

Illicit Financial Flows in Botswana

Illicit Financial Flow (IFF)s are criminal transfers of illegally earned money to a foreign country (Global Financial Integrity (GFI), n.d.). Corruption is often cited as a leading cause of IFFs. Whether in actively partaking in criminal activity, enabling it through inadequate oversight or prevention instruments. IFFs hinder a country's development and service delivery capacity – taking away critical resources for serving its citizens. Botswana is one of many other countries facing IFFs. Most IFFs are generated from illegal resource exploitation, transfer pricing, corruption, and tax evasion. Thus, the COVID-19 crisis has heightened risks of IFFs in Africa.

Sub Saharan Africa has been denied an estimated \$1.3 trillion due to IFFs between 1980 and 2013, straining fiscal stewardship in the region (Signé, et al., 2020). Legal instruments prevent IFFs (Kar & Freitas, 2012), more especially for more organized syndicates. Politicians, businesses and institutions are all potential enablers or actors of IFFs – predominantly to avoid paying taxes. GFI reports that corruption accounts for 5% of IFFs, where public assets are stolen through bribery and other means. Money laundering, counterfeit and terrorist financing, racketeering, and drug trafficking accounts for 35% of IFFs. The remaining 60% is attributed to tax abuse driven by major cross-border trade and finances. Thus, more legal avenues within the financial services sector are acting with impunity in Sub Saharan Africa (Kraai, 2018).

IFFs in neighbouring South Africa have gradually increased over time to a cumulative \$400 billion in IFFs. Between 2004 and 2013, Botswana has lost \$20 billion from IFFs.

Most are attributed to trade mis-invoicing, estimated at \$12.8 billion (Dikuelo, 2016).

Other losses are attributed to tax evasion and corruption. On an annual basis, Botswana is estimated to lose more than \$856 million. These are critical revenues lost to a country that is yet to fully achieve its knowledge-based economy and citizen empowerment aspirations. A possible influence on this could be the abolition of exchange controls, allowing for ease of capital outflows.

In 2015, unemployment in Botswana has been as high as 46% in some rural areas, with the overall rate reported at 20% (Weeks, 2015). A narrow economic based attributed to capital intensive sectors such as mining, tourism and financial services means a difficult operating environment for entrepreneurs and medium sized businesses. Limited means of production and landlocked means Botswana is reliant on its neighbours for trade and goods. This poses a threat to food security and emergency situations such as the COVID-19 crisis. Botswana is well known for its fiscal stewardship whilst experiencing rapid economic growth – this legacy remains tested with the wide reaching impact of COVID-19

A feminist economy must be adopted to improve Botswana's public spending, economic participation and equity ownership. The country's focus on luring trade is a double-edged sword that leave it susceptible to larger economies. The reliance of foreign trade continues to risk its fiscal reputation and ability to stimulate citizen owned economic activity void of state procurement. It remains at risk of IFFs with sophisticated multinational operations that continue to find regulatory, treasury and legislative loopholes that compromise its financial integrity. This directly impacts the country's ability to alleviate poverty, achieve universal health coverage and recognise care work.

References

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