CHAPTER 4

International dimension of corruption
Africa is increasingly becoming an important global player, and the international influence affects its geopolitical and socioeconomic landscape. This simple fact also applies to the domain of corruption. Africa’s rich history, diverse cultures and its role in the world arena imply that the international dimension of corruption cannot be neglected. Three main conclusions emerge from this chapter. First, although there is an ambiguous impact of foreign aid on corruption, it cannot be ignored given the critical role of foreign assistance to African countries. Second, cross-border illicit financial flows in Africa are both a critical determinant and a consequence of corruption. Third, the extent of observed cross-border corruption indicates the essential role of foreign actors in promoting corruption in Africa. Lastly, this chapter highlights the importance of domestic and foreign governance institutions in examining the international dimension of corruption in Africa.

A. Potential effects of foreign intervention on corruption

Colonial and post-colonial influence on corruption

The international character of corruption in Africa has several dimensions and features, which can be associated to certain historical developments. These have partly been debated in a broader colonial and post-colonial discourse. The legacy of the colonial era has had a lasting impact on governance in Africa. Colonial powers used different forms of ruling States, which created a system of “colonial chiefs in chiefless societies” (Tignor, 1971). Tignor underscored that “the appointment of chiefs, who were only accountable to their colonial governments, led to a culture of corrupt practices...Without corruption, the whole system would have collapsed, since the vast para-administrative and military organizations had to be…financed” (p. 351).

The colonial bureaucratic model was characterized by white bureaucrats, and various indigenous rulers and chieftains (Blundo and Olivier de Sardan, 2006, p. 38). Gift-giving, in pre-colonial Africa, was part of traditional diplomatic customs. It was also used to obtain services, reinforce friendships and secure peace (p. 32). This gift-giving culture continued into the colonial era, with an “increased monetization” of social relationships. In certain countries, this has remained deeply rooted, such that small envelopes, which are paid out to State officials, are deemed to be an acceptable form of gift-giving.

The overall reality of colonial rule, however, was one where coercion, violence and corruption were essential elements in integrating colonial subjects into production structures. The colonial experience contributed to the emerging notion that “authority need not come from the people, rather it is bestowed on someone anointed from above” (Mbembe 2000, pp. 51–53). Often times, power was exercised illegitimately and with brutality, and public services offered opportunities for rapidly accessing wealth and prestige (Njoku, 2005; see also Tignor, 1971). Also, “[since]...the colonial government was regarded as...illegitimate, traditional restraints on stealing, misappropriation of State property” (Le Vine, 1975, p. 50) were often overlooked.

There is strong evidence that the post-colonial period has had an equally significant impact on Africa’s governance architecture. In particular, “the post-colonial State...represented a historical mutation of African societies, taken over the long term: never before, it seems, has the dominant class managed to acquire such marked economic supremacy over its subjects” (Bayart, 1993, p. 87; also cited in Smith, 2010, p. 12). In several instances, the political coalitions, which emerged victorious after the struggle for independence, were quick to try and gain control over their countries’ resources. In that regard, post-colonial Ghana is a classic example, as highlighted by Le Vine (1975). He indicates that an “interclass of new men” assumed political power in Ghana in 1951 and “its leaders brought to power, attitudes, values, and a political style that owed...little to the political norms, held either by the British or [the] colonial elite” (p. 51). During the post-colonial period, African ruling classes strived to gain personal advantage, which implied that resources were unequally distributed (Bayart, 2006). Besides such broad historical and cultural foreign influences, there are also factors that are today more palpable when it comes to judging the international character of corruption as it is experienced in Africa.

Effect of foreign assistance on corruption

Foreign intervention is an intrinsic part of the policy landscape in many African countries. It is obvious that ODA remains critical in financing the continent’s structural transformation agenda. ODA also has an influence
on governance in general and corruption in particular, in ways that may be both positive but also negative, and according to causality chains, which are often nuanced. Distinguishing among the various forms of foreign assistance is important, because of the different impact that each one may have on corruption. Foreign assistance in Africa may be bilateral or multilateral and may take the form of transfers to African Governments, with conditions on how they should be spent, which vary greatly from case to case. Also, each type of foreign assistance might be characterized by different degrees of transparency and accountability in the use of funds, and levels of managerial skills in project execution. In particular, when aid is tied to rigid conditionality regimes, this may demotivate countries for taking ownership over anti-corruption reforms.

The total amount of ODA to African countries has more than doubled in real terms since the beginning of the millennium (see figure 16). Alesina and Dollar (2000) found “considerable evidence that the direction of foreign aid is dictated as much by political and strategic considerations, as by the economic needs and policy performance of the recipients. Colonial past and political alliances are major determinants of foreign aid” (p. 33). Similar results are found by Hoeffler and Outram (2011), and particularly so for bilateral (vs. multilateral) assistance, while Easterly and Pfitz (2008, pp. 29–52) note that “a lot of aid still goes to corrupt and autocratic countries and to countries other than those with the lowest incomes”.

Foreign assistance has an undeniable desired effect in combating corruption in African countries, when it is directed at projects which successfully aim at fighting corruption and at improving the quality of public governance. Specifically, it has been used to support anti-corruption initiatives in many African countries, notably by strengthening the judiciary, national and Territorial: Easterly and Pfitz (2008) warn about the quality of the data, in a situation where “cooperation with the DAC is voluntary and a number of international agencies apparently do not participate in this sole international effort to publish comparable aid data” (pp. 29–52).

![Figure 16](https://example.com/figure16.png)

**Figure 16**

**OFFICIAL DEVELOPMENT ASSISTANCE TO AFRICA**

Source: Data taken from OECD Development Assistance Committee, 2015 (see footnote 21).
anti-corruption agencies and improving State accountability. For example, a country that traditionally has demonstrated a commitment in this area of intervention is Norway. Good governance and the fight against corruption “is one of the main areas of priority in Norwegian aid and development policy” (Norad, 2015). In 2014, one fifth of Norwegian bilateral foreign assistance to African countries was directed to anti-corruption initiatives.22 Foreign assistance may also have an indirect beneficial effect in combating corruption, whenever it succeeds to improving overall State capacity. Also, there are projects which target broader governance dimensions that can help in reducing corruption.

Foreign assistance has an undeniable desired effect in combating corruption in African countries, when it is directed at projects which successfully aim at fighting corruption and at improving the quality of public governance.

It is, however, to be recalled that ODA flows also influence the evolution of corruption in Africa adversely, given its continued significance in African national budgets. Indeed, Charron (2011) presents empirical evidence showing that “the more ODA a State receives relative to its GDP, the worse their democratic and bureaucratic performance and corruption levels become” (pp. 66-88). However, in these countries, the overall landscape is such that public policies cannot be ascribed to the State only, but also to the set of non-governmental organizations, which are financed from abroad. Aid dependence might drive certain States to become less accountable to their citizens, with the potential risk of cultivating inadequate economic policies and weak institutions. Furthermore, foreign assistance is an outlet by which certain political elites in recipient countries engage in rent-seeking behaviours. On this basis, part of the development literature has reached scathing conclusions on foreign assistance, for example, that aid can make States less accountable, that there are vested interests for ODA to be channelled to specific activities, and that it incentivizes domestic corruption (Knack, 2001, 2004). It is to be noted that any assessment of the relationship between foreign assistance and corruption should recognize the important shift that has occurred during the past decade, whereby much greater attention is devoted to the quality of governance.

Different types of foreign assistance appear to have a different impact on corruption. In the African aid architecture, bilateral aid tends to be more tied to countries’ political agendas, especially in natural resource-rich countries. Asongu and Jellal (2013) found that “foreign aid channelled through government’s consumption expenditure increases corruption.”23 While the available evidence on the overall effect of foreign assistance on corruption is ambiguous, arguably its positive effects have become more prominent during the past two decades, when major international organizations, including the United Nations and the African Union, have put corruption at centre stage.

B. Understanding cross-border corruption

In as much as the literature is unable to reach consensus regarding a definition of corruption, the same applies to cross-border corruption. Instead, the debate on cross-border corruption focuses on its various forms. In practice, cross-border corruption acts include: collusion between suppliers and public officials within the international supply chain; money laundering; customs tariff avoidance; and bribery in international transactions.

The common element of all forms of cross-border corruption is that it occurs across jurisdictions and most often, within the realm of international commercial transactions. In 2014, following a three-year trial, the United Kingdom Serious Fraud Office convicted the Smith and Ouzman company of bribing public officials in Mauritania and Kenya;24 in early 2015, two subsidiaries of Goodyear Tire and Rubber Company, based

22 Source of computations are from data available from http://www.norad.no/en/front/countries/.
23 See also, among others, Askarov and Doucouliagos (2013).
24 More information is available from http://www.ft.com/intl/cms/s/0/28b88282-8a04-11e4-9271-00144feabdc0.html.
in Angola and Kenya, allegedly paid bribes to public officials in order to increase sales, in breach of the United States Foreign Corrupt Practices Act (AlixPartners, 2015). Cross-border corruption is a serious concern, because of “its potential to interact with domestic corruption, often with the effect of intensifying both and making reform more difficult. In its causes as well as in its consequences, cross-border corruption has much in common with domestic varieties; countries that have serious internal corruption problems are likely to be particularly vulnerable to cross-border forms as well” (Johnston, 1998, p. 14).

Cross-border corruption may involve both private and public actors. One particularly serious type of cross-border corruption occurs when both the giving and the receiving hand are public officials, which could have a broader repercussion on the geopolitical landscape of the country. Moreover, domestic and foreign corruption may interact in complex ways. For instance, Médard (1997) defines a franco-African international model of corruption (modèle franco-africain de corruption internationale), according to which, the French political leaders bribed African counterparts so as to protect their own interests. Cross-border corruption by State actors is difficult to detect, and the available evidence mostly derives from retrospective studies. At the same time, it is important to recognize that the distinction between public and private actors might at times be blurred.

**Cross-border corruption involving foreign firms**

Cross-border corruption involving foreign firms has traditionally been prominent in Africa, in a context where local firms have rarely been available to obtain the most lucrative contracts. A noteworthy example relates to the extractive sector, which involves an array of actors ranging from multinational corporations to State-owned entities and public officials. The extractive sector is more vulnerable to corruption given the magnitude of the contracts. For example, in the 1990s, the Simandou iron-ore mining project in Guinea was the largest of its kind in Africa. It included the exploration of four mining blocks in the region of Simandou. The contract for the four blocks was initially awarded to Rio Tinto and thereafter two blocks were taken away from the foreign firm. Those blocks were awarded, with no tender process and through an alleged verbal contract, to the foreign firm BSG Resources. Allegations continue to be made that substantial bribes were given in order to ensure that the blocks were split-up between two foreign firms. This scandal continues to be the subject of an inquiry by the Federal Bureau of Investigation (The Economist, 2014).

Cross-border transactions of all types have increased in the past two decades, which has also augmented the scope for corrupt practices. In parallel with these developments, there has been a process of progressive criminalization of such type of corruption leaving a trail of evidence, which needs to be tapped into to better understand the phenomenon. This has in effect been acknowledged by various countries in their legal frameworks. For instance, as far back as 1977, the United States enacted the Foreign Corrupt Practices Act, which prohibits the payment of bribes by United States citizens and United States corporations and their agents to foreign officials, to obtain business advantages in foreign countries. The Act was amended in 1998, to cover bribery committed by foreign firms and persons who, directly or through agents in the territory of the United States, to obtain a business advantage in foreign jurisdictions through bribing foreign officials. The Act also requires companies whose securities are listed in the United States to maintain accurate books and records and have a system of internal controls.

The United States Securities and Exchanges Commission (SEC) and the Department of Justice are jointly responsible for enforcing the Foreign Corrupt Practices Act. The SEC Enforcement Division established a specialized unit to further enhance its enforcement of the Act. Companies and individuals that have
Box 17
FOREIGN CORRUPT PRACTICES ACT: EXAMPLES OF CASES ENFORCED BY THE SECURITIES AND EXCHANGES COMMISSION

2015

Hitachi
SEC charged the Tokyo-based conglomerate with violating the Foreign Corrupt Practices Act by inaccurately recording improper payments to the ruling political party of South Africa in connection with contracts to build power plants. Hitachi agreed to pay $19 million to settle charges. (28 September 2015)

Goodyear Tire and Rubber Company
SEC charged Goodyear with violating the Foreign Corrupt Practices Act when its subsidiaries paid bribes to land tire sales in Kenya and Angola. The company agreed to pay $16 million to settle the charges. (24 February 2015)

2014

Layne Christensen Company
SEC charged the Texas-based water management, construction, and drilling company with violating the Foreign Corrupt Practices Act by making improper payments to foreign officials in several African countries in order to obtain beneficial treatment and reduce its tax liability. (27 October 2014)

2013

Weatherford International
SEC charged the Swiss-based oilfield services company with authorizing bribes and improper travel and entertainment for foreign officials in the Middle East and Africa to win business. Weatherford agreed to pay more than $250 million to settle cases with SEC and other agencies. (26 November 2013)

Parker Drilling Company
SEC charged the worldwide drilling services and project management firm with violating the Foreign Corrupt Practices Act by authorizing improper payments to a third-party intermediary in order to entertain Nigerian officials involved in resolving the company’s customs disputes. Parker Drilling agreed to pay $4 million to settle SEC charges. (16 April 2013)

2012

Noble Corporation executives
SEC charged three oil services executives with bribing customs officials in Nigeria to obtain illicit permits for oil rigs in order to retain business under lucrative drilling contracts. (24 February 2012)

2010

ENI and Snamprogetti Netherlands BV
SEC charged an Italian company and its former Dutch subsidiary in a decade-long bribery scheme with offences that included deliveries of cash-filled briefcases and vehicles to Nigerian government officials to win construction contracts. Snamprogetti and ENI jointly paid $365 million to settle SEC and criminal charges. (7 July 2010)

Technip SA
SEC charged the Paris-based global engineering company of bribing Nigerian government officials over a 10-year period in order to win construction contracts worth more than $6 billion. Technip agreed to pay $338 million to settle SEC and criminal charges. (28 June 2010)

committed violations of the Act may have to return the ill-gotten finances and pay interests or penalties. Various companies and their subsidiaries in Africa have been indicted for their involvement in bribery in Africa. Notably, a significant percentage of these cases fall in the extractives sector (see box 17).

Cross-border corruption by foreign firms was explicitly addressed multilaterally through the ratification of the OECD Anti-Bribery Convention, and the consequent enactment of national legislation by the signatory countries (see box 18).

Box 18

ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT ANTI-BRIBERY CONVENTION

The OECD Anti-Bribery Convention is an anti-corruption instrument which prohibits the bribery of foreign public officials in international business transactions. It was signed in December 1997 and came into force in 1999. Forty one countries are signatories to this Convention, including all 34 OECD member States and 7 other non-OECD States (Argentina, Brazil, Bulgaria, Colombia, Latvia, Russia, and South Africa). The Convention requires all parties or signatories to take necessary measures to establish that it is a criminal offence under its law for any person or agent to offer, promise or give any undue monetary advantage to a foreign public official in order to obtain or retain business or advantage in the conduct of international business.

Article 1 (1) states: “Each Party shall take such measures as may be necessary to establish that it is a criminal offence under its law for any person intentionally to offer, promise or give any undue pecuniary or other advantage, whether directly or through intermediaries, to a foreign public official, for that official or for a third party, in order that the official act or refrain from acting in relation to the performance of official duties, in order to obtain or retain business or other improper advantage in the conduct of international business”.

Enforcement: The Convention establishes a peer-driven monitoring mechanism to ensure the full implementation of the obligations of signatory countries. The OECD Working Group on Bribery in International Business Transactions is responsible for monitoring the implementation and enforcement of the OECD Anti-Bribery Convention.

However, there are enforcement challenges: 15 years after entering into force only four countries, including Germany, Switzerland, the United Kingdom and the United States, “are actively investigating and prosecuting companies that cheat taxpayers when they bribe foreign officials to get or inflate contracts, or obtain licenses and concessions” (Transparency International, 2015a). Inadequate complaints mechanisms, poor inter-institutional and international communication, lack of awareness, delays in processing, and complex money laundering techniques as well sophisticated shell companies cases are a major obstacle for enforcement (Gernand, 2014).

In Africa, the cases involve multinational corporations from OECD countries in payment of bribes to foreign officials for illegal oil dealings in resource-rich countries such as Angola and Libya (Transparency International, 2015b).

Source: OECD, Transparency International.
The entry mode of multinational corporations to partake in corrupt practices has been extensively documented, but needs to be recalled (see figure 17).

The flowchart in figure 17 provides the entry modes multinational corporations into activities that may lead into corruption (Canabal and White, 2008). Peng (2009) argues that these modes vary by their scale of entry, based on two categories: equity and non-equity (Tian, 2007). Equity entry modes consist of a sharing arrangement between a foreign multinational corporation and a local firm by dividing resources, risk and operational control between the partners (Julian, 2005). But there are also instances where one entirely owns the operations, such as in Greenfield investments or the acquisition of an existing firm (Razin and Sadka, 2007). Non-equity modes comprise of exports and contractual agreements such as licensing, franchising, turnkey projects and research and development contracts (Teixiera and Grande, 2012).

Through the entry modes, some of the corrupt activities that multinational corporations may engage in (Ndikumana, 2013, p. 10), include:

a. Obstructing competition rules or anti-trust behaviours designed to secure monopoly profits;

b. Breaking labour laws to advance business interests (by minimizing wages and other labour-related obligations) or to promote the interests of business associates (including patronage in the hiring process);

c. Manipulating the pricing system through tax evasion and usury charges to customers (including Governments where the public sector is a consumer of services);

d. Exploiting asymmetric information, whereby multinational corporations leverage insider information, business or industry specific information that may not be accessible to the

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**Figure 17**

**ENTRY MODES FOR MULTINATIONAL CORPORATIONS IN CORRUPTION**

- **EQUITY MODES**
  - Obstructing competition rules
  - Developing sophisticated corporate structures
  - Turnkey projects
  - Exploiting monopolistic organizational structures and elite connections
  - Using the complexity of business transactions or legal loopholes

- **NON-EQUITY MODES**
  - Aquisitions
  - Licensing/franchising
  - R&D contracts

**CORRUPTION**

- Embezzlement
- Bribery
- Fraud
- Money Laundering

**Note:** R&D: research and development contracts

**Source:** Adapted from Teixiera and Grande (2012).
Measuring corruption in Africa: The international dimension matters

regulator, the consumer, the worker and the public in general, to secure above-normal profits;

e. Using the complexity of business transactions or legal loopholes that make it difficult for the regulator and the law enforcement agencies to monitor and access the legality of transactions;

f. Developing sophisticated corporate structures that blurs the boundaries of ownership and domiciliation in the context of globalization chequered with increasing integration of trade and finance;

g. Exploiting monolithic organizational structures and elite connections – a common feature of the industrial sector in most African countries characterized by a high concentration of ownership often in the hands of family-based networks that are generally connected to the current and past ruling elite.

The above points are key sources of access to markets, large government procurement contracts, and preferential treatment in taxation and import and export licensing (ibid). The monopolistic privileges get reinforced by regulatory barriers that constrain a firm’s entry into select sectors. The monopolistic structure of the industrial sector prevents the emergence of new entrepreneurs, because incumbency privileges allow the multinational corporations that are present to undercut prospective entrepreneurs, notably using their links to the political regime. As a result, this limits the penetration of new technologies and modern business practices as well as access to finance, thereby undermining productivity growth.

Quantitative assessment of cross-border corruption in Africa

It is possible to obtain indications of cross-border corruption levels affecting African countries, using the Public Administration Corruption Index (PACI). This index has been recently developed by Escresa and Picci (2015a). The present report uses an adapted methodology of the index (see appendix A). In a nutshell, the index uses information on cross-border corruption cases in a given country “to evaluate levels of corruption in all other countries. Moreover, it considers cases arising not only from a single jurisdiction, but from all relevant ones” (Escresa and Picci, 2015a, p.3).

Table 7 presents cross-border corruption cases involving foreign firms. Between 1995 and 2014, out of 1,080 cases of cross-border corruption in Africa, 1,075 firms (99.5 per cent) involved non-African firms. This highlights the fact that the corrupting agents are almost invariably non-African, confirming that the external dimension of corruption is very much present on the continent.

Table 7

<table>
<thead>
<tr>
<th>Years</th>
<th>Total number of cases in Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From rest of the World</td>
</tr>
<tr>
<td>1995–1999</td>
<td>135</td>
</tr>
<tr>
<td>2000–2004</td>
<td>383</td>
</tr>
<tr>
<td>2005–2009</td>
<td>350</td>
</tr>
<tr>
<td>2010–2014</td>
<td>207</td>
</tr>
<tr>
<td>Total: 1995–2014</td>
<td>1,075</td>
</tr>
</tbody>
</table>

Note: See appendix A, and Escresa and Picci (2015a, b) for an illustration of the methodology used to compute the Index.


Between 1995 and 2014, out of 1,080 cases of cross-border corruption in Africa, 1,075 firms (99.5 per cent) involved non-African firms.
At the subregional level, Central Africa appears to be the most affected by cross-border corruption (see Table 8). Between 2005 and 2009, the index had reached above 6,000, which is unsurprising given that all countries in this subregion are rich in natural resources. The ensuing governance problems are related to Africa’s natural resources sector, which has been analysed throughout this report. Conversely, Southern Africa seems to be the least vulnerable to cross-border corruption. East Africa is the only subregion that has shown improvements over time; this partly reflects the increased efforts by the partner States of the East African Community (EAC) to combat cross-border trade corruption. For instance, Governments of EAC have identified one-stop border posts as a potential response to customs clearance issues, such as corruption. In April 2013, EAC passed its One Stop Border Posts Act, which makes it mandatory for partner States to “implement one-stop border processing arrangements, by establishing and designating control zones at the respective border posts” (Whitehead, 2013).

C. Cross-border illicit financial flows

Cross-border illicit financial flows often go hand in hand with corruption, and represents an essential ingredient of its international character. Whereas such statement holds true in general, it is particularly pertinent when discussing corruption in Africa because of the magnitude and character of illicit financial flows on the continent. There is a shared perception that illicit financial flows in Africa are of a significant magnitude and that they have increased during the past decade. This is partly because of the increased sophistication of the financial sector in the digital age, which makes it possible to shift financial resources around the world, literally, with a click of a button.

African countries are fully cognizant that illicit financial flows are increasingly draining important resources from the continent. It is in this context that in 2011, the fourth Joint Annual Meetings of the African Union Conference of Ministers of Economy and Finance and Economic Commission for Africa Conference of African Ministers of Finance, Planning and Economic Development, established the High-level Panel on Illicit Financial Flows from Africa. In 2015, the High-level Panel published its final report (ECA, 2015b). According to the final report, illicit financial flows may originate from three broad types of activities: commercial, criminal, and corruption. It is, however, to be recalled that corruption is also intrinsically linked to commercial and criminal sources of such flows. Illicit financial outflows, which derive from commercial activities, “have several purposes, including hiding wealth, evading or aggressively avoiding tax, and dodging customs duties and domestic levies” (ECA, 2015b, p. 24).

Among the criminal activities that may give rise to illicit financial flows, of particular relevance in Africa are

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Table 8
PUBLIC ADMINISTRATION CORRUPTION INDEX FOR AFRICA AND ITS SUBREGIONS, 1995–2014

<table>
<thead>
<tr>
<th></th>
<th>Africa</th>
<th>North Africa</th>
<th>West Africa</th>
<th>Central Africa</th>
<th>East Africa</th>
<th>Southern Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-1999</td>
<td>1 300.5</td>
<td>462.0</td>
<td>4 345.0</td>
<td>5 599.0</td>
<td>1 446.4</td>
<td>207.2</td>
</tr>
<tr>
<td>2000-2004</td>
<td>916.7</td>
<td>683.8</td>
<td>1 815.8</td>
<td>2 567.3</td>
<td>1 218.9</td>
<td>135.4</td>
</tr>
<tr>
<td>2005-2009</td>
<td>1 221.9</td>
<td>1 027.7</td>
<td>1 801.6</td>
<td>6 221.1</td>
<td>3 548.5</td>
<td>45.5</td>
</tr>
<tr>
<td>2010-2014</td>
<td>811.1</td>
<td>516.6</td>
<td>723.7</td>
<td>5 204.4</td>
<td>2 493.2</td>
<td>104.5</td>
</tr>
</tbody>
</table>

Note: See appendix A, and Escresa and Picci (2015a, b) for an illustration of the methodology used to compute the index.

“trafficking of people, drugs and arms to smuggling, as well as fraud in the financial sector, such as unauthorized or unsecured loans, money laundering, stock market manipulation and outright forgery” (p. 31). The stark reality is that illicit financial flows are motivated by the perpetrators’ need to safeguard their proceeds from corrupt activities, outside Africa. A further preoccupation, which has increased in recent years, is that illicit financial flows may serve to finance terrorist activities, both in African countries and elsewhere. Corruption is a cause of such flows because corrupt persons often need to expatriate the proceeds of their illegal deeds. Furthermore, corruption of officials in the financial sector is an enabler of many of the practices supporting illicit financial flows. However, and particularly when large sums of money are involved, corruption is also a consequence. In other words, ensuing proceeds are illegally safeguarded abroad, to stash the money away for future use.

Illicit financial flows in Africa are very unequally distributed by country (ibid, p. 93, table A3.1), and some sectors of the economy (and those countries where those sectors are prominent), specifically natural resources (be them oil or minerals), are at a bigger risk of generating such flows. A sectoral breakdown of the data for 2010 (see figure 18), the last one for which data are available, reveals that two sectors – oil and precious metals and minerals – represent the bulk of the total amount of illicit financial flows recorded between 2000 and 2010.

**Multinational corporations in Africa’s extractives sector**

In many resource-rich African countries, corruption is perceived to be one of the main triggers of illicit financial flows, which in turn, is deemed to be largely driven by the involvement of multinational corporations. From the onset, it is to be recalled that corruption-driven illicit financial flows result from inadequate governance in the extractives industry. Figure 18 is a reflection of the “natural resource curse”, where natural riches are not conducive to economic development, but they strengthen rent-seeking motives, which make it

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**Figure 18**

**ILLICIT FINANCIAL FLOWS SECTORAL BREAK-UP**

Note: Shares refer to the year 2010. The sectors with the highest shares are shown, and all the others are aggregated in the “Others” category.

Source: ECA, 2015b.
particularly difficult to develop the strong institutions that would be needed to administer those resources in an equitable way.

The extensive literature has confirmed that several factors render Africa’s extractive sector highly susceptible to corruption-driven illicit financial flows. First, this sector continues to be heavily controlled by the political elite. In parallel, the extractives sector remains an important source of revenue generation, which makes it an easy target for vested monetary interests. The complexity of the legal and regulatory frameworks and the number of stakeholders involved (including government agencies and multinational corporations) in the sector make it challenging to ensure transparency and accountability. As rightly indicated by Le Billion (2011, p. 3), “this opens the door to manipulation, particularly if auditing capacity is limited or corrupt”. For instance, in the mining subsector, corruption-related illicit financial flows can occur at each stage of the mineral value chain (see table 9).

Multinational corporations take advantage of the present gaps and loopholes in the legal and regulatory frameworks in Africa. This is combined with the reality that compliance of laws and regulations are a serious problem in the extractives sector. These corporations have progressively established corrupt approaches, which have allowed them to repatriate hefty sums of mineral revenue from the continent without paying their dues. Such approaches include: market rigging, insider trading, payment of illicit political donations, embezzlement, fraud and payment of bribes and commission kickbacks (Baker, 2005).

<table>
<thead>
<tr>
<th>Mineral value chain stages</th>
<th>Corruption</th>
</tr>
</thead>
</table>
| Licensing                  | Risk level: high  
• Key method: bribery; kick-backs; commissions; nepotism  
• Loopholes: lack of information on contracts; unfair bidding and award processes |
| Exploration                | Risk level: low  
• Key method: unlawful gifts and commissions  
• Loopholes: unfair bidding and award processes |
| Development                | Risk level: high  
• Key method: bribery; kick-backs; commissions; fraud  
• Loopholes: lack of enforcement of mineral sector regulations (e.g. procurement irregularities; contractual changes) |
| Production                 | Risk level: high  
• Key method: bribery; kick-backs; commissions; fraud  
• Loopholes: procurement irregularities; non-compliance and [or] weak enforcement of production regulations |
| Transport, storage and marketing | Risk level: high  
• Key method: bribery; kick-backs; commissions; fraud;  
• Loopholes: lack of enforcement of mineral sector regulations (e.g. procurement irregularities; contractual changes) |
| Processing and marketing   | Risk Level: High  
• Key method: bribery; kick-backs; fraud  
• Loopholes: price manipulation; irregular award of import licenses |

Source: Adapted from Extractive sectors and illicit financial flows: what role for revenue governance initiatives (Le Billion, 2011).
The secretive nature of corruption is even more apparent when it comes to production sharing agreements, which are signed between African Governments and international oil and mining companies (see box 19).

**Multinational banks as conduits of corruption**

The problem of illicit financial flows in Africa has been compounded by the existence of financial secrecy jurisdictions. The term “secrecy jurisdictions” is at times interchangeably used to refer to tax havens or offshore financial centres. Globally, there is no common definition of tax havens or secrecy jurisdictions because of the various facets of this challenge, which cannot be captured, by a single definition (Tax Justice Network, 2015). According to the report of the High-level Panel on Illicit Financial Flows from Africa, “secrecy jurisdictions are cities, States or countries whose laws allow banking or financial information to be kept private under all or all but few circumstances” (ECA, 2015b, p. 9). Secrecy jurisdictions establish legal structures and facilities that make it easier for people or entities to escape compliance with laws and regulations of other jurisdictions elsewhere through secrecy.

According to Christensen (2009), “the combination of tax havens and offshore financial centres creates a highly secretive and underregulated globalized infrastructure, which functions as an offshore interface between the illicit and the licit economies”. As a result of this opacity, financial secrecy jurisdictions are the main destinations of illicit financial flows from the continent. They have exposed many African countries to the risk of such flows through international financial transactions.

The High-level Panel report findings show that illicit financial flows are facilitated by financial intermediaries, through transactions originating from smaller bank branches in Africa. Indeed, banks sometimes “knowingly establish infrastructure to facilitate the movement of illicit financial flows to financial secrecy jurisdictions” (ECA, 2015b, p. 37).

Jurisdictions such as the United States and the United Kingdom, in addition to tax havens such as Switzerland

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**Box 19**

**CHALLENGES OF PRODUCTION SHARING AGREEMENTS IN AFRICA’S EXTRACTIVES SECTOR**

Production sharing agreements are rarely, if ever, made public, since both Governments and multinational corporations overly-leverage the confidentiality clauses contained in them. These agreements stipulate the revenue-sharing between Governments and multinational corporations; the exemptions (including tax) and confidentiality clauses; and can even include what are termed as “stabilization clauses”, which freezes these agreements from revision in the future. It is evident that if the public and the media are unable to access them, it provides scope for signatories of these agreements to carry out illegal deals.

In order to maintain their commitment to populations, several African countries are striving to publish production sharing agreements, although it is not done regularly or for all contracts. According to the Resource Contracts database, the following countries have published these agreements, to date: Algeria (1); Angola (4); Benin (2); Burkina Faso (7); Cameroon (7); Chad (5); Congo (27); Democratic Republic of Congo (76); Egypt (8); Equatorial Guinea (6); Gabon (6); Gambia (2); Ghana (8); Guinea (88); Kenya (8); Libya (3); Liberia (22); Madagascar (3); Mali (13); Mauritania (22); Morocco (5); Niger (1); Nigeria (4); Senegal (2); Sierra Leone (4); Somalia (4); Tunisia (4); Uganda (4) and United Republic of Tanzania (5).

*Source: Global Witness (2014).*
and the British Virgin Islands, are among the leading destinations for the outflow of illicit financial resources from Africa (see box 20). According to Global Financial Integrity (2013), about 45 per cent of illicit flows end up in offshore financial centres and 55 per cent in developed countries. Resource rich countries, mainly Nigeria, Algeria and Zambia, remain the key sources of these illicit financial losses.

The Financial Secrecy Index, published every two years by the Tax Justice Network, provides a global assessment of financial secrecy and is now widely used by development practitioners. Table 10 shows that the index re-echoes the findings of the 2015 High-level Panel report – that the leading destinations of illicit financial flows from Africa are also top financial secrecy jurisdictions. These countries include Germany, Japan, the United Kingdom and the United States (including its territories), among others.

**Why it is hard yet important to measure corruption by multinational corporations**

As discussed in chapters 2 and 3, corruption is difficult to measure because it takes place away from the public eye. While international corporations maintain a good public image through periodical financial statements and corporate social responsibility, they are also very astute at concealing activities or practices that are not accepted or are illegal, such as corruption. There exists a gap “between a company’s cleverly crafted do-gooder image and its actual operations…Such practices seems to be part of the ‘enterprise culture’ that persuades many to believe that ‘bending the rules’ for personal gain is a sign of business acumen” (Otusanya, Lauwo and Adeyeye, 2012, p. 5).

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**Box 20**

**BANKS, TAX HAVENS AND CORRUPT BEHAVIOUR IN AFRICA**

The Nigerian Government took Barclays, NatWest, Royal Bank of Scotland (RBS), HSBC and UBS to court in London for abetting corruption between 1999 and 2005. The banks had allegedly assisted senior government officials to channel billions of pound sterling through the United Kingdom to tax havens.

The Global Witness report (2010) shows the mechanisms by which the banks aided officials to bring their corrupt loot into the United Kingdom. A Global Witness official notes that: “Banks are quick to penalize ordinary customers for minor infractions, but seem to be less concerned about dirty money passing through their accounts [...] Large scale corruption is simply not possible without a bank willing to process payments from dodgy sources, or hold accounts for corrupt politicians”.

The report singled out RBS for allowing the former Governor of Bayelsa State, Diepreye Alamieyeseigha, to channel ill-gained funds of about £2.7 million into the United Kingdom. Nearly £1.56 million of the money in question came from bribes paid by a State contractor to win a contract to build a fence around the governor’s official lodge. The main concern had been over the conduct of RBS and whether it had carried out the necessary due diligence by checking its customers and sources of their funds.

The report goes on to note that both the banks and the Financial Services Authority have not taken the corresponding actions to match the problem. This is what fuelled the flow of illicit funds out of the continent.

On paper, anti-money laundering regulations require banks to identify rogue customers, but these are not adequately enforced. It is thus critical that foreign Governments prepare their regulators to take corruption seriously and signal to the financial sector that dirty money is not welcome in those jurisdictions.

*Source: Global Witness (2010).*
### Table 10

**FINANCIAL SECRECY – TOP 25 SECRECY JURISDICTIONS IN 2015**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Secrecy jurisdiction</th>
<th>FSI – Value</th>
<th>Secrecy score</th>
<th>Global scale weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Switzerland</td>
<td>1,466.1</td>
<td>73</td>
<td>5.625</td>
</tr>
<tr>
<td>2</td>
<td>Hong Kong</td>
<td>1,259.4</td>
<td>72</td>
<td>3.842</td>
</tr>
<tr>
<td>3</td>
<td>United States</td>
<td>1,254.7</td>
<td>60</td>
<td>19.603</td>
</tr>
<tr>
<td>4</td>
<td>Singapore</td>
<td>1,147.1</td>
<td>69</td>
<td>4.280</td>
</tr>
<tr>
<td>5</td>
<td>Cayman Islands</td>
<td>1,013.1</td>
<td>65</td>
<td>4.857</td>
</tr>
<tr>
<td>6</td>
<td>Luxembourg</td>
<td>816.9</td>
<td>55</td>
<td>11.630</td>
</tr>
<tr>
<td>7</td>
<td>Lebanon</td>
<td>760.2</td>
<td>79</td>
<td>0.377</td>
</tr>
<tr>
<td>8</td>
<td>Germany</td>
<td>701.8</td>
<td>56</td>
<td>6.026</td>
</tr>
<tr>
<td>9</td>
<td>Bahrain</td>
<td>471.3</td>
<td>74</td>
<td>0.164</td>
</tr>
<tr>
<td>10</td>
<td>United Arab Emirates (Dubai)</td>
<td>440.7</td>
<td>77</td>
<td>0.085</td>
</tr>
<tr>
<td>11</td>
<td>Macao</td>
<td>420.1</td>
<td>70</td>
<td>0.188</td>
</tr>
<tr>
<td>12</td>
<td>Japan</td>
<td>418.3</td>
<td>58</td>
<td>1.062</td>
</tr>
<tr>
<td>13</td>
<td>Panama</td>
<td>415.6</td>
<td>72</td>
<td>0.132</td>
</tr>
<tr>
<td>14</td>
<td>Marshall Islands</td>
<td>405.5</td>
<td>79</td>
<td>0.053</td>
</tr>
<tr>
<td>15</td>
<td>United Kingdom</td>
<td>380.2</td>
<td>41</td>
<td>17.394</td>
</tr>
<tr>
<td>16</td>
<td>Jersey</td>
<td>354.0</td>
<td>65</td>
<td>0.216</td>
</tr>
<tr>
<td>17</td>
<td>Guernsey</td>
<td>339.3</td>
<td>64</td>
<td>0.231</td>
</tr>
<tr>
<td>18</td>
<td>Malaysia (Labuan)</td>
<td>338.7</td>
<td>75</td>
<td>0.050</td>
</tr>
<tr>
<td>19</td>
<td>Turkey</td>
<td>320.9</td>
<td>64</td>
<td>0.182</td>
</tr>
<tr>
<td>20</td>
<td>China</td>
<td>312.1</td>
<td>54</td>
<td>0.743</td>
</tr>
<tr>
<td>21</td>
<td>British Virgin Islands</td>
<td>307.6</td>
<td>60</td>
<td>0.281</td>
</tr>
<tr>
<td>22</td>
<td>Barbados</td>
<td>298.3</td>
<td>78</td>
<td>0.024</td>
</tr>
<tr>
<td>23</td>
<td>Mauritius</td>
<td>297.0</td>
<td>72</td>
<td>0.049</td>
</tr>
<tr>
<td>24</td>
<td>Austria</td>
<td>295.3</td>
<td>54</td>
<td>0.692</td>
</tr>
<tr>
<td>25</td>
<td>Bahamas</td>
<td>273.0</td>
<td>79</td>
<td>0.01</td>
</tr>
</tbody>
</table>

**Notes:**

- Territories marked in dark red are overseas territories (OTs) and Crown Dependencies (CDs) where the Queen is Head of State.

- Territories marked in ochre are British Commonwealth territories, which are not OTs or CDs but whose final court of appeal is the Judicial Committee of the Privy Council in London.

1. FSI, financial secrecy index, is calculated by multiplying the cube of the secrecy score with the cube root of the global scale weight. The final result is divided through by one hundred for presentational clarity.

2. Secrecy scores are calculated based on 15 indicators.

3. Global scale weight represents a jurisdiction’s share in global financial services exports. For a full explanation of the methodology and data sources, please read our FSI-methodology document, here: FSI-Methodology.

**Source:** Tax Justice Network (2015).
As noted in chapter 2, Kaufmann (2005) debunked the argument that corruption greases the wheels of business thus fostering operational efficiency. Otusanya, Lauwo and Adeyeye (2012) note that in the name of corporate social responsibility, private operators with privileged links to corrupt bureaucrats, or who can afford to pay the bribes, maximize their profits more than their counterparts, who do not have such advantages. There is, however, little evidence to show that such profits support the argument of “corruption as efficient grease”. De Rosa, Gooroochurn and Görg (2010) provide a firm-level analysis, which does not support the view that payment of a bribe helps to buy lower red tape to speed up bureaucratic processes. Ndikumana (2013) argues that corruption imposes significant costs on private sector activity in the form of production and transaction costs, uncertainty, and market distortions. On the whole, a number of studies confirm that the negative effects of corruption typically dominate any positive effects at both the micro-and-macro levels, with the potential of generating ‘vampire states’ by displacing potential entrepreneurial talent toward speculative and rent-seeking activities, including State institutions. In an environment with endemic corruption, talented individuals may find it optimal to invest in wealth appropriation rather than wealth creation.

In much of the discussion of the role of multinational corporations in driving corruption, attention has been focused on the demand side (the taker) and the supply side (the giver). In this context, the recommended reforms target a better management of the discretion and power of public officials. Neo-liberal authors have gone to the extreme of arguing that market forces can help to combat corrupt practices by punishing inefficient managerial and business performances, and by reducing bottlenecks and administrative problems in the public sector. These two market-based processes thus reduce the ability of public officials to extract extra economic rents (Rose-Ackerman, 1996; World Bank, 1997). By extension, the neo-liberals presuppose that corrupt practices do not flourish in the market economies. Unfortunately, this view contrasts sharply with the reality showing the role of the private sector in perpetuating corrupt practices through a variety of business vehicles (United States Senate Subcommittee on Investigations, 2005; Africa All Party Parliamentary Group, 2006).

Increasing scholarly attention is now focused on the role of multinational corporations in facilitating corruption. A number of studies have paid attention to exploring corporate social responsibility. For example, Otusanya, Lauwo and Adeyeye (2012) highlight the fact that the literature in this area remains dispersed and with significant gaps, which include taking into account the tendency for companies to offer bribes and engage in other corrupt practices.

It is clear from the above discussions that private sector corruption, driven by the behaviours of multinational corporations, requires as much attention as public sector corruption because of its equally negative effects on economic activity and broader socioeconomic development. The same as in the public sector, corruption by these corporations is abetted by weaknesses in the regulatory and institutional framework that make it difficult to monitor the enforcement of rules and fraud deterrent mechanisms (Ndikumana, 2013). Corruption emerges through at least three broad mechanisms, two of which have already been discussed under the illicit financial flows section:

a. Multinational corporations manipulate the pricing mechanisms to gain monopoly profits by mispricing and transfer pricing. While transfer pricing may be legal in principle, they are nonetheless illicit from a moral perspective. On the other hand, mispricing of imports and exports leads to heavy losses in foreign exchange and

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27 See, for example, Gyimah-Brempong, 2002; Ndikumana and Bálimoune, 2009; Ndikumana, 2005; Baumol, 1990; Murphy, Shleifer and Vishny, 1991.
28 See, for example, Murphy, Shleifer and Vishny, 1991 and 1993; Acemoglu and Verdier, 1998; Tornell and Lane, 1999; Torvik, 2002.
29 For more information, see Sikka, 2008 and 2010; Bakre, 2007, 2008a and 2008b; and Otusanya, 2010.
Measuring corruption in Africa: The international dimension matters

trade tax revenue. Some studies estimate that between 1970 and 2010, export misinvoicing in Africa (excluding North Africa) amounted to $859 billion (Ndikumana and Boyce, 2012);

b. Multinational corporations engage in encouraging money laundering, which is a process of allowing dirty money – or funds obtained from the sale of illegal goods, such as drugs, human trafficking, or smuggling of legal goods, and all forms of fraud and corruption – to be integrated into the formal banking system (Ndikumana and Boyce, 2012; Boyce and Ndikumana, 2012);

c. Multinational corporations exhibit corrupt tendencies by exploiting insider information. In this regard, these firms derive monopoly profits by selling or using information gained from their privileged positions as decision makers or employees within a particular institution such banks. Insider trading at times encourage irresponsible speculative decision-making that, for example, brought a dozen of Nigerian banks to their knees in 2009 (Apati, 2011).

Ndikumana (2013) argues that corrupt multinational corporations rob Africa twice by, “paying little or no taxes; and bribing government officials to negotiate deals that short change African countries through unfair sharing of rents and generous tax holidays and pervasive tax reliefs” (p. 3). He cautions that the continent might be losing much more from corruption by multinational corporations than from corruption by the multitude of local small- and medium-sized enterprises (as these enterprises tend to attract more attention from Governments in their efforts to combat corruption). The tendency has been one where, even when corruption by multinational corporations has been detected, the prosecution and punishment by African authorities have been uneven, with the burden of proof falling asymmetrically on the African party.

Le Billon (2011) notes some progress in expanding the scope of anti-corruption legislations to cover offenses made by multinational corporations, especially those from the United States, through the Foreign Corrupt Practices Act since 2006. Countries such as the United Kingdom have also followed suit. It is important to acknowledge that corruption also occurs in transactions among private sector agents only (e.g. where officials are not directly involved). In this regard, multinational corporations or their employees engage in transactions that increase their individual or corporate benefits to the detriment of others or society.

The examples from Burundi and Nigeria (see box 21) show common features about corruption in the private sector or multinational corporations. First, corruption flourishes with weak governance and supervision of private sector activity: in the examples above, managers of banks have circumvented the rules to advance their interests because of ineffective supervision and regulation. Second, corruption results from either complacency or complicity of the political elite: generally, bankers have enjoyed being under the protection of the

Box 21
SYSTEMIC MISALLOCATION OF RESOURCES BY BANKS IN SELECT AFRICAN COUNTRIES

Nkurunziza, Ndikumana and Nyamoya (2012) report systematic misallocation of resources in Burundi resulting from corrupt and nepotistic lending policies, whereby managers of banks, their associates and employees have access to credit at below market rates, while the outsiders are rationed and pay usury interest rates. The study reports bi-modal distribution, where the rates charged on loans vary from 0 to 7.5 per cent (with a mode of 4 per cent) for insiders and from 18 to 23.5 per cent for outsiders. Managers, employees, and politically influential individuals have enjoyed this privileged treatment. The political leverage of these individuals not only allows them to obtain the loans at cheap rates, but also gives them a license to default on their loans with impunity. Apati (2011) finds a similar tendency in Nigeria whereby the banking sector prospered at the expense of the real economy due to perverse incentives that promoted speculation over real investment. He showed how corruption and speculation enabled banks to artificially inflate their net worth by manipulating funds and the market. Some of the leading Nigerian banks were reportedly overvalued by up to 50 per cent.

Source: Nkurunziza, Ndikumana and Nyamoya (2012); Apati (2011).
politicians (who also tend to have financial interests in the banks). Lastly, corruption emerges from the actions or influence of former politicians turned into bank owners (directly or indirectly) through bank managers who are their nominees or cabals.

One last word of caution is that any analysis of corruption by private sector players should not focus only on problems of corruption by large multinational corporations in Africa. Corruption by domestic firms should also be taken as a real problem if the discussion on cross-border corruption in this report is anything to go by. Clearly, corruption often entails complicity between private agents and public officials who either provide privileges to the former or turn a blind eye to the illicit behaviour of rent-seeking private operators (Ndikumana, 2013). Protected by influential politicians, corrupt private actors may behave with impunity.

In essence, private sector corruption has a political economy dimension that must be taken into account in any anti-corruption strategies.

**Institutional character of illicit financial flows**

Illicit financial flows are supported by a set of formal and informal institutions (North, 1991). The relevant informal institutions are defined by a number of techniques and practices, which specifically allow the actors involved to reach their goals. Among the formal institutions, the financial ones in Africa and elsewhere play a paramount role. These institutions constitute an intricate network, with interconnections in different jurisdictions characterized by varying degrees of financial secrecy. In addition, there is the ancillary

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**Box 22**

**METHODOLOGICAL DIFFERENCES IN MEASURING ILLICIT FINANCIAL FLOWS IN AFRICA**

Current estimates of illicit financial flows have mainly examined “discrepancies in recorded capital flows or discrepancies in recorded trade flows”. Such methods do not estimate the total amount, but only the part that results in under- or over-reporting of either capital or trade flows. While there is a presumption that these types of activities constitute the majority of illicit financial flows, the fact is that the share of the total flows they represent is not known with any precision.

In particular, Kar and Spanjers (2014) detect illicit financial flows from developing countries using two methods. On the one hand, they use the “gross excluding reversals” methodology, which “estimates trade mis invoicing by looking for imbalances in reported export and import values between a country of interest and the world”. Also, they adopt the so-called “hot money narrow” method, which “is based on the Net Errors and Omissions term in the IMF Balance of Payments Statistics database” (p.4).

ECA (2015b) adopts a computation method of illicit financial flows, at both country and sectoral levels, which considers trade mispricing using mis invoicing. Such types of flows, according to one estimate, could represent about 54 per cent of total illicit financial flows over the period 2000–2009, “although the share […] has declined since 2004”. These figures are however rather flimsy, more of a guesswork nature than estimates. ECA results indicate illicit financial flows at $242 billions, which is higher than comparable estimates from Kar and Cartwright-Smith (2010) at $161 billion. Both sources of data agree in indicating that illicit outflows from Africa have grown in time, and that they grew faster after 2006.

Regardless of the methodology adopted for the purpose of computing illicit financial flow, such outflows are of major importance: “Africa is estimated to be losing more than $50 billion annually in illicit financial flows. But these estimates may well fall short of reality because accurate data do not exist for all African countries, and these estimates often exclude some forms of illicit financial flows that by nature are secret and cannot be properly estimated” (ECA, 2015b, p. 13).

Sources: Kar and Cartwright-Smith (2010); ECA (2015b); Kar and Spanjers (2014).
presence of foreign firms, which are also perpetrators of illicit financial flows.

The staggering size of illicit financial flows brings to the fore the inadequacies in current institutional frameworks. The fact that such flows are possible to the scale observed constitutes not only a result of corruption, but also its enabling factors. This is particularly true for those networks (so tragically common in Africa) whose position of power allows for corrupt practices, which are repeated over time and that may lead to the accumulation of hefty sums of money. The decision to invest in such corruption networks crucially depends on the existence of the complex set of institutions that facilitate a relatively safe transfer of the “loot” abroad. In the African context, such institutions have a marked international nature.

D. Consequences of the international dimension of corruption

The first obvious impact of the international dimension of corruption is the significant drain in resources to African countries. However, the loss is difficult to assess since it is only proxied by illicit financial flows, which in themselves are close to impossible to quantify (see box 22). Just as in the case of corruption, the perpetrators of such flows strive to keep their illicit activities secret, and the only available measures of the phenomenon are indirect ones.

Figure 19 shows two alternative computation of illicit financial flows, using the methods of both ECA (2015) and Kar and Spanjers (2014). It demonstrates that outflows have sharply increased over time. The ECA estimate is more conservative compared to that of Kar and Spanjers, but both agree on in indicating an important growth in illicit outflows from Africa over the
past decade, and of their hefty overall size. In particular, several estimates affirm that when comparing illicit financial flows out of Africa with foreign assistance, “Africa is a net creditor to the world rather than a net debtor, as is often assumed” (ECA, 2015, p. 34).

In the light of the foregoing, it is clear that corruption in Africa is not exclusively the making of Africans. The corruption indices, which continue to rank African countries poorly, are misleading policymakers and investors. This is because current perception-based indices misrepresent the contextual realities of African countries and completely ignore the escalating international dimension of corruption.

International actors continue to provide meaningful financial and technical assistance to African countries. However, the results of these strategic alliances and partnerships, which date as far back as colonial times, have not always been fruitful. Indeed, one of the unfortunate consequences has been foreign-driven corruption, which is more flagrant in countries that are endowed with natural resources.

The behaviour of multinational corporations in African countries is often driven by their bargaining power and level of “corruption premium” to corrupt officials (McMillan and Waxman, 2007). The bargaining relationship between African Governments and multinational corporations is significantly affected by country-specific legal loopholes and institutional weaknesses. For example, if compliance mechanisms are enforced rigorously, Governments will feel obligated to negotiate deals, which are in favour of the country’s development objectives. On the other hand, if Governments are not accountable to their citizens, the likelihood of negotiating corruption-ridden deals is significantly heightened. There is thus need for a calculated decision to be made about personal enrichment or delivering on the country’s aspirations.

### Table 11

**NUMBER OF CROSS-BORDER CASES OF CORRUPTION BY PUBLIC OFFICIALS**

<table>
<thead>
<tr>
<th>Years</th>
<th>Rest of the World</th>
<th>Africa</th>
<th>Ratios * 100</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>i. Total n. of cases</td>
<td>ii. First enforced in FO</td>
<td>iii. First enforced in HQ or TC</td>
</tr>
<tr>
<td>1995–1999</td>
<td>97</td>
<td>8</td>
<td>89</td>
</tr>
<tr>
<td>2000–2004</td>
<td>299</td>
<td>31</td>
<td>268</td>
</tr>
<tr>
<td>2005–2009</td>
<td>264</td>
<td>70</td>
<td>194</td>
</tr>
<tr>
<td>2010–2014</td>
<td>163</td>
<td>56</td>
<td>107</td>
</tr>
</tbody>
</table>

**Abbreviations:** FO, foreign country; HQ, headquarters country; TC, third-country legislation.

**Notes:**
- Column iv = Column ii / Column i *100. It represents the percentage of cases first enforced in the country of residence of the allegedly corrupt public officials (FO), over the total number of cases, for the rest of the World.
- Column viii = Column vi / Column v *100. It represents the percentage of cases first enforced in the country of residence of the allegedly corrupt public officials (FO), over the total number of cases, for Africa.

**Source:** Escrea and Picci (2015b).
The bargaining power of a Government is affected by a host of country-specific institutional factors. A Government’s accountability to its people is likely to influence its bargaining power. In a country where the outcome of negotiations is more transparent, the Government will feel more pressure to push for a better deal. In an extreme case, the Government’s threat point is determined by the possibility of civil unrest and plant closure. The country must therefore balance the revenue it stands to lose if it takes too tough a stance with the possibility of political upheaval. The current reality of the continent is a need for greater transparency and accountability in order to avoid the loss of revenue from corruption, both domestic and foreign.

When it comes to the external dimension of corruption, available data show that to a certain extent African countries free-ride on the enforcement efforts of non-African countries. Table 11 shows that in most cases of cross-border corruption involving public officials from Africa, corruption is initiated in non-African countries. This implies that African countries have to invest in strengthening the capacities of their parliaments, audit institutions, ombudspersons, the judiciary (including anti-corruption and commercial courts), the media, and civic associations.

E. Conclusion

Several reasons concur to the general conclusion that corruption in Africa, probably more so than in other continents, cannot be adequately understood without considering its international dimension. These factors, in their multifaceted aspects, are the results of African history and of its complex interactions (past and present) with the rest of the world. They include cultural elements, and the ways in which citizens see the State and its actions. Lastly, the international character of African corruption manifests itself in the interplay of a rich set of actors, such as those allowing for huge amounts of illicit financial flows to occur, and for a disproportionate share of cross-border bribes paid by foreign firms, which benefit greedy African public officials at the expense of the African people.

Given the relevance of its international dimension, the problem of corruption in Africa cannot be tackled by crafting policies which are purely domestic in scope. At a minimum, there is a need to sharply increase the transparency of international financial systems and to augment the capacity of States, so as to place an obstacle to those illicit financial flows that are instrumental to the more vicious and damaging high-profile occurrences of corruption. Increased State capacity, together with international coordination, is also a necessity for a more proactive role of African jurisdictions in fighting occurrences of cross-border crimes, in a situation where the great majority of cases involving African public officials and the private sector has so far been enforced first outside Africa.

Strengthening the capacities of accountability and oversight institutions, as part of wider governance reforms, is therefore critical. This need is particularly pressing when considering the often weak enforcement of anti-corruption legislation in African countries. The pronounced international dimension of corruption in Africa highlights the necessity to find solutions that are not exclusively domestic in nature, while focusing on global governance institutions.