



Illicit Financial Flows and State Capture in Sub-Saharan Africa: A Power Elite Theory Perspective

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Abstract

Using the Power Elite Theory (PET) as analytical lens, this paper explored the interplay of state capture and illicit financial flows (IFFs) for major emitters in Sub-Saharan Africa (SSA). This paper argues that IFFs in SSA are intrinsically linked to the phenomenon of state capture, which can be better understood through the lens of PET. The nations represented in the emissions data encompass chiefly the Democratic Republic of the Congo, Kenya, Angola, and South Africa. The key sectors highlighted include chiefly the extractive industries, such as natural gas, petroleum, mining, and minerals. The present work elucidates the relationship between state capture and IFFs through a systematic conceptual framework developed. The paper highlighted factors such as deficient governance, regulatory challenges, and the role of the private sector in driving IFFs linked to PET and state capture. The study showed that, on average from 1980-2018, for the major emitters of IFFs, losses in terms of trade as a percentage of Gross Domestic Product (GDP) ranged from 3.4% to 33.5% from the lowest to the highest emitter. Tracing, the losses, indicate a direct link to power elites and state capture phenomena. Additionally, the paper explored the long-term and short-term impacts of IFFs, including their effects on the environment, the erosion of public trust, unprecedented financial losses, impacts on trade, and the impairment of overall development. A Red-Black to Green Lens Conceptual Diagram was developed. This tool helped to further shed more light on the nature of the problem as embedded within the existing challenges inherent to Zone C. In addressing the problem across the region, the paper indicates that, in addition to other interventions, the greatest solution lies in the commitment of all stakeholders in the economy, including the media, civil society organizations (CSOs), the general populace, and international partners within the region.

Keywords: *Economic Development; Illicit Financial Flows; State Capture, Power Elite Theory; Sub-Saharan Africa*

Introduction

Sub-Saharan Africa (SSA) has been grappling with the scourge of Illicit Financial Flows (IFFs) for decades, with the outflow of ill-gotten gains undermining the region's prospects for sustainable development. IFFs are unequivocally acknowledged as a significant impediment to achieving the Sustainable Development Goals (SDGs), specifically designated as target number four of SDG 16 (United Nations, 2022). Global Financial Integrity (GFI) shows that IFFs is mobility or movement of money or capital which is illegally earned across frontiers¹. The various modalities of IFFs include tax evasion, trade misinvoicing, corruption, money laundering, and other illicit practices. Adverse impacts of IFFs on development of economies are profound including revenue leakages, stagnating development, lowering productivity, burdening of the poor as well as distorting trade. The negative impacts of IFFs have been extensively documented in the academic literature as well as reports from international organizations. Prominent examples include studies by the International Monetary Fund (IMF) (2023)², Transparency International (2024)³, Thiao and Read (2021), and Pérez and Olivié (2015), among others.

The SSA region remains one of the regions persistently battling with IFFs, making it a persistent obstacle to inclusive growth and development in the region. Signe et al., (2020) in a Brookings Policy Brief showed that estimations based on GFI methodology from 1980 through 2018, the region has lost over USD 1.3 trillion in terms of IFFs implying severity of IFFs to the region. For the same period, the region received USD 2 trillion in Foreign Direct Investment (FDI) (Signe et al., 2020). Curbing IFFs could thus generate substantial development gains for the region.

IFFs in SSA are in different sectors such as mining, energy, agriculture, and health among others. The various modalities of IFFs also include transfer pricing and trade misinvoicing. For instance, a report by Global Governance Africa (GGA) (2020) estimates that trade misinvoicing alone cost the African continent an estimated \$50 billion between 1980 and 2018. Table 1 below shows the top ten emitters of IFFs in the African continent.

Table 1: Major Emitters of Illicit Financial Flows from Africa, (1980-2018)

Country	IFFs (millions of USD)	IFFs (% of Trade)
South Africa	441481	15.5
DRC	165649	20.4
Ethiopia	84316	33.5
Nigeria	67058	3.4
Rep. of Congo	55083	23.8
Angola	45133	4.4
Sudan	38666	15.1
Botswana	31486	16.1
Zambia	27500	11.8
Cameroon	26588	14.9

Source: Brookings Institute (Adapted from Global Governance Africa, 2023)

The data presented in Table 1 above merely scratches the surface of the IFFs challenge affecting the region. The millions of dollars being lost from the respective economies could otherwise be utilized to improve the livelihoods of the region's large population still living in extreme poverty. World Bank

¹ Global Financial Integrity. See : <https://blogs.worldbank.org/en/opendata/fragility-and-poverty-sub-saharan-africa-two-sides-same-coin>

² IMF. See : <https://www.elibrary.imf.org/view/journals/007/2023/053/article-A001-en.xml>

³ Transparency International : See : <https://knowledgehub.transparency.org/helpdesk/illicit-financial-flows-fragility-and-conflict>

(2023) shows that 35% of SSA inhabitants lived in extreme poverty in 2019⁴. Furthermore, Table 1 shows shares of IFFs in the trade of the respective countries. The countries profiled are endowed very much with natural resources. For instance, the Democratic Republic of Congo (DRC) has minerals, Nigeria and Angola have oil and Zambia has copper. Due to the failure to address the efficient management of natural resources in the region, these endowments have largely become a curse rather than a blessing. Furthermore, effectively curbing IFFs will continue to be a formidable challenge.

Given the preceding discussions, the question arises: how then can we understand IFFs in SSA through the lens of PET? Is this theoretical framework relevant in this context? What insights does PET offer? The structure of the remainder of the paper is as follows: Section 2 provides an overview of PET, state capture and IFFs, Section 3 examines the various enablers of IFFs in Africa, Section 4 delves into the immediate and long-term effects of this scourge on the continent, and Section 5 details potential strategies for curtailing these illicit financial flows.

Illicit Financial Flows, Power Elite Theory and State Capture: An Overview

This section provides an in-depth examination of PET, the concept of state capture, as well as the issue of IFFs. By delving deeper into the interconnections between these three concepts, the study developed a systematic conceptual framework to guide the subsequent analysis.

Power Elite Theory

The PET was developed C.W. Mills (1964) with a view of analyzing the American society dynamics and how they in turn influenced the society at the time. According to Mills, the Elite also known as “Great Men” are seen as those individuals in the society who wield power and influence. The Elite include high ranking government officials, politicians and powerful corporation executives who because of their power can influence important decisions in the economy. These individuals occupy key positions in society and they are powerful since they control power and information for critical decisions in a society. It is these positions which help them to be able to rise influence in all spheres of society. Mills emphasizes that the decisions have a greater impact on the lives of the ordinary people. In addition, Mills shows that the Elite are in control of key hierarchies, major organisations, state machinery as well as military establishments. The Elite have the following attributes: (1) power, (2) wealth (money) and (3) prestige (celebrity status).

Domains of National Power. Mills (1964) underscores the importance of power in his theory and called it ‘National Power’. It resides in the following domains: economic, political and military. Figure 1 below illustrates these key institutions.

⁴ World Bank Blog. See <https://blogs.worldbank.org/en/opendata/fragility-and-poverty-sub-saharan-africa-two-sides-same-coin>

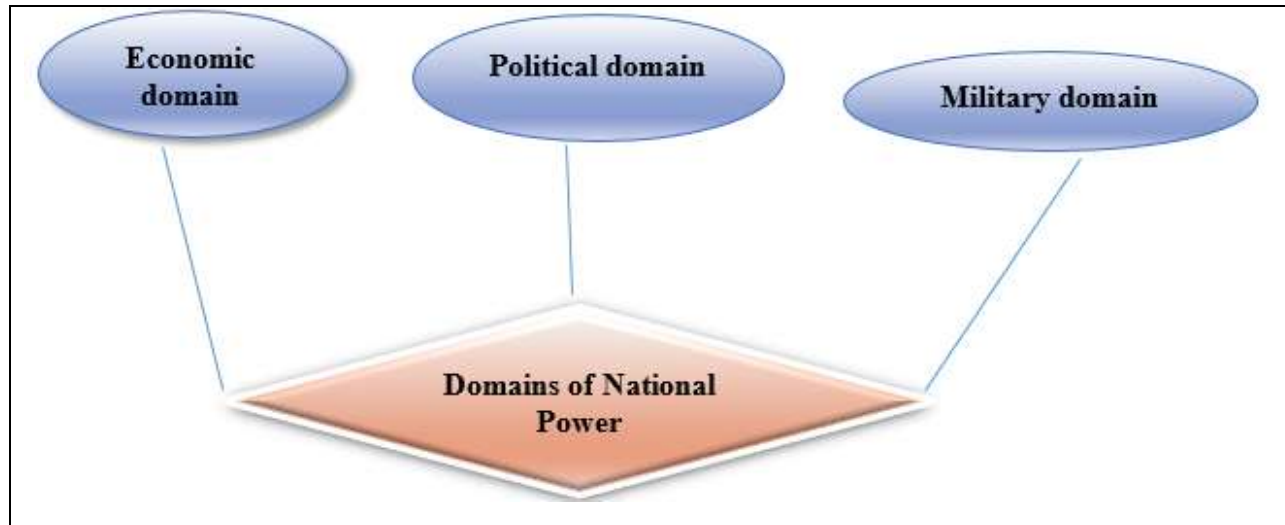


Figure 1: Domains of National Power
Source: Authors illustration

The above domains are the 'big three' institutions of the society which have much power. After the big three, Mills also notes the importance of other institutions, the 'lesser institutions'. They include institutions such as the church, the family and education. The role of these is basically to give legitimacy to the big three.

The economic domain is predominantly made up of a few large entities which exert influence on economic decisions. On the other hand, the political order has political influence which affects right across the society. Lastly, the military establishment, although it may appear to be neutral it actually becomes a government feature.

Of utmost importance in the relationship of the big three is the interplay of these domains which in turn affects the economy. There is a working relationship of the economic, political and military domains. For instance, the political has power such that it can determine or impede on avenues of wealth. The end result is that there is interlocking of the three domains in an economy creating a strong national apparatus which has a great say on avenues of wealth.

State Capture

World Bank shows that State Capture is a situation whereby private actors use their influence to serve their interests through influencing policy trajectories an economy (World Bank Discussion Paper, 2019)⁵. The influence can range from use of coercion, violence or any other. These enable them to control key institutions of the state. State Capture is in fact a form of serious corruption (Africa Centre for Open Governance (AfriCOG), 2019). Its express purpose is to have a say on the formation of laws in order to protect vested interests (Hellman et al.,2000). Does State Capture matter? It does.

Systematic Framework for Understanding Power Elite Theory, State Capture in relation to IFFs in Sub Saharan Africa

Building on the discussions above, a conceptual framework was developed to guide the analysis. This is presented in Figure 2 below.

⁵ See: World Bank Document

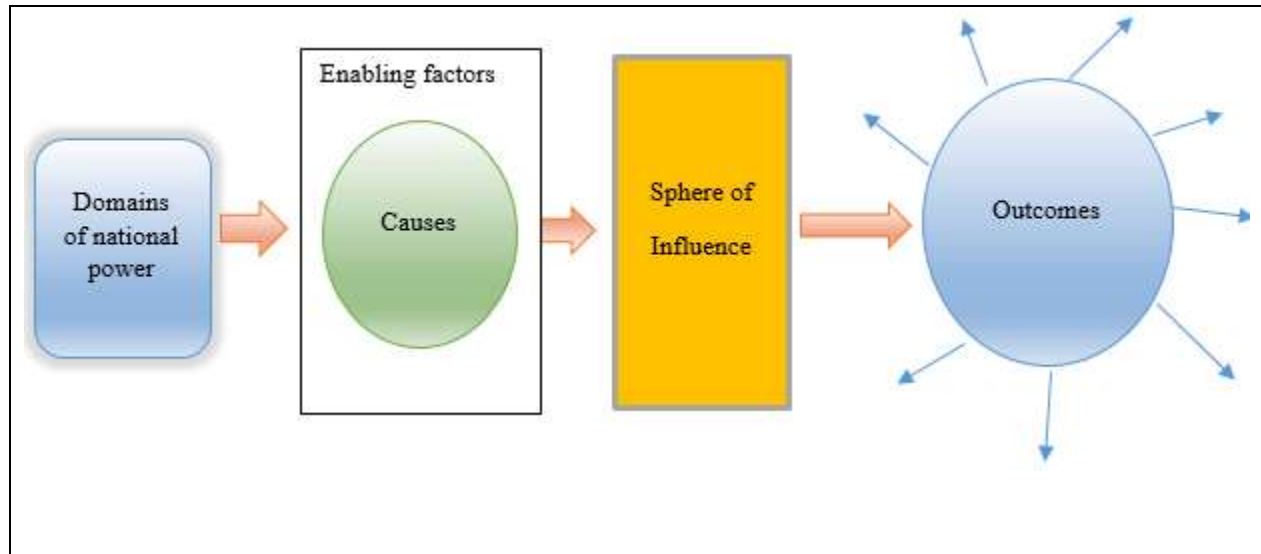


Figure 2: Conceptual Framework of Power Elite Theory
Source : Author Illustration

Figure 2 relates PET to the issue of IFFs in the context of SSA. In essence, the conceptual framework serves as a lens through which to gain a broader understanding on the underlying causes, immediate effects, and long-term outcomes of power elite dynamics in the region. In fact, the framework is a condensed summary of the current study up until the far reaching impacts of IFFs caused by the power elite in SSA.

Power Elite Theory and State Capture in Practice : Evidence from Selected Sub Saharan African Countries

This section explores some major emitters of IFFs from SSA. The sample chosen for analysis is drawn from Table 1 as given by Global Governance Institute (2023). The period mostly covered by the data is 1980 to 2018. Kenya is also added in the sample due to availability of data although not in Table 1. Evidence presented across the length and breadth of SSA elucidates the dynamics of Power Elite in terms of State Capture fuelling IFFs in this region.

State Capture in Kenya

Kenya is one SSA country which has a lot of development potential. However, a challenge such as state capture over the years threatened attaining sustainable development. Several scandals in which state capture has been evident have plagued the East African country. A report by AfriCOG (2019) highlights three public scandals the country has experienced and the resulting losses to the economy.

These scandals are namely: the Goldenberg scandal , Anglo Leasing and the Eurobond scandal. What is common in the three scandals, was the involvement of key institutions such as sitting presidents (for power and authorisation of the transactions) and treasury (for release of funds) and a network of private individuals and institutions. The losses to the economy were huge. For example, AfriCOG (2019) reported that the Goldenberg scandal costed Kenya up to 10% of GDP at the time. This was equivalent to USD 158.3 billion.

The Anglo Leasing scandal was for a security contract which involved aspects such as supply of security related materials for Kenya several security related sectors. A total sum of USD 770 million was

reportedly lost. On the other hand, the Eurobond scandal resulted in USD 1.002 billion which government failed to account for.

State Capture in South Africa

South Africa is one of Africa's biggest and most diverse economy. However, state capture has been one of the serious problems leading to massive leakage of state resources and *capturing* of state institutions. The concept of state capture with respect to South Africa has been enhanced further to explain this ill. State Capacity Research Group (2017) shows that the concept of state capture can be understood in relation to the power elite how they collude in order to violate the constitution so as to serve their interests. In 2016, the office of the Public Protector produced a report in which she flagged out state capture by the then president Jacob Zuma and Gupta family. The Gupta are a wealthy family from India. They were able to worm their way and became very close to the president. This relationship had the effect of influencing key decisions such as cabinet appointments and other issues with a bearing on the broader policy space (International Monetary Fund Blog, 2023)⁶.

The blog further shows that this capture allowed development of a 'parallel government' in which the Guptas had a tight control over key governmental decisions. In addition, they spread their tentacles to sectors such as power, Information Technology, aviation, state pensions and other sectors in which huge capital was involved. Their purpose was to take control of procurement budgets and ensure that appointees to critical institutions were aligned to them. This would make it easy to siphon public funds. State capture is estimated to have cost South Africa a fortune of R250 billion (approx. USD 17 billion), The Citizen (2017)⁷.

State Capture in Democratic Republic of Congo (DRC)

DRC is a country rich in minerals including lithium, the future of electric vehicles. Gold deposits are also available in the country as well as forests rich in indigenous trees which are massively exploited for their commercial value. Besides the mineral wealth, DRC faces instability in some pockets of the country due to rebel activities. Between 2001 and 2018, reports show that state capture orchestrated by former leader Joseph Kabila, his business associates and family have been milking the country of resources (Africa Confidential, 2021). The capture was made easy by weaker institutions. This scandal is reported to be one of the biggest scandals to shake DRC after the reign of Mobutu Sese Seko who also looted massively.

In DRC due to the presence of a lot of mineral wealth, ills such as corruption have enabled collusion between shady investors from countries such as China and state actors. The Sentry (2021) shows that Chinese linked institutions have been able to corruptly secure billions worth of contracts in natural resources working closely with the Kabila family. Some of the institutions cited by The Sentry are international banks which have enabled some of these companies to be able to transfer funds (via shell company Congo Construction Company) to help them to be able to pamper the Kabila family in order for them to secure minerals deals.

State Capture in Angola

Angola is one of Africa's richest countries in terms of oil endowments. However, the country remains very poor and this is largely caused by corruption with origins of former president José Eduardo dos Santos (Sidley, 2020). Evidence (such as Luanda Leaks) shows that organised plunder of state

⁶ See : <https://blog-pfm.imf.org/en/pfmblog/2023/04/how-and-why-did-state-capture-and-massive-corruption-occur-in-south-africa>

⁷ Available at : <https://www.citizen.co.za/news/south-africa/r250bn-lost-to-state-capture-in-the-last-three-years-says-gordhan/>

resources with the dos Santos family being at the forefront (Sidley, 2020). The daughter of do Santos called Isobel is believed to have amassed over USD 2 billion in wealth. This is largely attributable to her proximity to the first family and capture of state institutions. This has given her privileges and power to be able to corruptly gain contracts.

Sidley (2020) further highlights that Western-linked institutions have enabled the dos Santos family to be able to loot state resources. This has been through a link with this family and state institutions such as Sanongol. At some point, Isobel was appointed head of Sonangol by her father when he was still president. Western institutions such as banks, lawyers and international consultancies have helped to enable the dos Santos family. Sidley (2020) highlights that Luanda Leaks show over 400 companies and subsidiaries in over 41 countries have been linked to Isobel.

Enablers of IFFs by the Power Elite in Sub-Saharan Africa due to State Capture: Overview of Causes

At this juncture the study explores the various factors that enable as well as sustain state capture in various SSA countries which in turn drive IFFs. In SSA, the power elite, including political leaders, government officials, and their associates, have been able to enable and perpetuate IFFs due to the phenomenon of state capture. More noticeable enablers include; weak governance and lack of accountability, loopholes in legal and regulatory frameworks, complicity of the private sector, lack of effective international cooperation and weak civil society and public awareness.

‘Big Man Syndrome’ in Sub Saharan Africa

In political science, ‘Big man syndrome’ is defined as rulership of a country by single handedly by an individual. Its features are; corruption, autocracy and totalitarianism (Wikipedia, 2023)⁸. It is also known as *bigmanism*. The experience in most SSA is for the power elite usually in form of very influential overstaying presidents who in turn wield too much power turning states into *personal fiefdoms*. The major outcomes have been weakening of key public institutions, nepotism, favouritism for government tenders, lack of accountability, creation of fear and control. This has only led to massive plunder of state resources making it for IFFs and other ills difficult to control. The most predominant form of IFFs linked to the power elite in relation to the big man syndrome in SSA has been via corruption due to abuse of power either directly by authorities in charge or their close associates as well as family members.

The following is a table showing examples of practice of bigmanism and the resulting losses in selected SSA.

Table 2: Selected examples of Bigmanism in Practice in Sub Saharan Africa

Country	Ruler	Estimated losses by the respective country based on available data
Zaire (now DR Congo)	Mobutu Sese Seko (1965-1997) 31 years ⁹	Conservative estimates show that Mobutu stole not less than USD 25-50 million from Zaire and amassed even more during his rule. Mobutu was known for his lavish style during his time ¹⁰ .

⁸ See:

[https://en.wikipedia.org/wiki/Big_man_\(political_science\)#:~:text=The%20terms%20big%20man%2C%20big,countries%20by%20a%20single%20person.](https://en.wikipedia.org/wiki/Big_man_(political_science)#:~:text=The%20terms%20big%20man%2C%20big,countries%20by%20a%20single%20person.)

⁹ See : [https://en.wikipedia.org/wiki/Big_man_\(political_science\)#cite_note-1](https://en.wikipedia.org/wiki/Big_man_(political_science)#cite_note-1)

¹⁰ See : https://en.wikipedia.org/wiki/Mobutu_Sese_Seko#cite_note-124

Equatorial Guinea	Teodoro Obiang Nguema Mbasogo (1979 to date)	Mr. Nguema is the world’s longest serving president. ¹¹ Some data available shows what the country has lost due to abuse of power by Nguema’s son Teodorin Obiang who is known for his extravagance. The following are some of ‘insane things’ he has done using embezzled resources he has had access to : -Michael Jackson memorabilia – USD 3.2 million -Private jet ownership-USD 38.5 million -Supercars-over USD 1 million -Mansions (California , USD 30 million) and France (USD 100-150 million) -Expensive art pieces- USD 30 million (Pfeifer, 2020) ¹²
Republic of Congo	Denis Sason Nguesso (38 years in power)	Global Witness (2020) reports several scandals in which millions have been lost from the oil rich country. Family members closer to the president have been culprits. For example, his children are accused to have stolen over USD 70 million public funds among them ¹³ .

Source: Authors’ compilation

From Table 2, countries which have had long serving presidents who continue to cling to power have often made it easy for the power elite to be deeply entrenched in these countries. The overall effect is to stifle overall development and increase poverty levels.

Weak Governance and Lack of Accountability

As indicated by Idowu (2020) governance remains a major and dire challenge facing SSA and the continent at large. According to the World Bank’s Worldwide Governance Indicators, several SSA countries score poorly on measures of government effectiveness, control of corruption, and rule of law. Top underperformers include; DRC, Central African Republic, South Sudan and Somalia (World Bank, 2022). Despite coming out of colonial bondage, no proper governance structures have been attained for the SSA nations. Neopatrimonialism has been dominating in SSA states, though at varying degrees (Bonga, 2021). SSA has also been the stage of a stream of governance reform failures, thereby nations continue to be ruined by poor governance (Isser et al, 2024).

Weak governance structures, lack of transparency, and inadequate systems of checks and balances allow the power elite to manipulate government policies, regulations, and institutions for their own benefit. Citizens over the years have continuously been denied good governance, and this seems perpetuating (Idowu, 2020). Denying good governance enables the elite to facilitate IFFs through various means, such as: corruption and bribery, misappropriation of public funds, evasion of taxes and customs duties, and abuse of government procurement processes.

The abuse of government procurement processes is common in many SSA countries, often resulting to corruption, public funds mismanagement, and lack of transparency. Nigeria is estimated to have lost about \$15 billion between 2011 and 2015 as a result of lack of transparency and abuse of the procurement process in the oil and gas sector (Extractive Industries Transparency Initiative (NEITI), 2017). Ethics and Anti-Corruption Commission (EACC) of Kenya report highlighted the abuse of procurement processes, mentioning bid rigging, kickbacks, and conflict of interest, resulting to the severe loss of billions of shillings in public funds (EACC, 2016). In South Africa, Commission of Inquiry into

¹¹ See : <https://www.bbc.com/news/world-africa-63674539>

¹² See : <https://www.one.org/stories/9-insane-things-teodorin-obiang-spent-his-allegedly-embezzled-money-on/>

¹³ See : <https://www.globalwitness.org/en/campaigns/forests/what-lies-beneath/>

State Capture, revealed widespread corruption and abuse of procurement processes, predominantly in the state-owned enterprises, leading to the misappropriation of public funds (Zondo Commission, 2022).

Loopholes in Legal and Regulatory Frameworks

African Development Bank study obtained that even though SSA countries have established legal and regulatory frameworks to deal with corruption, the observed lack of effective enforcement and implementation has been a barrier (AfDB, 2017). Gaps and loopholes in the legal and regulatory frameworks, often resulting from lobbying by the power elite, make it easier for them to engage in IFFs. This includes: lack of effective anti-money laundering and anti-corruption laws, insufficient regulation of the financial sector, including offshore financial centres, and weak enforcement of existing laws and regulations.

Kenya Institute for Public Policy Research and Analysis (KIPPRA) study found that the political and business elite in the country have exploited weaknesses in the procurement system to award lucrative contracts to their own companies and associates, hence the nation losing billions of public funds (KIPPRA, 2018). The Zondo Commission, in South Africa, uncovered many instances of the political and business elite, chiefly the ruling party members, manipulating the procurement process to divert public funds to their own interests (Zondo Commission, 2022).

Political elites have personal interest agenda. As indicated by Bonga (2021), neopatrimonialism has the capacity of diverting public resources to serve private interests rather than enlightened interests. This has been the case with SSA nations. Nigeria (Transparency International, 2019), Kenya (KIPPRA, 2018), DRC (UN Group of Experts, 2019), South Africa (Zondo Commission, 2022), Angola (Global Witness, 2017), Mozambique (IMF, 2016), Zimbabwe (Zimbabwe Anti-Corruption Commission (ZACC), 2020), Equatorial Guinea (Global Witness, 2017), Uganda (Inspectorate of Government, 2020) and Malawi (Malawi Anti-Corruption Bureau (ACB), 2019) among other nations have experienced the disturbance of legal and regulatory frameworks by power elites for their personal gain.

Complicity of the Private Sector

The power elite often collaborate with the private sector, both domestically and internationally, to enable IFFs. This includes: collusion between government officials and business elites, use of shell companies, offshore accounts, and other financial vehicles to obscure the origin and destination of illicit funds, and involvement of professional enablers, such as lawyers, accountants, and bankers, in facilitating IFFs. According to UN Economic Commission for Africa (UNECA), the private sector and multinational corporations, has been complicit in facilitating illicit financial flows from Africa, chiefly by means of tax evasion, transfer mispricing, and other mechanisms that allows the diversion of public resources to private interests (UNECA, 2015).

The collusion between the private sector, particularly in the extractive industries, and political elites in SSA was also reported (Global Witness, 2017a). There is always a motive by the elite to benefit. A World Bank study obtained that politically connected firms in SSA are more likely to engage in corrupt practices, such as bribery and the diversion of public resources, so that they maintain their privileged access to power and resources (World Bank, 2018). Tax Justice Network (2020) highlighted the role of offshore financial centres, many of which are used by multinational corporations and wealthy individuals, in enabling the transfer of illicit funds from Sub-Saharan Africa to avoid taxation and regulatory oversight (Tax Justice Network, 2020).

Lack of Effective International Cooperation

Limited international cooperation and coordination in addressing IFFs, particularly in the areas of information sharing, asset recovery, and joint investigations, allow the power elite to exploit loopholes and move illicit funds across borders with relative ease. The fact has been supported by the Global Financial Integrity (GFI) report that indicated that "the region's political and business elite have taken advantage of weaknesses in the global financial system to move ill-gotten gains out of the continent" (GFI, 2017). A study by the Organisation for Economic Co-operation and Development (OECD) (2014) obtained that "weak international cooperation and coordination" is one of the significant factors permitting illicit financial flows from SSA countries.

Weak Civil Society and Limited Public Awareness

A lack of strong and independent civil society organizations, coupled with limited public awareness and engagement on the issue of IFFs, makes it more challenging to hold the power elite accountable and to advocate for reforms that could curb IFFs. Many SSA nations have a history of having a weak civil society and limited public awareness: - DRC (Trefon, 2009; Stearns, 2011), Equatorial Guinea (Human Rights Watch, 2017; McSherry, 2006), Eritrea (Amnesty International, 2015; Tronvoll, 2009), Somalia (Menkhaus, 2014; Lewis, 2008) and South Sudan (Patinkin, 2017; Jok, 2011). UNECA (2015) report highlighted the observation that "the limited capacity and resources of civil society organizations" in SSA is one of the factors that has "constrained the ability to generate evidence, advocate and hold governments accountable" on the issue of illicit financial flows.

Demonstration Effect

The *demonstration effect* refers to the phenomenon where individuals or groups emulate the consumption behaviours and lifestyle choices of those perceived as being of higher social status or economic standing (Duesenberry, 1949). The culture is hereditary and impacts the health of the economy because there is perpetuation of a system where the political elites have a vested interest in maintaining the status quo. In support, Acemoglu & Robinson (2012) indicates that the demonstration effect has contributed to the widening of income inequality in SSA nations.

As indicated by Chowdhury (2005), the demonstration effect promotes excessive or ostentatious consumption among the political and economic elites, often financed through rent-seeking activities and illicit financial flows (IFFs) (Chowdhury, 2005). The demonstration effect, combined with the self-serving behaviour of political elites, has created a culture of excessive consumption and wealth display (thus the desire to demonstrate 'power and prestige') among the ruling class in many SSA countries. A study by Ndikumana and Boyce (2011) found that the political elites in SSA have been responsible for the bulk of capital flight from the region. A study by Okafor and Eiya (2011), concerning Nigeria, highlights that the lavish spending and conspicuous consumption of the political class, fuelled by rent-seeking activities and IFFs, have contributed to the widening of income inequality and the marginalization of the poor.

Impact of Illicit Financial Flows in Sub Saharan Africa as a result of State Capture

As a result of state capture driven IFFs in SSA, the impacts are profound across the economies. The study partials out the impacts into (i) immediate impacts and (ii) long term impacts.

Immediate Impacts

1. Loss of Government Revenue. The outflow of illicit funds deprives sub-Saharan African countries of much-needed tax revenue, which could have been invested in public services, infrastructure,

and economic development. Zambia Institute for Policy Analysis and Research (2018) reported that, due to the diversion of funds from public infrastructure projects and the manipulation of mining contracts to benefit politically connected individuals, state capture in Zambia has led to an estimated annual loss of \$3 billion in government revenue. For DRC, state capture by political elites and their cronies has significantly eroded the government's revenue base and undermined its ability to finance development programs (UNECA, 2015). For Kenya, it was estimated that it loses over \$1 billion annually due to state capture-driven IFFs, as reported by Global Financial Integrity (2019).

2. Weakening of Institutions. The weakening of institutions as a result of state capture-driven IFFs is a significant challenge in several SSA countries. The diversion of public resources and the undermining of institutional integrity through state capture erodes the capacity of governments to effectively deliver public services and uphold the rule of law. State capture in South Africa has led to the weakening of key institutions such as the National Prosecuting Authority, the South African Revenue Service, and the Hawks. State capture in Nigeria has resulted in the weakening of institutions such as the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices and Other Related Offences Commission (ICPC) (Transparency International, 2019). State capture in Kenya has weakened the Judiciary, the Office of the Director of Public Prosecutions, and the Ethics and Anti-Corruption Commission (Kenya National Commission on Human Rights, 2018). State capture in the DRC has led to the weakening of institutions such as the Central Bank, the Ministry of Finance, and the tax administration (UNECA, 2015). State capture in Zambia has undermined the independence and effectiveness of institutions such as the Anti-Corruption Commission, the Auditor General's Office, and the Zambia Revenue Authority (Zambia Institute for Policy Analysis and Research, 2018). The acts by political elites has hindered the government ability to prevent and investigate IFFs. State capture made it easier for political elites and their associates to engage in illicit financial outflows with impunity.

3. Increased Inequality and Poverty. The siphoning of resources by the power elite exacerbates income inequality and reduces the availability of funds for social welfare programs, further entrenching poverty in the region. IFFs facilitated by state capture in Nigeria have deprived the government of about \$18 billion annually due to IFFs, which could have been used to lift millions out of poverty (United Nations Development Programme, 2019). According to UNECA (2015), DRC's vast natural wealth has been exploited by political elites and their cronies. The Brookings Institution (2020) report on IFFs in Africa noted that state capture in Uganda has contributed to the concentration of wealth and power in the hands of a few, exacerbating inequality and limiting the government's capacity to invest in programs that could reduce poverty. Corruption and Governance Programme at the Institute for Security Studies (2019) reported that state capture in Tanzania has led to the diversion of public funds and resources away from social services, contributing to the persistence of poverty and inequality, particularly in rural areas. Bertelsmann Stiftung Report (2020) found that state capture in Angola has enabled political and economic elites to siphon off public resources, depriving the government of funds that could have been used to address high levels of poverty and inequality in the country.

4. Distortion of Economic Priorities. The pursuit of personal and political interests by the power elite through IFFs can lead to the misallocation of public resources, prioritizing projects that maximize private gains over those that address the genuine needs of the population. In support, Boyce & Ndikumana (2012) echoed that distortion of economic priorities caused by IFFs is manifested in the neglect of critical public services in the SSA economies, such as healthcare and education, as well as underinvestment in infrastructure and productive sectors that could drive sustainable economic growth. In many SSA countries, there is poverty persistence, inequality, and underdevelopment brought about by actions of the political elites and their cronies. According to Bezuidenhout & Kleynhans (2018), for South Africa, diversion of resources by the elites has undermined the country's ability to address socioeconomic challenges, such as poverty, inequality, and unemployment.

Long-term Impacts

1. **Stifling of Economic Development.** The objective of attaining sustainable economic development remains a challenge for SSA nations when political elites continue to be involved in IFFs. Thabo Mbeki Foundation report highlighted the role of political elites in facilitating IFFs, with some leaders and their families engaging in the theft of public resources and the use of anonymous shell companies to hide their illicit wealth (Thabo Mbeki Foundation, 2023). The loss of public revenue and the diversion of resources away from productive investments hinder the long-term economic growth and development of SSA countries. AfDB (2021) revealed that the loss of revenue from IFFs in SSA is equivalent to about 6.1% of the region's total GDP, hindering economic development and poverty reduction efforts. The poor pay the price.

2. **Undermining of Democratic Institutions.** The concentration of power and wealth in the hands of the elite, enabled by IFFs, can undermine the foundations of democracy, erode checks and balances, and limit the participation and voice of citizens in the political process. The United Nations Development Programme (UNDP) (2022) found that the diversion of public resources through IFFs in SSA has weakened the social contract between governments and citizens, eroding trust in democratic institutions and processes. In support, Brookings Institution (2020) narrates that the concentration of wealth and power among political and business elites has weakened institutional checks and balances, eroded public trust in government, and undermined the foundations of democracy.

3. **Enabling of Organized Crime and Corruption.** Several SSA countries, such as Nigeria, South Africa, and Kenya, scored high on measures of criminal activity, including money laundering and the "criminal governance" of political elites (Global Initiative Against Transnational Organized Crime, 2021). The ability of the power elite to move illicit funds across borders can strengthen the links between political corruption, organized crime, and the financing of illegal activities, further entrenching these problems in the region. A UNECA report emphasized how "the involvement of political elites in IFFs has enabled the growth of organized crime and undermined efforts to combat corruption" in several SSA nations (UNECA, 2023).

4. **Environmental Degradation and Unsustainable Development.** Several SSA countries, such as Equatorial Guinea, Chad, and the Central African Republic, scored poorly on measures of environmental health and ecosystem vitality, often linked to the "capture of natural resources by political and economic elites" (Yale Center for Environmental Law & Policy, 2023). The unchecked exploitation of natural resources without a fair compensation and the disregard for environmental regulations by the power elite, facilitated by IFFs, can lead to long-term environmental damage and unsustainable development. A study by AfDB (2022) found that the "misappropriation of public funds through IFFs has led to a lack of investment in renewable energy, environmental protection, and sustainable urban planning" in various SSA nations.

5. **Erosion of Public Trust.** The perception of widespread corruption and the impunity enjoyed by the power elite can erode public trust in government institutions and undermine the social contract between citizens and the state. Several SSA countries, such as Equatorial Guinea, Eritrea, and Eswatini, were classified as "Not Free," indicating a severe lack of political rights and civil liberties, often linked to the concentration of power and wealth among elites (Freedom House, 2023).

Unprecedented Financial Losses: Economy Wide Effects

IFFs have profound impacts permeating through different sectors across an economy. The following is a compilation/ summary of estimated financial losses due to IFFs in selected SSA countries, including the affected sectors and enabling sectors from some emitters in Africa. We highlight relevant dates also.

Table 3: Financial Losses across Selected IFFs Emitters in Africa

Country	Estimated Annual IFF Outflows	Percentage of GDP	Affected Sectors	Enabling Sectors	Year
Kenya	\$1.5 - \$4 billion	5-10%	Tax revenue, public investment, infrastructure, healthcare, education	Financial secrecy, corruption, weak enforcement, inadequate regulation	2021
South Africa	\$10 - \$21 billion	3.8% - 8%	Government budgets, public service delivery, social programs	Tax havens, corporate structures, money laundering, fraud	2021
DR Congo	\$1.5 - \$3.7 billion	9-21%	Poverty alleviation, inequality reduction, economic development	Resource extraction, political instability, state capture	2021
Angola	\$7 - \$14 billion	13-26%	Infrastructure, healthcare, education, social welfare	Oil and gas sector, lack of transparency, weak governance	2021
Ethiopia	\$2.2 - \$3.9 billion	3-5%	Sustainable development, poverty reduction, economic growth	Trade misinvoicing, transfer pricing, nexus with organized crime	2021
Nigeria	\$15 - \$18 billion	4-5%	Public services, infrastructure, social programs	Corruption, lack of corporate transparency, weak regulations	2021
Sudan	\$1 - \$3.5 billion	3-10%	Economic and social challenges, government capacity	Conflict, political instability, weak institutions	2021
Zambia	\$1.3 - \$2.8 billion	6-13%	Economic diversification, poverty alleviation, social welfare	Extractive industries, tax evasion, lack of financial transparency	2021
Cameroon	\$0.5 - \$1 billion	2-4%	Public services, infrastructure, economic development	Corruption, weak tax administration, inadequate regulation	2021

Source: UNECA (2021)

The estimates highlight the significant financial losses experienced by SSA countries due to IFFs, which have profound impacts on various sectors, including tax revenue, public investment, social programs, economic development, and overall government capacity. The table also identifies the key

enabling sectors that facilitate these illicit flows, such as financial secrecy, corruption, weak enforcement, and inadequate regulation.

Curtailing IFFs in SSA due to the influence of the Power Elite and State Capture

This section examines how appreciating the problem is crucial as well as available options in curbing IFFs linked to state capture. Optimal solutions to this problem should be grounded on understanding fully the problem as presented below.

Understanding the Problem

There are vulnerabilities which states of SSA region are confounded with as presented in the *Red-Black to Green Lens Diagram* below.

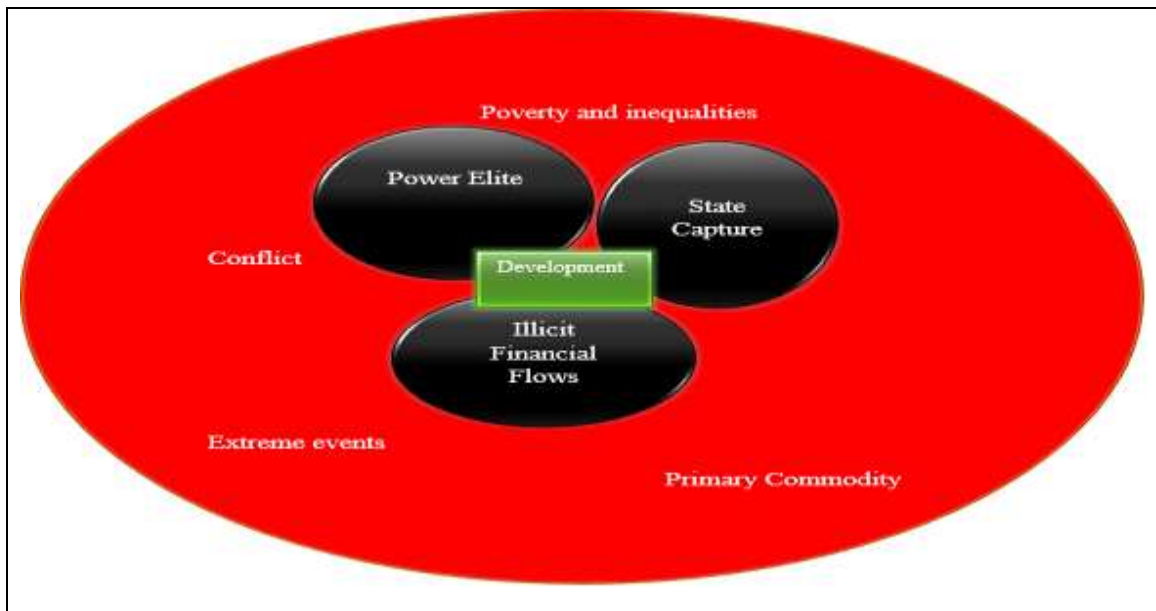


Figure 3: The Red-Black to Green Lens Diagram
Source: Author

The Red- Black to Green Lens Diagram aptly summarises the state of problems emitters of IFFs face in SSA. At the heart of what is desired for is development (Zone A) as depicted by the colour green (inscribed development). This is the desired state of affairs. Nations aspire to develop for the betterment of livelihoods of their people.

With respect to IFFs, the biggest challenge facing these countries are that there are deeply entrenched fragilities: commodity dependency, conflict, poverty and inequalities as well as vulnerability to extreme events such as pandemics climate change, falling global prices and others. These occupy the red zone as the greatest space (Zone C).

The Power Elite, IFFs and State Capture come in the black zone (Zone B). So in summary, the red zone and black zone have combined effect of shrinking development in the emitters, hence the green zone is a very small compared to the other zones. States therefore are facing a constrained optimization problem. They have to maximize Zone A (development) subject to the constraints (Zone B and C). All the variables in Zone B and C are barriers to real development of SSA.

Therefore how to fix the black zone (the focus of this paper) to allow the green zone to thrive? With a better and sustained green zone, the red zone will also be taken care of. The following are some of the options available in fixing the black zone.

Responsible Investments from International Partners

It is important for SSA to scrutinize properly international partners which of late having been scrambling for its natural resources. This includes sectors such as mining, oil, fisheries among others. In most cases there has not been fair returns and compensations resulting in worsening of problems in the red zone (Figure 3 above).

Strengthening of Institutions

What SSA has are resources as explored in the main essay. However, what it doesn't have at the moment are strong institutions. Institutions help to drive development by going a long way in dealing with both the black and red zone towards the growth of the green zone. Institutions also help to create developmental states whose foundations are transparency and accountability as well as respect of the law. This helps also to reduce the problem of clinging to power associated especially with the power elite- a practice which is slowly becoming pervasive.

Responsible and Principled Leadership

In line with strong institutions is strong leadership grounded on solid principles and morals. Africa of the present occupies a big red zone (shown in Figure 3) due to failure of leadership. This has destroyed institutions making it easy for the black zone to thrive. Once the black zone thrives, the green zone keeps on shrinking. Examples where there have been lack of principles including appointing of family members in public institutions. This is pervasive in the continent and it has helped to build networks of collusion.

Strong will and Commitment by People

Dealing with IFFs connected to Power Elite and State Capture in Africa requires selflessness and sacrifice by everyone to curtailing them. Who are the people? Everyone. In the continent everyone has a role to play.

Media

The media is powerful in communicating information. It helps people to be aware and also hold everyone to account.

Civic Society Organisations (CSOs)

They should help to raise awareness in communities about pertinent issues such as IFFs. Most importantly they should remain neutral and desist from interference in issues such as politics.

Ordinary People

Problems such as those in the red zone are numerous. They directly affect especially the ordinary people in the broader economy. The greatest weapon of the ordinary people is unity. They are able to unite against the power elite and force accountability as well as transparency. Without unity of the ordinary people, working towards growing the green zone remains a pipeline dream.

What to do with International Investors and Partners of SSA?

There is not much to do with them. It is an external variable. However, it is important for international partners to be responsible in dealing with Africa. It calls for a sense of responsibility and moral uprightness on their part for development to have a human face. An ideal scenario is to have impact investments in SSA. Through these, they also look beyond their costs of production alone but also social costs as well brought about by their investments. In addition, they should also respect laws of countries they operate in than using their financial muscles at times to prop the Power Elite at the expense of the ordinary people.

Conclusion

In sum, this paper has highlighted how the IFFs are related to the Power Elite and State Capture in selected emitters of SSA. The paper has showed a connection between these components and how they have played out in the continent to stifle real transformation. The paper developed a systematic framework to help in the analysis of these interrelated concepts. The concept has enabled the study also partially to analyze the main issues. Enabling factors include issues of governance, regulation, and complicity of the private sectors as some of the factors. The study, also disentangled the immediate and long-term effects of the phenomenon studied.

In addition, the paper explored how IFFs through influence of Power Elite and State Capture can be curtailed. The paper emphasized the proper understanding of the IFFs as a crucial step. To this end, a *Red-Black to Green Lens Diagram* was developed to aid the understanding of IFFs. Most importantly, the green zone (development) is not attainable due to the already existing issues (red zone). The emergence of the black zone has only helped to further shrink development.

The IFFs discussed can be curtailed through a number of interventions such as rule of law, strong institutions as well as good leadership. Above all, commitment by everyone is important. The media, ordinary people, CSOs have a big role to play to see that IFFs are curtailed.

Wrapping the study, the paper have successfully argued that IFFs in SSA are intrinsically linked to the phenomenon of state capture, which can be better understood through the lens of PET. The paper has demonstrated the intrinsic linkages between IFFs in SSA, the phenomenon of state capture, and the insights that can be gained by applying the conceptual framework of PET. By drawing these connections, the study developed a comprehensive understanding of the complex power dynamics that enable and perpetuate the diversion of national wealth through illicit means, ultimately undermining sustainable development in the region.

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