

Southern Africa Trust

Philanthropy and Development in Southern Africa

Executive Summary

Sarah Bracking

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The Rosetta Stone, created in 196 BC during the Ptolemaic era under the reign of King Ptolemy V, is an archaeological gem for history buffs, documenting a decree in three ancient scripts: demotic, hieroglyphics, and ancient Greek. It is credited as the key to understanding the language of the ancient empire. But it was also key to their economics: the Stone was a virtual tax agreement granting mega exemptions to priests, military and other elites, and in the process, shifting the tax burden to the poor and the slaves. Operationalising poverty required governance: it would fall to the priests and other philanthropists to provide carefully managed 'relief' when things became unbearable. The purpose, of course, was maintaining the system rather than changing it.

Our three related research papers; on philanthropy and resource governance (Shauna Mottiar), on illicit flows and tax (Khadija Sharife), and on illicit flows and the potential and policy required to change economic structures (Sarah Bracking), all focus on the contemporary and enduring problem of economic injustice in Africa in the context of huge and increasing outflows of illegally transferred wealth, running at approximately USD 1 trillion per annum. Historically rooted from the beginnings of class society, such as in ancient Egypt, but magnified by colonialism and the slave trade, Africa today inherited grossly iniquitous economic and governance structures. Unfortunately, instead of independence and successive radical movements and uprisings leading to the structural changes required to deliver economic justice, much of the inherited structure remains, with the 'past weighing like a nightmare on the brains of the living' (Marx). Since the original intention was extraction and exploitation, it is a not a surprise that illicit financial flows are generated relatively easily within this institutional inheritance.

The three papers explore illicit financial flows as both cause and consequence of malign structures of political economy, and then ask what philanthropists can best do about the agenda of illicit flows and economic justice. The first paper, by Shauna Mottiar, explores the private sector structures of minerals extractions and how they have changed in relation to workers empowerment, incomes and rights in the context of modern pressures for inclusive-growth and development. The second paper, by Khadija Sharife, outlines tax structures and illicit flows and the unfortunate institutional intimacy of philanthropic organisations to tax-avoiding entities, including the argument that the 'needs economy' (a term of activities pursued on behalf of those in need) itself may be complicit in sustaining enduring poverty. The third paper, by Sarah Bracking, disaggregates various degrees of association between philanthropic organisations and illicit financial flows and suggests that management and policy tools are available for philanthropic organisations to ensure: their own non-complicity in generating illegal flows; transparency in relation to others that can help reduce IFFs; a powerful campaign response to reducing IFFs at a macro-scale. This paper ends with a basket of proposals that could form the core of an economic justice agenda capable of arresting IFFs, in terms of actions of governments, the private sector and civil society.

In the first paper, Shauna Mottiar notes that philanthropic practice in the resource extraction sector is significantly under-researched, despite an obvious concern from development and social justice scholars that massive profits accumulated from resource extraction initiatives in Africa are seldom re-invested in communities directly impacted, or on social welfare in the countries that house these resources. This paper considers the role of philanthropy in the resource governance debate by drawing on evidence from three examples of resource extraction in Africa. It begins by outlining the scope of resource governance and considering understandings of philanthropy, and argues that philanthropic practice has some way to go before reaching its optimal potential for catalysing change.

Most resource extraction initiatives in Africa occur in countries where there are severe development backlogs and socioeconomic deprivation. An obvious question raised by proponents of social justice is whether and how some of the profits accumulated by resource extraction find their way back to the countries of origin and specifically back to the communities they affect. Does philanthropy have a role to play in facilitating this process? Is there scope for philanthropic decisions to impact on socioeconomic transformation and on development?

Various examples of philanthropy (typically Corporate Social Responsibility - CSR) in the oil, diamond and platinum mining

sectors suggest that philanthropic efforts have, at best, failed to reach their potential and, at worst, re-enforced socioeconomic inequalities impeding development. This is with particular respect to the ways in which affected communities are represented, the nature of initiatives undertaken and the composition of decision making bodies. This generates the vexing question for scholars of philanthropy: 'Does it matter how the money is made?' Also, does avoiding the question simply re-enforce the status quo? If the answer is 'no, it does not matter' then it suggests that philanthropic initiatives risk being limited to charitable responses merely to the symptoms of social ills, rather than to rebuilding the structures or systems that create social ills. This latter would be more commensurate with a genuine social justice philanthropy.

There are a number of challenges for philanthropy in the resource extraction sector and a need for interventions that are more innovative. Among these are furthering 'local economic development' through the support of existing horizontal networks of giving and mutual solidarity schemes. This would avoid replicating uneven power relations prevalent in vertical systems. It would also ensure more genuine community ownership and management of philanthropic resources.

Mottiar concludes that philanthropic initiatives should be required to uphold principles of social justice philanthropy. These would include supporting existing civil society organisations, networks and movements which focus on the root causes of social problems and commit to structural or systemic change. Clearly this would pose a significant challenge to CSR initiatives emanating from companies that are committed to ensuring the status quo in so far as it benefits the bottom line. It would however go some way to levelling the playing field in that it would provide resources for social justice and build the capacity for human agency.

In our second paper, Khadija Sharife argues that not much has changed since the days of the Rosetta Stone, when it relates to 'governance' of what the paper terms the 'needs economy'. This 'needs economy' is a product of hyper-competitive economic systems that frame social welfare of the public (often falling into the needful or 'needy' category) as the voluntary responsibility of successful philanthropists, rather than governments elected by the people. As with the Rosetta Stone, unlocking language – and definitions, is often key to unlocking economic policies. The 'needs economy' has allowed for the ordering and management of reality by experts who act within spaces of unaccountable wealth, with philanthro-capitalism framed as being without history and politics, despite monies generated through systems of inequality.

For example, Transparency International (TI), a product of World Bank officials such as Peter Eigen, specialising in 'third worlds', has a definition of corruption which limits the geography to that of demand-side or political corruption 'abusing public office for private gain', resulting in African countries being placed at the top of the list. Ironically, the world's leading tax havens (facilitating legal and financial secrecy) are 'first world' countries such as the US's Delaware, Switzerland, Netherlands, or the UK's City of London which itself runs a significant portion of tax havens globally (such as British Virgin Islands). In fact, 80% of international financial activities take place through offshore markets. And Africa's biggest source of illicit flight is corporate tax avoidance, much of it facilitated offshore.

But redefining the definition requires investigating those that make 'governance'. For example, the Extractive Industries Transparency Initiative (EITI) is supported by the World Bank and funded by the same multinational companies. Companies receive the 'purchase' of legitimacy from the organization on disclosing what has been paid to governments. But the system inherently misdiagnoses the problem of illicit financial flows. When Zambia became the 26th country to publish the EITI report, focusing on 2008 payments, the report revealed that mining companies remitted \$463 million in payments to the government. The report claimed "significant discrepancies" of \$66 million. However, in that same year of 2008, much of Zambia's exported copper, almost half of which was earmarked for Switzerland, never arrived at its destination. Moreover, the pricing structure for Swiss copper – remarkably similar to Zambia's exported copper – was six times higher than the funds Zambia received, facilitating a potential loss of billions. Yet EITI did not focus on what companies should have paid. By limiting its frame of reference to national boundaries instead of the actual functions of transnational corporate structures, it critically excluded the role of transfer (mis)pricing, tax avoidance, and thin capitalisation.

Rather than correcting systemic inequities, Khadija Sharife argues that governance acts as a glorified band-aid to ensure a continued management and stabilisation of poverty, which, just like in ancient Egypt, prevents collapse or radical overhaul. Indeed, as famous philanthropist Carnegie notes, "Philanthropy is the true antidote for the reconciliation of rich and poor... in requiring only the further evolution of existing conditions, not the total overhaul of our civilization."

In the third research paper, Sarah Bracking begins with the problem that the scale of funds available to philanthropists to ameliorate poverty, inequality and social exclusion is far outweighed and offset by the much bigger outflow of illegally earned or transferred wealth that is illicit financial flows. While diligent philanthropic organisations can ensure their own independence from criminality at an organisational level, and can undertake due diligence on their partners and associates, it is the wider context of how to campaign for economic justice in an unjust economic system that vexes philanthropists, just as it has done for centuries. If merely palliative, philanthropy can even contribute to increasing the power of the organisations and persons causing harm. The desire to change the actual structures which generate illicit financial flows is therefore a strong one, because, if successful, it would release philanthropists from the thankless job of picking people up so they can be exploited and abjected all over again by the institutions and organisations of the extractive economy that is Africa's inheritance.

There are two main challenges to philanthropists wishing to reduce and stop IFFs: an economic policy one of what it is that could do this; and a political one of who would make that happen. This paper argues that the first challenge is relatively easily surmountable given that examples and exemplars already exist for the types of regulatory and policy changes required. The second, however, is a thornier issue, and requires political will. Without an obvious political elite prepared, willing or able to take up the challenge of sovereign economic development and economic justice the job falls to a new type of movement platform which can pull together the energies of what are, at present, quite disparate issue and sector-based CSOs and philanthropic organisations. The challenge is to build strength in unity by respecting diversity, but can philanthropic organisations rise to this essentially political challenge?