-pricing and avoid such falsification and manipulation in trade. Given that there exist a high propensity of trade mis-invoicing and thus high illicit financial flows, transactions across borders from developing countries and, for that matter, sub-Saharan Africa to the developed economies should be subjected to a high level of scrutiny to curtail any possible traces of falsification in trade for purposes of tax evasion.

Funding: This review received no external funding.

Conflict of Interest: We, the authors of this review, declare that we have no competing interests.

References

- [1] Ajayi, I. S. (1995). *Capital Flight and Internal Debt in Nigeria*. Nairobi: African Economic Research Consortium.
- [2] Badwan, N., & Atta, M. (2019). Empirical Investigation of Capital Flight and Illicit Financial Flows, Economic Growth in Palestine. *Journal of Economics, Management and Trade*, 25(5), 1-15. DOI: 10.9734/jemt/2019/v25i530207.
- [3] Barasa, T. (2018). *Illicit Financial Flows in Kenya: Mapping of the Literature and Synthesis of the Evidence*.

-
- [4] Bhusal, T. P. (2016). Corruption and Illicit Financial Flows in Nepal. *Tribhuvan University Journal*, 30(2), 211-224. <https://doi.org/10.3126/tuj.v30i2.25565>
- [5] Binawa, M. J., & Ihendinihu, J. U. (2018). Effect of Risk Assets Management on the Post Consolidation Financial Performance of Commercial Banks in Nigeria. In *The 8th AFRA International Conference* was held at University of Calabar International Conference Centre, Calabar (p. 610).
- [6] Clausing, K. A. (2003). Tax-motivated transfer pricing and US intrafirm trade prices. *Journal of Public Economics*, 87(9-10), 2207-2223. [https://doi.org/10.1016/S0047-2727\(02\)00015-4](https://doi.org/10.1016/S0047-2727(02)00015-4)
- [7] Dev, K. (2015). Illicit Financial Flows from Africa: Causes, Consequences, and Curtailment. *Georgetown Journal of International affairs*. V3 (2), 21-29.
- [8] Fumpa-Makano, R. (2019). Tax Exemptions and Tax Expenditures.
- [9] GFI, G. (2019). *Illicit Financial Flows to and from 148 Developing Countries: 2006-2015*. Global Financial Integrity: Retrieved from: <https://gfiintegrity.org/report/2019-iff-update/>.
- [10] Heckemeyer, J., & Overesch, M. (2012). Profit shifting channels of Multinational Firms. *Paper presented at IIPF Congress*, Retrieved from: http://editorialexpre.com/cgi-bin/conference/download.cgi?db_name=IIPF68&paper_id=434.
- [11] Jain, K. A. (1988). An Agency Theoretic Explanation of Capital Flight. *Economics Letters* 28 (1), 41-45.
- [12] Kar, D., & Cartwright-Smith, D. (2010). *Illicit Financial Flows from Africa*. Hidden Resource for Development, Washington DC: Global Financial Integrity: " <http://allafrica.com/>.
- [13] Kar, D., & Freitas, S. (2011). *Illicit Financial Flows from the Developing World Over the Decade Ending 2009*. Global Financial Integrity.
- [14] Le Billon, P. (2011). Extractive Sectors And Illicit Financial Flows. <http://www.cmi.no/publications/file/4248-extractive-sector-and-illicit-financial.pdf>.
- [15] Lemaitre, S. (2019). Illicit financial flows within the extractive industries sector: a glance at how legal requirements can be manipulated and diverted. *Crime, Law and Social Change*, 71(1), 107-128. DOI:10.1007/s10611-018-9791-x
- [16] Letete, E., & Sarr, M. (2017). *Illicit Financial Flows and Political Institutions in Kenya, Working Paper Series No. 275*. African Development Bank Group.
- [17] Ndikumana, L., & Boyce, K. K. (2011). Capital flight from sub-Saharan African countries: linkages with external borrowing and policy options. *International Review of Applied Economics*, 25(2), Crossref, 149-170.
- [18] Nkurunziza, D. J. (2013). The potential effect of capital flight on the rate of poverty reduction in Africa. *Oxford, UK: Oxford University Press*, 25-39.
- [19] Obasi, N. N. (2015). The Impact of Transfer Pricing on Economic Growth in Nigeria. *International Journal of Academic Research in Business and Social Sciences*, 127-138.
- [20] Ogbonnaya, A. K., & Ogechuckwu, O. S. (2017). Impact of Illicit Financial Flow on Economic Growth and Development: Evidence from Nigeria. *International Journal of Innovation and Economic Development*, 19-33.
- [21] Readhead, A. (2016). *Case Study: Transfer Pricing in the Extractive Sector in Ghana*. Ghana: Natural Resource Governance Institute.
- [22] Reed, Q., & Fontana, A. (2011). *Corruption and illicit financial flows: The limits and possibilities of current approaches*. Norway: U4 Anti-Corruption Resource Centre.
- [23] Reed, Q., & Fontana, A. (2011). *Corruption and Illicit Financial Flows: The Limits and Possibilities of Current Approaches*. Bergen, Norway: U4 Anti-Corruption Centre.
- [24] War and Want. (2015). *Extracting minerals, extracting wealth How zambia is losing \$3 billion a year from corporate tax dodging*. Zambia: War and Want www.waronwant.org.
- [25] Wausi, M. L. (2015). *Research Project: Effects of Transfer Pricing on Revenue Generation by Multinational Enterprises in Kenya*. Nairobi: University of Nairobi.