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FOREIGN EXCHANGE AND FINANCIAL LEAKAGES IN AFRICA

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I. INTRODUCTION

In March 1982 the ECA Secretariat convened a meeting of African research institutes to consider the research implications of the Lagos Plan of Action (LPA) and to determine possible areas in which the ECA and the Institutes could collaborate. In the course of the meeting resource constraints and in particular resource leakages from Africa were identified as important priority areas of research. It was felt the institutes could help in identifying the sources and mechanisms of resource leakages as well as attempt to estimate both quantitatively and qualitatively the magnitudes of these leakages. The views expressed in this meeting stressed the importance of such studies for policy and in finding suitable solutions to the problems of economic resource constraints in Africa.

A workshop on "Leakages in African Economies" was first held at ECA headquarters, Addis Ababa, from the 7th to the 10th of January 1983. 2/ Some twelve research institutes in Africa participated in this workshop. The International Labour Organization (ILO) and the Organization of African Unity (OAU) were also represented in the meetings. During the course of the workshop a background paper entitled "Financial Leakages in Africa", prepared by the ECA Secretariat was read. 3/ This paper among other things, attempts to define the concept of "leakages" and it also seek to present in very broad terms the magnitudes of leakages with respect to the more important economic variables in Africa. The paper also highlights some aspects of the institutional and other mechanisms causing economic leakages. Representatives of institutes had also a chance to review the experiences in their various countries and to discuss issues of concept and measurement and identify problem areas in pursuing a systematic study of the leakage issue in Africa. In the end the workshop decided to recommend that case studies should be undertaken with two complementary parts: the first part on country reviews and the second part on in-depth studies of important leakage issues.

A second workshop on leakages in African economies was held again at ECA Headquarters from the 21st to the 23rd of February, 1984. 4/ The workshop was jointly organized by the ECA and CODESRIA. It was attended by a dozen representatives of research institutes and intergovernmental organizations. The main focus of the workshop had been to review the in-depth studies on leakages prepared before hand by the workshop participants. In the ensuing discussions unclear issues were clarified, incorrect arguments were corrected and the paper writers were helped by the comments they received to improve their work. Towards the conclusion of the workshop extended discussions were carried out concerning the publication of the results of these studies. It was agreed a document should be prepared which should contain all the important findings and contributions. With regard to the format and content of the proposed document which is eventually to be published, the meeting agreed to the following outline.

- Introduction
- The Conceptual Framework
- The Origin and Magnitude of Resource Leakages
- Major Policy Recommendations
- Conclusions

The Third Session of the Joint Conference of African Planners, Statisticians, and Demographers, which was held in Addis Ababa between the 5th and the 14th of March 1984, listened to a report on the proposed study on Leakages in African economies. The session advised that the concept of leakages still needed further elaborations and refinements and there is felt need both to quantify the magnitudes of the leakages and to obtain a clear understanding of the mechanisms and ways in which leakages take place. The session stressed the importance and usefulness of such a study in Africa at this time of widening drought and famine and deepening economic crises.

This study follows the recommendations of the second workshop and is aimed at collating and highlighting the many contributions made to the study of leakages in Africa. In the second section of this study, the conceptual framework is developed in which attempt is made to review critically the various definitions of "leakages" used in current African literature on the subject. The magnitudes of resource leakages estimated by various workgroups are dealt with in the Third Section. The fourth Section of the study reviews the case studies and is aimed at highlighting some specific forms of leakages as these affect particular economies in Africa.

2. THE CONCEPTUAL FRAMEWORK

Leakages mean different things to different people. In view of the many senses of the concept it would be difficult to provide a comprehensive definition. To get at the correct usage of the Leakage concept it is necessary to understand the various senses in which the concept is used in the literature.

In macroeconomic analysis the concept of leakages crops up in connection with the considerations of issues of economic efficiency. More generally it measures the deviation of economic magnitudes such as income or production from a norm often understood as the "ideal" or "optimum" level. It is the deviation between the actual or observed income level from a theoretical maximum that is designated as the "run-offs", the "losses" to the economy, or simply the economic leakage.

In the simple Keynesian static income model, for example, the investment multiplier is measured by the reciprocal of the marginal propensity to save. It is shown that any economic activity which increases the marginal propensity to consume, tends to increase the value of this investment multiplier, and therefore the level of income that obtains as a result. Likewise reducing the marginal propensity to consume reduces the value of the multiplier and also, therefore, the level of income that obtains. Leakages, in this sense, constitute the real (or potential) diversions from the income stream which tend to reduce consumption rates and therefore weaken the income multiplier effects of investments. Increases in the rates of savings, hoarding of idle cash balances, debt cancelations, taxation, purchases of old stock and securities, etc. would all tend to dampen the multiplier income effects of investments and constitute economic "leakages".

A variation of this conception of leakage (as a deviation from a theoretical optimum) can be applied to measure the losses associated with commodity trade. Consider a metric ton of Zambian copper sold to buyers abroad at m Kwacha at the point of exit (F.O.B.). We assume the buyers own the most advanced technology for the further processing of the copper which now enters production processes in the electrical, metal, chemical and other manufacturing sectors that at the end of the accounting period the value added formed with the metric ton of copper import is now estimated at xm Kwacha. It can now be shown that the use of superior technology and higher production capacity in the copper importing country has enabled it to reap a net profit of

$$m(x-1) \text{ Kwacha}$$

from every metric ton exported from Zambia. This amount is also the amount that is lost to Zambia because it lacked the technological know-how and the means in other ways (including the means to organize trade) to retain or save these economic resources.

In this scheme it is reasonable to assume $x > 1$ and the rate of economic leakages equal to $\frac{m(x-1)}{m} = (x-1)$ is assumed to have a value greater than zero. The rate of leakages

have the order of magnitude of 2, 3, 4, etc. indicating that the economic loss to Zambia resulting from low production capacity or technological backwardness could be very considerable.

Leakage, in the above two senses in which it is used, simply measures economic losses as deviations from optimum levels. It attempts to get at that quantity drained out of the system which theoretically could be avoided if the alternatives that are associated with the ideal obtain in practice. This conception of "leakages" is rather pervasive and could be extended to measure deviations of actual situations from desired or idealized norms, be it in income terms or in terms of other economic goals or

objectives (e.g. full-employment, optimum revenue, equitable distribution of income, etc.). In spite of the usefulness of the approach for the considerations of economic efficiency, the conception of leakage in the above fashion is wrought with measurement difficulties. The actual performance levels are often not measured because of paucity and inadequacy of data. The issue of measuring the ideal or optimum level is well nigh impossible. To these difficulties may be added the fact that the ideal or optimum levels from which the deviations are measured are themselves vague and changing.

An alternative but a more practical conception of leakages is to view it as a measurable loss of net wealth to Africa. In the workshops as well as in the in-depth studies, it is this conception of leakages that is found both acceptable and practical. The first workshop on leakages in Africa defined the concept as "an avoidable direct or indirect net loss of resources incurred..." such a loss could occur through the misallocation of resources, external financial transaction, cultural exchanges and economic mismanagement. The balance of payments accounts provide a unique opportunity for conceptualizing leakages in different ways within this broad definition.

In the commodity account of the balance of payments leakages occur as a result of gaps between the value of transactions and actual receipts. The practice of under-invoicing exports and over-invoicing imports is widespread and constitutes an important source of foreign exchange leakages in Africa. Whether exports are over-invoiced or under-invoiced for purposes of fraudulent gains depends on the relationships between export subsidy, exchange control, and black market premium on foreign exchange. 5 If exporters are granted, for example, an advalorem subsidy rate of m , and if x is the percentage by which exports are over-invoiced, then the exporter makes a profit mx per cent of actual export value by over-invoicing if there are no foreign exchange controls. Under foreign exchange control regimes, on the other hand, the exporter will need to surrender to the banking authorities the foreign exchange value of the over-invoice and would tend to do so only if the black market premium on foreign exchange, $u\%$, is less than the rate of export subsidy, m . Of course m must exceed u by considerable margins to induce the exporters indulge in fraudulent over-invoicing practice by margins wide enough to compensate risks of punishment in the event of discovery by the laws. Otherwise where $u \geq m$ the exporter benefits through under-invoicing which makes him avoid the full tariff cost and make extra in selling the extra or undeclared foreign exchange. By assuming m to be the rate of import subsidy and u the premium rate on illegal foreign exchange the incentives to over-invoice imports when $m > u$ and under-invoice imports when $m < u$ is established. While, therefore, whether it is under-invoicing or over-invoicing of exports that bestows profits on the exporter depends on a host of relationships; that over-invoicing and under-invoicing constitute important mechanisms for resource leakages nonetheless remains an established fact. Over-invoicing and under-invoicing, as is shown, are also the mechanisms for a common occurrence of fraudulent profits from the import trade.

The extent of leakages through overinvoicing and underinvoicing of imports and exports are often measured by the discrepancy in the trade data between two countries that are trade partners. Such discrepancies occur as a result of errors in trade statistics, because of time lags between shipments and arrivals of commodity trade, and because of inclusion and omissions of certain monetary or financial components of a transaction. Imports are measured as C.I.F. while exports as F.O.B. and this is another cause for the discrepancy. As regards this last point different margins are used in the literature to bridge the C.I.F. and F.O.B. gaps. The cost of insurance and freight were calculated for some developing countries and estimated at between five per cent to ten per cent of the F.O.B. price. ^{6/} In other words, the value of an import by Britain from Zambia (m_{BZ}) maybe as much as 110% (if the 10 per cent discrepancy rate is used) of the value that is recorded as an export of Zambia to Britain (X_{ZB}) due to the costs of insurance and freight. Thus a ratio of $\frac{m_{BZ}}{X_{ZB}} = 1.10$ signifies no discrepancy

in the values of recorded trade between the trade partner countries. However, this ratio calculated in practice for some developing economies exceeds the ratio 1.10 by wide margins. In such cases the conclusion that is drawn is that the discrepancy in the trade data are too wide and could not be caused by errors in measurement alone. In fact it is a common practice to take the deviation of the ratio from 1.10 as a measure of the extent of leakage caused by fraudulent trade.

Where many processing cycles are completed in production, especially in the imports of manufactured goods, it becomes relatively easy to overinvoice the imports. The ability to determine prices on the part of customs officials and others is greatly constrained due to many brands of products, many production processes involved and intricate faking of documents by traders.

Only a few major traders dominate the global trade in some primary agricultural products. For example 3 multinationals dominate 70 to 75 per cent of the world's banana trade, five transnational corporations handle 75 per cent of cocoa production, 6 transnational buyers purchase about 90 per cent of the world traded tobacco leaves, and world trade in cotton is dominated by a half dozen companies. The market power of these companies and their integrated operations backwards into plantations and forwards into agro-processing enable them to transfer resources easily from developing countries. Similar dominance by a few multinationals of the trade in mineral products gives them the necessary leverages to transfer resources out of Africa especially when the production, processing, transportation, warehousing, marketing, etc. activities are integrated, commodity "prices" can be assigned willfully in such a way as to maximise repatriateable resource. It is interesting to note that the price quotations for some strategic minerals in the major trading markets during the last Shaba incident in Zaire were ten times their previous levels. The disorganization and lack of resource controls on the

part of the producing countries contributes to the excessive resource leakages in Africa through low pricing and faking of trade documents.

The invisible trade account of the balance of payments too contains very important mechanisms of foreign exchange leakages. Transportation, insurance, banking services, tourism and travels abroad including student costs paid in foreign countries are often used for purposes of leaking huge amounts of foreign exchange from Africa. Dividends, profits, and other incomes remitted abroad also convey the sense of leakages as used in this study. In many instances these flows may result from insufficient controls and absence or lack of proper rules and regulations governing these matters. Some aspects of these leakages may also emanate from the practices of corrupt officials and traders. But the leakages need not always be the results of illegal or fraudulent activity. They may well constitute approved and permitted practice under existing laws. But they are leakages all the same so long as the loss abroad could be avoided and to the extent that the financial transactions are at variance with the actual value of recorded service. Unlike the visible trade the invisible exports have no fixed points of exit and as a result it is difficult to estimate the resource leakages associated with the invisible trade accounts. Rough estimates made show that these leakages could be considerable indeed.

Investments and long term capital movements constitute another important source of resource leakages from Africa. African governments are known to devise suitable investment laws with a view to attracting foreign investment and to associate this practice with resource leakage may appear confusing. However attracting foreign investment and the rise of foreign investment practice to leak out resources from Africa are two different matters and our concern here is with the latter problem. Interesting discoveries are being made on how foreign investment utilize local finance (denying local investors alternatives) without necessarily bringing outside resources into Africa, how they transfer payments abroad; and on how through vertical integration and use of transfer pricing they expand the leakage nets. If royalty payments are less regulated

than interest payments on borrowings, for example, the companies easily transfer resources through the "royalty" door. By controlling various activities including marketing, transport, insurance, etc. associated with their investment, resources can easily be transferred from one line of activity that is controlled to another one that is less controlled from the point of view of resource transferring. Foreign investments are known to practice monopoly power wherever possible and deny others, especially locals, entry. While a no growth and a no expansion situation prevails some of these businesses continue to repatriate abroad ever expanding resources in dividends, royalty payments, technical fees and in interest payments. These leakages are beyond the legitimate repayable compositions of the original investment. If not outright fraudulent practice, they are undertaken in the pursuit of advantages brought forth by the "weak" conditions prevailing in the African economies.

Another mechanism through which large resource leakages take place in Africa is smuggling. Because it is a totally illegal activity it is not easy to measure and in the balance of payments accounts some aspects of it are included as "errors and omissions" for purposes of book balances. But smuggling of goods and services across frontiers is widely practised throughout the continent. Ethiopian cattle and coffee are smuggled through the neighbouring countries. Ugandan coffee is sold abroad through Kenya, Zaire, or the Sudan. Similar practices are reported in Zaire, Ghana and Zambia. Ill suited foreign trade taxation practice, heavy cost burden of boarder patrols, general scarcity of goods (especially of manufactured goods) and private greed have conspired to elivate the "smuggling problems" to epidemic proportions. There is a tendency in some circles to under-rate the smuggling problem because the resource leakages associated with the practice are assumed to be offset by the net gains in consumption or welfare which are in evidence in the form of increased goods and services in the case of smuggled imports and in the form of increased private purchasing power where smuggled exports are concerned. But there are the social costs of smuggling to consider which in the African case could be considerable indeed. The social costs, which constitute the economic leakages may be measured in terms of the tax revenues forgone and in terms of the net gains made by the country (or countries) which is (are) a party to the smuggling activity. ~~Even when the~~ nationals of an African country are seen to be the beneficiaries from smuggling activity, these tend to be few ~~and may not be in~~ a position to use their resources so earned in a beneficial way to the wider society.

Finally, the resource leakages from Africa may take the form of "brain drain". Some distinctions have to be made here. When Africans working and living abroad repatriate money and other resources to Africa, the adverse economic effects of the brain drain are not in evidence. The same position can be taken when Africans who could not be employed in productive activities at home, leave the continent and are in employment abroad. But there are other aspects of human resource use which bring to evidence the concept of resource leakages from Africa and it is these aspects that are of interest here. Many Africans work in South African mines with low pay. The apartheid economy prospers through African labour exploitation. In many cases conditions are created at the Bantustans so

that the African labour is readily available at the mines and factory floors. There are also cases in independent Africa where trained and skilled Africans work and live abroad. In as much as the skills and productive abilities of these persons are lost for Africa, these losses constitute resource leakages. Africa also loses many skilled persons who are underemployed abroad to escape political or other persecution at home. In as much as these could have been under full employment in Africa, there is a leakage here as well. There are also the familiar multinationals who favour the employment of non-nationals at the same time as school and university graduates with the necessary skills and qualifications to replace these personnel remain unemployed. Even in parastatal and public sector employment extensive use of foreign "experts" with high pay structures and attractive conditions of work (including the repatriation of incomes) is common in Africa. The brain drain component of this practice is in evidence when local replacements are available but are not employed as a result. The rather poor conditions at home drive many Africans to seek relatively low paying employment and to face degrees of exploitation abroad. These are all aspects of the phenomenon known as the "brain drain" and constitute gross abuses and misuses in the use of scarce resources.

3. THE MAGNITUDE OF LEAKAGES: SOME PRELIMINARY QUANTITATIVE ESTIMATES

The magnitude of foreign exchange leakages arising from international trade are affected by a number of factors. The volume and composition of trade are such factors. Especially in the case of Africa's imports it is shown that the degree of processing and specialization determines the ease or the difficulties in faking the trade figures. In that connection too, it is shown that the vast category of merchandise trade in manufactured goods and in machinery and equipment are associated with wide range of price quotations. Other factors that influence the extent of resource leakage in trade include the extent of participation in export and import trade by transnationals and affiliates, the degree of government controls of foreign trade, and the relative efficiency of participant institutions, individuals, and organizations in trade activities.

3.1 Leakages in the Visible Trade Account

Data on commodity trade are gathered from the Statistical Yearbook of UNCTAD for 1979/80 for the purpose of estimating leakages from commodity trade in Africa. Two-digit ISIC classifications are used and goods imported through foreign aid are taken out. This is necessary because the magnitudes involved in this aspect of commodity trade are unstable (in the sense that they change from time to time) and require the differentiation between tied and untied aid. The latter category presumably leads into resource leakage through parts purchases, high import pricing, etc. in subsequent periods. Also, partly due to difficulties in the pricing of goods and in the way trade arrangements are developed

with socialist countries, the trade figures with these group of countries are excluded from the analysis. The Socialist countries account for about 7 per cent of Africa's imports and 4 per cent of its exports.

Merchandise trade accounts for the bulk of Africa's total international trade. Tables 1 and 2 below provide some tentative estimates of financial leakages in Africa's merchandise trade. The rate of leakages is shown to depend on the rate of merchandise trade growth and on the structure or commodity composition of the trade. In Table 1, the value of imports had an average annual growth rate of 7.8 per cent during the 1977-1979 period. The monetary value of the leakages associated with these imports had a slightly lower growth rate of about 5.4 per cent per annum. As regards exports (see Table 2) the positive growth rate of 43 per cent during 1978/1979 is matched by a corresponding (albeit slightly less) rate of growth of financial leakages.

The rate of leakages are in general higher for imports than for exports. This is in part due to the few variety of exports, the limited degree of exports processing, and the standardised nature of export production. Also the exporters tend to be relatively few in numbers and commodity exports have very few and fixed exit points. Another characteristic of the export trade is that the rate of leakages also vary among commodity types. In the case of petroleum products, for example, only 1 to 2 per cent of the value of the exports constitute leaked out resources; while for the major mineral products the weighted leakages rate ranges between 9 and 12 per cent of export value.

Similar observations can also be made with respect to leakages associated with the import trade. "Fuels and related materials" show the low leakage rate of 1 to 2 per cent of import value due to the standardisation of trading prices for the products. The categories labelled "other manufactured goods", "chemicals", and "machinery and equipments", on the other hand, contain several and very differentiated products involving multi-stage production processes and are, therefore, very difficult to standardise in terms of material content and prices. No wonder, therefore, these products are the main venue for resource leakages in the import trade. There is also an added significance to these leakages since the products account for about 65 to 70 per cent of Africa's total import trade by value.

3.2. Leakages in the Invisible Trade Account

The service account of the balance of payments contains large and diverse items. It includes banking, insurance, and transportation payments and receipts, as well as tourism, student and diplomatic personal expenses abroad, and interest, dividend and royalty payments and receipts. These last items are referred to as investment incomes and expenditures (or payments) and receipts arising from "capital services".

Table 1

FINANCIAL LEAKAGES FOR IMPORTS
(in billions of dollars)

	1977	Imports <u>a/</u> 1978	1979	Co-efficient of leakages <u>b/</u>	1977	Amount of leakages 1978	1979
Food & beverages	6.000	6.512	7.819	3-5	0.180-0.300	0.195-0.326	0.225-0.390
Crude materials excluding fuel and oil	1.931	2.132	2.312	5-11	0.115-0.212	0.128-0.235	0.138-0.254
Fuels & related materials	3.432	3.698	5.312	1-2	0.034-0.069	0.037-0.074	0.052-0.106
Chemicals	3.412	3.731	4.699	8-10	0.273-0.341	0.298-0.373	0.376-0.469
Machinery & Transport equipment	10.934	10.245	7.232	9-12	0.984-1.312	0.922-1.230	0.650-0.868
Other manufactured goods	11.591	12.987	15.914	10-13	1.159-1.507	1.298-1.688	1.591-2.068
Grand Total	37.300	39.314	43.288		2.745-3.741	2.878-3.925	3.043-4.155

Source: ECA, Financial Leakages in Africa.

a/ Foreign aid and trade with socialist countries excluded.

b/ Two figures are given for the co-efficients of leakages showing the minimum and the maximum possible percentages.

Table 2.

FINANCIAL LEAKAGES FOR EXPORTS ^{a/}
(in billions of dollars)

	<u>Exports</u>		Co-efficient of leakages ^{d/}	<u>Amount of leakages</u>	
	1978	1979		1978	1979
Major primary commodities ^{b/}	6.625	6.445	2.3 - 3.4	0.152-0.225	0.148-0.219
Crude and refined petroleum	28.186	45.004	1-2	0.282-0.564	0.450-0.900
Major minerals ^{c/}	2.725	3.895	9.6-12	0.262-0.327	0.374-0.467
Others	7.794	9.518	5-8	0.389-0.624	0.476-0.761
TOTAL	45.330	64.862		1.085-1.740	1.448-2.347

Source: Financial Leakages in Africa.

^{a/} Exports to Socialist countries excluded.

^{b/} Including coffee, cotton, groundnuts, tea, sugar and wood.

^{c/} Including copper, phosphates, diamonds, iron ore and cobalt.

^{d/} Co-efficient of leakages for major primary commodities and minerals are weighted average.

Many African countries do not keep the balance of invisible trade accounts and elsewhere too it is often difficult to keep complete and accurate service accounts. Unlike the merchandise trades, the invisible trade consists of diverse entries and does not have fixed exit and entry points, and these partly account for the lack of adequate data and other information on the subject. We consider here only the relatively more important components of Africa's service account.

3.2.1 Shipment

Many factors underscore the growing importance of maritime transport in Africa. In 1977 only 3 per cent of Developing Africa's imports and 4 per cent of its exports accounted for intra-African trade. ^{9/} In 1984 the magnitude of intra-African trade remain about the same. Thus more than 95 per cent of the regions' trade is with countries outside Africa. Furthermore, more than 95 per cent of the trade with the non-African world is seaborne. ^{10/} In terms of tonnage this seaborne trade amounted to 571 million tons in 1981 and Africa paid in freight charges alone close to 6 billion US dollars that year. ^{11/} Yet Africa's international trade transported in African fleet is only 1.6 per cent of the total. These facts clearly indicate the near total dependence of Africa on foreign (i.e. the developed market economies) shipping to transport its international cargo and that this setting is particularly conducive for vast resource leakages from Africa. The fact that the dependency situation has not changed significantly in more than a decade leads one to believe also that the leakages associated with this activity had been both large and stable.

The estimation of leakages through maritime transport charges is difficult because of lack of accurate data and use of "monopoly power" on the part of shippers who may often constitute integral elements in a vertically integrated transnational operations. Also different estimation methods are possible and variations in the assumptions made yield different results. In 1979 the freight payments by African countries with annual imports in excess of one billion dollars was estimated at US\$ 5 billion. The ECA estimated the leakages in that year at US\$ 0.5 billion from freight charges alone on the basis of an assumption that countries whose freight payments are in excess of one billion dollars per annum should and could establish their own merchant carriers and by so doing would have created domestic value added to the tune of 10 per cent of the total value of service charges.

3.2.2 Insurance charges and associated resource leakages

One important source of resource leakages in the service account of Africa's balance of payment is the insurance and reinsurance business. Almost all African countries are net importers of insurance and reinsurance policies, although a number of countries have attempted to reduce "dependency" on foreign sources through state monopoly establishments, prohibition of certain types of foreign insurance operations,

and through controlling state share holding in joint insurance ventures with outside companies. In 1983 out of 38 African states surveyed, 20 had established state monopolies and 22 are known to prohibit foreign insurance activity in the domestic market. 12/ While local insurance companies may well cope up with certain types of low risks, reinsurer participation is often required to deal with many other, especially heavy risk cases. Although local companies monopolise all insurance business in Morocco, they give away to foreign reinsurers about 30 per cent of the total premium they collected in reinsurer charges. 13/ In Nigeria too similar heavy reinsuring activities with foreign based reinsurers are observed especially in heavy risk ventures including international trades. Thus even in those cases where attempts are made to indiginise the insurance business, a high degree of "dependency" and exposure to the risks of resource leakages exist through foreign reinsurance operations involving substantial international transactions.

On the other hand, in many African countries with liberal policies, insurance and reinsurance businesses are foreign dominated and the exposures to the risks of resource leakages are larger as a result. For example, in French speaking West and Central African countries, more than 22 foreign subsidiaries in the insurance - reinsurance business with important French holdings were reported established in the 1970's. 14/

In 1979 total insurance payments in Africa were valued at US\$ 1.6 billion. It is further estimated that insurance payments could have been reduced by at least 5 per cent of the value of total outflows through exercise of state monopoly power, and through more organized regulating of the insurance business. 15/ That yields a figure of about US\$ 80 million as an estimate of the financial leakages through insurance payments for 1979 in Africa.

3.2.2 Leakages through tourism and foreign travels

Financial resources are leaked out of Africa associated with tourism, business travels abroad, and through holiday, educational, and medical expenses paid out by Africans abroad. Africa becomes the beneficiary from such leakages if the reverse flow takes place, i.e. if foreigners were to spend on these services in Africa. Apart from tourism, the other items of the service account yield positive net outflows from Africa, although the exact magnitude may be subject to variations in estimates made.

It is noted that in some African countries such as many French speaking ones, the Seychelles and Liberia, there are practically no restrictions to resource remittances for these purposes. In some other countries such as Tanzania, Zaire and Uganda foreign exchange allocations for leisure travels abroad were suspended in recent years; and in the case of Ethiopia and Uganda no foreign exchanges are allocated for educational

expenditures abroad. Where restrictive ceilings are applied to the amount of foreign exchange allowed to cover foreign travels (e.g. in Kenya, Algeria, Ethiopia, and the Sudan), these tend to be set too low and in as much as people are still observed travelling abroad from these places, the practice is indicative of possible widespread use of illegal sources of finance.

An extreme position would be to consider all such expenses abroad as "unjustified" and treat the whole of such amounts as leakages. Another and more realistic consideration would be to differentiate "unjustified" resource use from "justified" usage and to consider the former as constituting leakages. Using a case by case estimation approach, it is calculated that the net financial leakages out of Africa in 1979 from foreign travels excluding tourism were about US\$950 million.

Receipts from tourism in Africa are estimated to be high - about US\$2.3 billion or about 12 per cent of export earnings in 1979. However there are complex cost items and mechanisms of resource channelling in the industry which tend to reduce the net benefits for Africa. To cater for tourists African countries need to spend part of the earnings from tourism to cover the importation of consumer goods and services which otherwise may not have constituted priority items. Longer - haul destinations such as Tanzania, Mauritius, Seychelles tend to receive less shares (about 40 to 50 per cent) than short-haul countries such as Morocco, Tunisia, Algeria, and Egypt (who receive about 60 to 65 per cent) of the total expenditures by tourists. The long distance adds to travel costs and increases the chances of greater degree of resource leakages. Furthermore, it is noted that the tourist industry in many African countries is blamed for resource mismanagement through package tours and other arrangements of the catering services. Prepayments by tourists in their home countries, the coverage of tourist expenses by tour operators from their domestic or local earnings, and poor controls and mismanagement of the tourist industry in the host country, etc. contribute to lower the foreign exchange earnings from tourism by Africa. In 1979 Africa's earnings from package tours were estimated at about US\$900 million. The associated resource leakages are estimated at about 30 per cent (equal to US\$300 million) of this amount.

3.2.4 Investment Incomes and Resource Leakages

Income remittances, royalty payments, etc. from investments are important mechanisms through which monetary resources are leaked out from Africa. (These leakages are given slightly expanded coverage in section 3.4). Available data indicate the net gains of African countries from foreign owned company operations (investments) have been relatively small. For the period 1976-1979 the total investment incomes remitted from non-oil exporting Africa is estimated at US\$3.1 billion while the direct foreign investments which gave rise to this repatriated income is only US\$3.9 billion. The distortions are even more striking for oil-exporting countries where for the same period the repatriated income is US\$5.1 billion while the investment value is only US\$2.2 billion. While account is taken of Africa's investment earnings from operations abroad, the net foreign exchange outflow in the form of investment income for the four year period is estimated at US\$2.2 billion or about \$0.6 billion.

annually. On the assumption that 50 per cent of this sum is justified towards the payments of initial capital, the ECA estimates that the annual financial leakages from this source would be about US\$ 300 million.

3.3 Other Resource Leakages in the Balance of Payments Accounts

Nothing is so far said about resource leakages associated with brokerage, communications (including postal services), advertising, leasing of structures, machinery, films, tapes and records, and the provision of professional and technical services. In 1979, the payments made outside Africa for these goods and services are valued at about US\$ 5.1 billion. On the basis of the assumption that 10 per cent of the value of these payments are "unjustified", the financial resource leakages from these sources are estimated at \$ 0.5 billion.

3.4 Transnational Corporations and Resource Flows from Africa

In spite of the recessions, the flow of foreign investments to the developing world have continued. During the period 1970-1980 the total inflow of foreign direct investment to the developing world averaged about US\$ 5 billion per annum and world wide about US\$ 20 billion per annum. ^{16/} However, these flows show a high degree of geographical concentration with some 6 developing countries accounting for over 50 per cent of the group's investment receipts. Africa's participation in these developments has been rather marginal and its share of the total investment finance can only be described disappointingly low. During the period 1970-1980 the inflow of foreign direct investment to Africa is calculated at only US\$ 843.4 million per annum - the lowest share for any major economic region of the world.

The continued expansion of transnational activity world wide is influenced by differential availability of factor endowments and market opportunities as well as by a host of other considerations including the nature and content of regulatory practices the internal workings of the corporations and their perceptions of the state of industrial peace, political stability and the investment climate in the host countries. Part of the explanations for Africa's failure to attract substantial amounts of investment capital during the past decades may perhaps be found in these considerations.

Another resource flow problem is also to be found in respect to sectoral allocation of foreign investments in Africa. Over 60 per cent of the total investments are directed to the primary and mainly to the extractive sectors. About 50 per cent of US investment to the developing world generally in 1979-1981 was directed to this sector. However, other major investors including Britain, W. Germany, and Japan have invested larger proportions in manufacturing activities. ^{16/} Forty three per cent of Japanese cumulative investment over the period 1951-1980 in the developing countries went into manufacturing

activities. The share of manufacturing in the total W. Germany investment in the developing countries in 1980 was 68 per cent. Britain too had channeled 64 per cent of its total investments to the developing countries during the 1971-1978 period to the manufacturing sector. Thus while in the NIC's and many other developing economies foreign investments have gone to the manufacturing (Often for exports) sector, in Africa the rather limited and constrained investment inflow had been primarily directed toward the extractive sector.

Apart from having limited linkage effects, the extractive industries in Africa have remained major sources of resource leakages out of Africa. Although a number of African countries had extensive transnational owned and managed plantations and mines for a long period of time (in some cases for half a century or more), none of these countries have made a headway in their economic development. Once a multinational venture is established its operations tend to be static and it would show little growth, development and expansions through time. Transnationals tend to use their monopoly privileges to stifle growth through denying African countries the benefits of competition from domestic investment. The inability of transnational activity to meet the developmental requirements of African countries has led to frustrations and many have reacted by resorting to nationalization, entering joint venture arrangements, and by improving the investment climate through the introduction of incentives and concessions. A cursory review of transnational activity in many African countries would show that reinvestments or the ploughing back into the economies of profits are less significant than the practice of repatriating investment incomes abroad.

The content or compositions of company activity take many forms thus diversifying the sources and types of resource leakages. For example, transnational operations may include transfer of technology, exploration, extraction, production, marketing, management, training, subcontracting, etc. Each of these aspects of transnational operations provide mechanisms through which resources can be leaked out. In addition, by integrating the various activities transnationals would obtain monopoly control over developments and are known to use this clout to advantage. For example, the products of the mines or of the farms are low priced and the denial of the host countries of "fair price" for their produce is equivalent to leaking out resources from these countries. At the same time the transnationals price high the value of their technology, parts delivery, managerial services, etc. They also use their integrated operations to shift resources away from more controlled activities to less regulated ones and use this mechanism to drain out resources from these economies.

Table 3

FOREIGN INVESTMENTS AND RESOURCE OUTFLOWS
1970-1980

Countries	Inflow of Foreign direct investments (\$ million)	Outflow of pay- ments on foreign direct investments (\$ million)	Rate of outflow of payments on investment (percentages)
Developed market economies	172,802.7	91,766.1	53.1
Developing countries	52,599.1	102,227.7	194.4
Africa	9,278.4	18,682.5	201.4
L. America	30,638.3	22,231.8	72.6
S.W.E. Asia	16,941.9	26,596.5	156.9
Total listed countries	225,402.2	193,994.1	86.1

Source: UN Centre on Transnational Corporations, Transnational Corporations in World Development - Third Survey, Annexes.

Table 3 above gives the volume of foreign investments and associated outflow of investment incomes. World wide inflow of foreign direct investments have averaged some US\$ 20 billion per annum during the period 1970-1980. The inflow to the developing group of countries is estimated at about US\$ 5 billion per annum; while that to Africa was only US\$ 0.8 billion per year. On the other hand, the rate of outflow of investment income is higher in Africa than in any other region of the world. The outflow of payments on foreign direct investment during 1970-1980 in Africa was more than double the inflow of foreign direct investments for the same period. It is also to be noted there are little of investment income reinvestments taking place in Africa. It is estimated that during 1978-1980 earnings reinvested were only 9.7 per cent in Africa while for the developing group of countries, the developed market economies and the world at large the corresponding rates were respectively 27 per cent, 30 per cent, and 29 per cent. Although the "unjustified" leakages are difficult to estimate from the meagre and incomplete data at hand, the great potentials for resource drainage are nonetheless indicated.

It appears that the issue of "sharing benefits" or doing things together for mutual gains is a problematic one. In as much as many other countries (including the NIC's) and regions have succeeded to enter into mutually advantageous arrangements with the multinational corporations, Africa can and should do the same. It takes two sides to cut a deal, and there appears to be the urgent need to draw a working code of conduct a new "economic co-operation order" in which African countries are seen to gain more and better from their relationships with the transnationals than in the past.

3.5 Africa's Debt Burden and the Leakages of Financial Resource

Although current discussions on international debt management problems focus on the major debtor countries in the NIC's group, most small African countries are also caught in the "debt trap". Africa's external public debt outstanding and disbursed had an average growth rate of about 66 per cent per annum during the 1970-1982 period,^{20/} although there was a slackening growth rate during the 1978-1982 period. ^{21/} Table 4 shows that the indebtedness situation of the region as a whole as well as of each individual member country has deteriorated. Thirty one per cent of the reporting countries had a debt to GNP ratio of 21 per cent and above in 1970. In 1982 it is 80 per cent of the (number of) countries that had a debt to GNP ratio of 21 per cent and above. A detailed review of each country situation reveals that the highly indebted countries in 1970 remained even more indebted in 1982 with many more countries joining the rank of the "highly indebted". Furthermore because of the worsening debt situation in African countries many of them were seeking debt relief in recent years through multilateral renegotiations. ^{22/}

The debt burden in Africa is both too heavy and getting worse all the time. It is in the analysis of the developments of this debt situation over time that the growing resource leakage components become evident. In view of the pressures of the continuing economic recession many debtor countries went for loans at variable interest rates which were attractive to lenders as well because of the changes in interest rates in line with changes in inflation rates. However the monetary policy of credit tightening pursued by creditors raised both the real and nominal rates of interest on such loans thus raising the cost of borrowing for developing African countries. With heightened uncertainty about economic prospects, private financial credits through syndicating of loans to developing countries were getting tightened and becoming more increasingly costly. Also, in view of the difficulties of obtaining long term credits, many debtor countries were going into short term borrowing from private creditors which are associated with shorter maturity and higher interest rate than the official long term credits.

Table 4

GROWING INDEBTEDNESS IN AFRICA

External public debt outstanding and disbursed as a ratio of GNP (Percentages)	Number of countries in			
	1970		1982	
	Frequency	Cumulative ratio (per cent)	Frequency	Cumulative ratio (per cent)
≥ 51	3	8.6	15	45.7
41-50	2	14.3	4	57.1
31-40	2	20.0	4	68.6
21-30	4	31.4	4	80.0
11-20	17	80.0	4	91.4
1-10	6	97.1	3	100.0
< 1	1	100.0	-	
	35		35	

Source: World Bank, World Development Report 1983
Annex, Table 16.

Table 5

AFRICA SOUTH OF THE SAHARA: AVERAGE TERMS OF PUBLIC DEBT

Terms	Average Annual Levels and Rates					
	1973 - 1977			1978 - 1982		
	All Creditors	Official	Private	All creditors	Official	Private
Interest (%)	5.6	3.6	8.3	8.2	4.2	12.1
Maturity (years)	19.4	26.8	26.4	16.9	26.0	8.6
Grace period (years)	5.2	7.0	2.6	4.7	6.4	2.9
Grant element (%)	30.2	47.3	6.1	16.1	42.2	-1.8

Source: World Bank, World Bank Tables: External Debt of Developing Countries.

The overtime rise in the costs of borrowing (source of resource leakage) are indicated by the differentials in the rates of growth of total debts and of actual net transfers. In Table 6 it is shown that while total debts outstanding had an average annual rate of growth of 11.4 per cent, net transfers were in fact declining (at the rate of -28.5 per cent per annum). A negative net transfers indicate that in fact more resources are going out of Africa to service debts than are being received from borrowings. Indeed this is so since both the amortization and interest payments were increasing each at about 25 per cent per annum i.e. growing at higher rate than the rate of borrowing.

Table 6

RATE OF GROWTH OF DEBT AND REPAYMENTS
1978 - 1982

Debt variables	Levels (in US\$ million)		Average rate of growth per annum 1978-1982 (%)
	1978	1982	
Total Debt Outstanding	57,454.4	87,844.2	11.4
Disbursements	15,751.9	15,899.9	0.4
Principal Repayments	3,401.3	8,167.2	25.2
Interest Payments	2,127.7	5,086.3	25.5
Net Transfers	10,223.8	2,646.2	-28.5

Source: ECA, External Indebtedness of African countries.....

The resource leakages from Africa from this source are also indicated by the overtime growth of debt service. The total debt service which was US\$5.5 billion in 1978 increased to US\$ 13.3 billion in 1982. The average annual growth rate of this factor comes to 25.2 per cent for the period 1978-1982. ^{23/} The debt service for official loans had a rate of growth of 19 per cent as against 28 per cent per annum for private loans during the same period. ^{24/} Indeed total debt service for the African region as a ratio of GNP increases from 1.6 per cent in 1970 to 3.9 per cent in 1982. ^{25/} Further the debt service ratio (i.e. the ratio of total debt service to Exports in the visible account of the balance of payments) which was 6 per cent in 1970 rises to 14 per cent in 1980. ^{26/} While these figures are for the region as a whole, the specific experiences of each member country differ significantly. On the whole though the costs of borrowing have been increasing partly due to the changing compositions of loans (private and short term loans as against official and long term borrowing) and due to the changes in the associated terms or conditions of borrowing and these developments have increased the rate of outflow of monetary resources from Africa through debt servicing.

4. RESOURCE LEAKAGES: SOME CASE STUDIES

While African countries share common experiences and face broadly similar resource leakage problems, they nonetheless, show diversities in details and in the form and content of these leakages. The specific sources, mechanisms, and magnitudes of leakages also vary between countries. From the point of view of the development of policy on the leakage issue a good knowledge of these specific leakage cases becomes pertinent.

4.1 Resource Leakages Through Unequal Partnership and A System of Economic Dependency: The Case Study of the BLS Countries. ^{27/}

The small landlocked countries of Botswana, Lesotho, and Swaziland (BLS) provide a unique insight into the resource outflow problems of Africa. Their historical background, resource endowments and their location as landlocked countries have facilitated their integration into the South African economy. This integration, in turn, has resulted in a stream of net resource outflow from the BLS countries into the Republic of South Africa. Various institutional arrangements are at work to determine the direction and extent of resource leakages. The resource transfers are also effected through the complex workings of the labour, commodity and money markets. The fusion of British and racist South African capital interests have evolved over the years a system of resource and labour management which makes the BLS economies both vulnerable and extremely responsive to the dictates of these interests. Land appropriation by the whites going back to colonial days has deprived the natives in these countries of their vital resource possessions and increased the number of landless masses of people that have to move about

in search of work. This geographical labour mobility is given further encouragement through the introduction of harsh taxation (the hut tax, for example) and a general programme of economic dislocation and destabilization in the BLS countries. The BLS countries which were self-sufficient in food production became totally dependent on imports from South Africa in a very short time. Once the complex web of "push" and "pull" factors were made to work, the resource outflow from the BLS countries followed and have continued unabated to drain into South Africa.

One source of resource leakage from the BLS countries is through the functioning of the regional labour market which is totally controlled by South Africa. The flow of labour into the South African Mines and plantations is totally regulated and complex rules and regulations and harsh terms of employment are at work which give the South Africans total sole employer power. The BLS migrant workers could not move freely from one occupation to another or from area to area. They lack any meaningful bargaining power and are subjected to uncontrolled fire and hire privillages and wage decisions by the capitalist employers. Although the reliability of the labour data are doubtful, various estimates over the years impart the general view that substantial portions of the labour force in the BLS countries work in South Africa. Up to 30 per cent of the Swazi labour force were estimated to be working outside their country in 1950. ^{28/} Another survey in Botswana shows that "30 per cent of the formal sector labour force was employed in South African Mines in 1975", and the 1976 census in Lesotho reveal that 60.4 per cent of persons of age 10 and above work in South Africa. ^{29/} In addition the migrant workers from the BLS countries spend close to 35 years of their lives working for the South African employers. ^{30/} This massive resource loss by the BLS countries has the adverse effect of keeping the home economy stagnating and rife with social problems associated with family dislocations, changed consumption patterns of returnees, etc. The gains from the provision of labour obtained in the form of "deferred pay" and "voluntary reimmittances" by the BLS migrants carry less weight as justifications for the system. Close to 52 per cent of the total labour earnings are expended on the purchase of South African goods and represent a loss of purchasing power on the BLS commodity markets. ^{31/} Furthermore, between 1971 and 1978 the earnings of BLS workers ranged between 4 per cent and 17 per cent of the yearly profits in the mines contributed by them, clearly indicating a large financial resource in the form of earnings forgone which is leaked to the South African Mine proprietors. When account is taken of the fact that the BLS countries also spend heavy in educational and health infrastructures for the migrant workers, that labour "wastage" rates (through accidents, assaults, etc.) in the mines are high, and that the changed life styles of returning migrants and the disruptions to family life caused by the migrant labour system have adverse development effects, the social cost of the migrant labour system would be shown to be too high for the BLS countries and the resource leakages diversified in their form and quite large in their magnitude.

The commodity and monetary markets provide the other venue for the leakage of resources from the BLS countries into South Africa. The free flow of commodities and the revenue-sharing arrangements provided by the Southern African Customs Union Agreement (SACUA) makes the Republic of South Africa the controlling element and the major beneficiary of the scheme. Eighty Eight per cent of Botswana's imports come from South Africa and the import rates for Lesotho and Swaziland are respectively 97 per cent and 90 per cent. 33/ Although slightly less than these ratios, the BLS countries export large shares to South Africa. These commodity transfer arrangements and heavy dependence on the South African economy disguise large resource outflows from the BLS countries into South Africa. To the extent that the Republic of South Africa has built up import substitution industries behind high tariff walls, consumer costs for the products of these industries in the BLS countries are higher than what would otherwise have happened. Import duties and excise revenues in the BLS countries could not be altered in accordance with the Fiscal requirements of these countries, and because of the South African restraint in the importation of goods and services, the revenue-sharing scheme has the potentials of reduced receipts by the smaller members. The South African Railways and the support they receive from the government coupled with the fact that almost all the commodity trade of the BLS use the South African transportation system create another venue for resource leakages. There are also large illegal trades taking place across the borders in these countries leading to revenue loss and resource leakages. On the whole then resources are leaked through high costs of imports, reduced revenue taking, and the suppressed local productive capacity in the BLS countries imparted by the Agreement and related schemes.

Lesotho and Swaziland are still more involved in the Rand Monetary Area than Botswana which in 1974 introduced a national currency and a Central Bank. Prior to that the Rand and earlier South African currencies moved freely in all these countries and this scheme denied BLS countries the discretion in using monetary policy to influence the workings of their economies. Money supply, credits, interest rates, exchange control policies, etc. were all determined by South Africa based on its own economic requirements. The 1974 agreement by Lesotho and Swaziland with South Africa names the Rand or its equivalent the only legal tender currency in the Rand Monetary Area. Thus in these countries use of discretionary monetary policies for their economic development are curtailed. For instance the Lesotho currency is 100 per cent backed up by the Rand and credit creation in the country therefore depends entirely on bank Rand holding. Financial resource leakages in this case can be seen in terms of credit expansion and money supply forgone through a denial of a more flexible monetary system and associated discretionary measure. Also the Banks in the BLS countries are reported using the Rand deposits in the Republic of South Africa. Both the deposits and earnings on them are in these cases losses by the BLS countries to the Republic of South Africa.

4.2 Foreign Currency Leakages: The Case of Nigeria 34/

The resource leakage problems in Nigeria take the form principally of foreign currency leakages; and these are determined to a large extent by the developments in the fields of economic management, policy and programmes pursued by the Nigerian government in recent years. The attempt to improve the chronic balance of payments deficits in the 1960's has led to the introduction of a number of trade restriction measures and wider controls of Nigeria's international trade. Import licencing was introduced, import duties were raised and foreign exchange regulations were imposed. Export licencing and the requirement that all such licencees surrender their foreign exchanges to the Central Bank of Nigeria in exchange for the naira was practiced. The results of these measures have been to raise the level of profits from smuggling activities (as a result of the high import duties), to encourage importers and exporters leak out foreign exchanges through under-invoicing of exports and over-invoicing of imports, and cause the flight of such foreign currencies through the corruption of officials in return for services rendered to foreign and local businesses. The industrialization policies of the 1960's were aimed at encouraging foreign investors by granting them a series of attractive incentives including tax relief, easy terms for raw material imports in industry, and liberal repatriation of profits regulations. These too caused very large resource leakages out of the Nigerian economy. It is in a way surprising to note that foreign currency outflows were "encouraged" by the programme of "Nigerianization" of enterprises in the 1970's. These leakages were effected through sale of expatriate businesses at inflated prices, use of Nigerian "fronts" by expatriates to retain business control, and expatriate control of indigenized businesses through their controlling of management, finance, personnel, etc.

The system of economic management now adopted by Nigeria in which the transnationals, local Nigerian capitalists and the parastatals increased and expanded their spheres of economic influence with the oil boom, also opens up wide venues for currency outflows. The mechanisms through which multinational corporations leak out resources worldwide are already described. Local capitalists' contribution to the resource leaking game is quite pronounced in Nigeria where they are more prominent in business and commerce and less visible in production. Their consumption habits (frequent foreign travels, educate their children abroad, purchase luxuries and indulge in "expensive show off" activities) and lack of commitments to the goals of National prosperity and developments give added significance to the scope and magnitude of currency leakages associated with the group.

The continued overvaluation of the naira has also encouraged imports and associated foreign currency leakages.

The quantitative magnitudes of currency leakages associated with merchandise trade are estimated to be considerable. Leakages through over-invoicing of imports estimated at 101.59 million naira in 1970 rose to a now high of 1,441.58 million naira in 1981. During the 1970-1981 period this leakage had an average annual growth rate of 41.2 per cent per annum. Although the leakages through exports are less in relative terms than the outflows through imports due to persistent balance of payment deficits in the commodity and current accounts, the leakages from this source are also large and growing. Leakages through export under-invoicing rose to the 1,256.41 million naira level in 1981 from their low level of 74.48 in 1970. The growth rate of leakages from this source estimated at 42.2 per cent per annum during the 1970-1981 period is equally disturbingly high.

Trade restrictions including the imposition of high import and export duties, licence controls and the control and regulation of foreign exchange flows create sub-optimum trading conditions. These introduce trade imperfections, invite traders' indulgence in fraudulent trade practices and encourage smuggling. Calculation of the currency leakages due to the sub-optimal trade conditions show that these leakages are much larger than the leakages through over-invoicing and under-invoicing of merchandise

trade. Leakages due to sub-optimal trade conditions on imports which amounted to 286.28 million naira in 1970 had a new all time high of 3,387.7 million naira in 1981. The average annual rate of growth of leakages on imports due to sub-optimal trade conditions for the 1970-1981 period is estimated at 44 per cent. On exports these leakages were valued at 209.9 million naira in 1970 and at 2,952.50 million naira in 1981 and obtain the average annual growth rate of 38.6 per cent for the period.

Although the purpose of import substitution development is eventually to reduce the foreign exchange requirements of imports by replacing these by domestic production, in practice and in the initial stages the strategy leads to resource outflows. In Nigeria the local industries have remained "infants" for years and unable to produce in quality and quantity import substituting goods. The strategy has also led to the heavy importation of machinery, equipments and parts to which the customary overinvoicing of receipts and associated leakages apply. The characteristic association of Nigeria's import substituting industries with heavy raw material importation provides an additional venue for currency leakage. It is estimated that 15 to 25 per cent of the value of trade constitute currency leakages due to import substitution.

According to some estimate the currency leakages through illegal trade are greater than the leakages through recorded trade. All the major types of products from Nigeria are smuggled out of the country while various circumstances favour the smuggling in of all sorts of manufactured goods. In 1980 the currency leakages through smuggling are estimated at 10 billion naira or about 25 per cent of the GNP.

Currency leakages through the invisible trade account of Nigeria's balance of payments are also large and growing over time. In 1970 the total volume of leakages through transport, freight and insurance, travel charges, investment incomes, and unrequited transfers were estimated at between 82.4 and 141.7 million naira. In 1981 total leakages from these sources rose to the new and high level of between 1,189 and 1,785.3 million naira.

Although difficult to quantify, large and growing amounts of foreign currencies are also leaked out through management services, training abroad, consultancy services, etc.

4.3 Foreign Exchange Leakages in the Sudan

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Prior to independence the Sudanese merchandise trade was virtually dominated by foreign companies and it is estimated that large shares of incomes earned were repatriated abroad. After independence there have been considerable government involvement in the economic sphere including production, marketing and finance. The nationalization

of the banking system and most of the foreign trade sector and the trend toward nationalism and the socialist orientation of economic management starting during the late 1960's led to the flight of foreign businessmen and capital.

The government participation in the export trade is now sizable. About 80 per cent of total exports by value and including the major export products of cotton, oil seeds, and gum arabic are the responsibility of public corporations. Currency leakages take place ~~allthesame~~ due to inefficient marketing strategy or through corruption. There are many indications for this. For example, although both Sudanese and Egyptian cotton are of the same quality (extra long staple variety), the prices of the Sudanese cotton range between 74 and 85 per cent of the Egyptian prices. There are also significant price differentials between the price statistics for groundnuts given in the Sudan and the price quotations for this product in Europe. The price margin is estimated to contain differentials beyond the value of insurance and freight costs.

On the import side too the share of government participation has risen to about 50 per cent of total imports since the 1970's. Government corporations handle the imports of the major products including petroleum, sugar and agricultural inputs which account for a large share of the total export bill. The General Petroleum Corporation (GPC) handles imports of oil and large price differentials exist between international OPEC price and the price the Corporation agrees to pay to private suppliers. These price differentials range between 2 and 42 per cent of the OPEC price. The weighted average price including quality of oil is estimated at 19.22 per cent. It is indicated that leakages take place as a result of these price differentials. Corruption and low credit rating of the GPC are presumed to be the causes for the relatively high prices paid to private suppliers. In sugar imports too higher contracted supplier prices than prevailing international prices are indicated. The wide gaps are estimated to be in excess of transport, insurance and related charges and in part are accounted for by currency leakages. In spite of Sudan's attempts to be self-sufficient in sugar, the import bill has been increasing in recent years - from US\$ 122.7 million in 1979 to US\$ 183.6 million in 1980.

Even though the private sector share of the Sudanese international trade has been reduced over the years, it still plays significant roles in imports and exports and partakes in the leaking out of the system foreign currency earnings. Private exporters are encouraged to underinvoice their merchandise transfers by the Bank of Sudan regulation that they surrender up to 75 per cent of their export proceeds. It is also reported that the currency transfers to the Bank sometimes are avoided through getting the "papers" lost. Overinvoicing of imports is another source of currency leakages and in spite of the relative increase in the government share of the import trade and the introduction of stringent import controls on private business, the leakages have continued to grow.

Total currency leakages from the visible trade account were estimated at US\$ 146.9 million in 1977/78 and US\$ 161.2 million in 1981/82. The leakages on exports come to about 13.5 per cent of the value of total exports and that of imports to a lower rate of 6.1 per cent. The lower leakage rate on imports is explained by government participation and stringent controls on private trade practice. However, judging by the experiences elsewhere in Africa the leakage rates and, therefore, their levels are on the low side.

Another feature of the leakage problem in the Sudan concerns the incomes, savings and remittances of Sudanese immigrants abroad. In 1982 Sudanese immigrants abroad are estimated at a quarter to half million persons. The annual incomes earned by them range between US\$ 2.5 billion and US\$ 4.2 billion. A negative leakage obtains as some portions of these resources are sent to the Sudan through remittances which are estimated at about 24 per cent of annual incomes. Savings by immigrants come to 75 per cent of the incomes and do not reach the Sudan. The net leakages are difficult to estimate, but must take into account use and abuse of remittance income, inability on the part of the Sudanese economy to attract the savings of immigrants, and the brain drain.

The question of providing policy to combat foreign exchange leakages in the Sudan is a problematic one because of the large geographic size of the country, the nature of economic relations it has with the outside world and the complex internal organization of trade, agriculture and industry and the underdeveloped nature of social overhead and economic infrastructure including transportation.

4.4 Leakage Through Import Trade and Education: The Case of the Congo 36/

The building of national economies has been a difficult task in Africa partly due to resource outflows. When an economy is dependent on foreign sources of finances, outward looking and market oriented, several forms and sources of leakages are in evidence and tend to constrain the realization of developmental objectives. The Congo manifests these problems in two areas: import trade and education.

Since domestic sources of capital investment were inadequate, the Congo as everywhere else in Africa, relied on foreign sources to establish some basic industries. The performance of these enterprises is examined in relation to the production of the four important products and services: food production, construction materials, pharmaceuticals, and tourism. These sectors have local production component and show resource leakages through heavy importation. During the period 1972-1981 imports in value had an average growth rate of 33 per cent per annum. On the other hand the development of import substituting industries was impaired from the beginning by going in favour of imports and choice of inappropriate technology. Resources were leaked out of the system

in the process of purchase of technology and parts. There is economy forgone in that these enterprises did not develop domestic raw material use. Instead, resources were leaked out through the importation of the raw materials. Furthermore, the rapid rate of growth of import bill indicates not only the failure of domestic production to meet growing demand for goods and services, but also that increased leakages take place through expanded import overinvoicing and smuggling. There is apparently little interest in the development of domestic production and local raw material sources for industry and returns on the limited investments made are obtained by overcharging for equipments, technology, parts and other imported inputs as well as by integrating company activity to cover marketing.

The education system is another source of resource leakages in the Congo. The school population has increased 15 fold in the past 12 years and of university four fold in 10 years. But the system has structural problems with only 4 per cent of students involved in technical education and 96 per cent in "academic" fields. The lack of emphasis on the development of "professionalism" and technical expertise for the economy adds to the social cost of education. With a serious school leaver unemployment problem the social rate of return from education is significantly lowered. On the other hand budgetary appropriation for education is both large and has been growing. About 30 per cent of government expenditure is on education. Further resource leakages obtain through the general outward orientation of education. Large expatriate staff leak out resources through high pay and the remittance of large portions of their income. The importation of educational materials and laboratory equipments are subject to leakage through overpricing. And, significantly, resources are leaked out through payments for Congolese training abroad. The number of Congolese under training abroad has increased 9 fold between 1973 and 1982 and payments for scholarships abroad are a very large share of the educational budget appropriation.

There is a need to re-examine the system of production and education in the Congo with a view to reducing the extent of resource leakages from these vital sectors and thereby obtaining a degree of success in economic management.

4.5 Leakages through the Management of Monetary Institutions: The Case of Senegal 37/

Resource leakages take place through a variety of ways and sources. The concern here is with currency leakages associated with the way monetary institutions are organized and managed. Senegal belongs to the Franc Zone sharing a Central Bank, the Central Bank of West African States (BSEAO), with the other French speaking states of West Africa. The West African Currency, the CFA is linked to the French Franc and monetary system

through an intricate web of agreements, working rules and procedures. The CFA is pegged to the French Franc and obtains conversion (to other convertible currencies such as the dollar, pound, DM, Yen, etc.) through the French Franc. Another feature of this system of monetary relations is that the hard currency and gold reserves of the CFA countries are deposited by the BCEAO in the French Central Bank and the CFA countries exercise drawing rights in the settlement of their international transactions.

The monetary policy pursued by the BCEAO have emphasized monetary equilibrium and price stability through the regulation of the liquidity ratio and the selective regulation of credit allocation. The Central Bank imposes on the commercial banks a rigid credit to deposits ratio based on their holdings of reserves (in the form of central bank notes) and fixes the minimum level of credits which necessitates prior authorisation. Regarding allocation of credits, the Central Bank has so far fixed the interest rate on deposits too low and this measure is estimated to have forced the transfer of savings abroad (where better returns on capital are expected) while the expected increase in investments have failed to materialise.

It is suggested that when CFA countries obtain favourable trade balance in the current account, the system is seen to favour France and resources (in the form of foreign exchange earnings) tend to be leaked in that direction. France simply credits in the BCEAO accounts with the French Central Bank in French Franc and would use the hard currencies and gold deposits of these countries for the management of its own economy. These aspects of the resource loss by Africa to France are reversed in the event of persistent unfavourable balance of payments in the CFA countries at which point France is seen to be financing the trade of these countries. But there are other aspects of the resource leakages to the French economy. It is observed that the low interest rate in the CFA system failed to encourage investments in these countries. On the other hand, the relatively higher interest rate payments in France have attracted saving deposits from W. Africa. Foreign currencies are in this sense drained into France in pursuit of higher rates of return on savings there. Furthermore, France as the custodian of the currency and gold reserves of the BCEAO Zone uses these resources to advantage by investing them world-wide where returns are favourable. Here of course it is France that gains and the CFA group that loses. In the event of devaluation of the French Franc the cost of imports rises for the CFA countries their currencies (which are pegged to the Franc) are automatically devalued. French monetary policy does not take into account the interests of the CFA countries which by these arrangements have denied themselves independence in the monetary policy field.

Obviously more hard facts on the nature and magnitude of currency leakages from this source (i.e. the system of monetary institution and management) are needed and the details concerning the workings of the monetary institutions and their relationships

have to be known and appreciated satisfactorily before venturing into policy prescriptions in this field. However, the problems are there and next agenda should be to go into these detailed studies.

4.6 Inappropriate Technology and Resource Leakages in Africa: The Case of Zaire ^{38/}

The Zairian economy exhibits many features of a dependent economy. Internal saving is low, the economy is stagnant, the system depends on external funds and debts and on foreign know-how. Large resources are also leaked out of the system. Although there are many aspects of the resource leakage problem, of interest here are the leakages associated with technical co-operation and technology transfers.

The net benefits to Zaire from technical co-operation are now being doubted and the resources leaked out of the system from this source are receiving greater focus. There is a large inflow of various forms of expertise through technical assistance programmes including bilateral, multilateral and general. From 1971 to 1978 the expatriate personnel in these schemes numbered 4,293 on the average per year. The numbers received on bilateral assistance are the most numerous followed by general technical assistance, and in that order. On the receiving side in the order of magnitude of these assistances are the sectors of education, agriculture, health, university, public works, army, transport and railways. In the technical assistance schemes the bulk of the assistance money goes into "project elaboration" and 80 per cent of the total finance goes to pay expatriate wages and salaries, and 11 per cent for equipment purchase. The picture remains the same in the general technical and other assistance schemes. There is an implied social cost in these arrangements in that the resources flowing in the form of assistance are not deployed in directly productive activities. Furthermore, the system favours the use of expatriates in the high paying jobs and professions and there appears a competition between expatriates and nationals in the Zairian labour market. The underutilization of local graduates and the preference of expatriates to locals in responsible positions makes the gains from the technical assistance schemes doubtful and even harmful. It is estimated that 99.2 per cent of the posts given to Zairians in 81 enterprises are not decision making positions. The resource leakage here is indicated in the loss of employment and income to Zairians as a result of expatriate engagements in competitive fields. In addition Zaire spends large financial resources through the purchase of foreign consultancy services of which it has none. Expenditure on consultancy services by the Zairian Government which was 22.1 million Zaire in 1971 rose to 206.1 million in 1980 or had an average annual growth rate of 83 per cent. The leakages are in evidence here through excessively high costing of the services and in the underusage or unuse of the results by the national economy.

Large resources are also leaked out of Zaire through the transfer of inappropriate technology. High prices are paid for the technologies which are in many cases not even well adapted to the Zairian resource endowments and conditions. Rent of innovation is exacted on these transfers, and a system of fiscal guarantees and other economic concessions and incentives are provided to further improve the profitability rates to the sellers of these technologies. The financing of technologies has forced the Zairian government to indulge in heavy international borrowing which was growing at the rate of 56 per cent per annum during the 1970-1980 period reaching a new high of US\$1.2 billion in 1980. Resources are leaked out through overinvoicing of the technology imports and in the form of heavy debt servicing costs. The tax concessions and other guarantees contain also large elements of resources forgone or lost to the Zairian government. Furthermore resource wastages are indicated in the form of underutilization of equipment and facility, heavy maintenance costs, delays in project implementation and sometimes abandonment of projects. The technologies are in many cases users of raw material imports with very little capacity to develop domestic raw material sources and resources and are in other ways less integrated into the national economy than desired.

The alternatives for Zaire are not clear. It would be necessary to show the policy options to redirect effort to lessen dependency, reduce leakages and provide economic prosperity. Also the data base needs to be strengthened to measure the magnitudes of resource leakage through technical co-operation programmes and purchase of inappropriate technology.

FOOTNOTES AND REFERENCES

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32. On the assumption that deferred pay and remittances are about 39 per cent of total labour earnings (see Ibid., P. 16) the total labour pay can be calculated from Table 9, 3, 17 by multiplying the figures in the total column by $\frac{100}{39} = 2.56$.

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