AFRODAD

AFRICAN FORUM AND NETWORK ON DEBT AND DEVELOPMENT

Leveraging Private Flows from Digital Technologies to Finance SDGs in Africa: *E-Business Revenue Opportunities Amidst IFF Challenges*

Lyla Latif

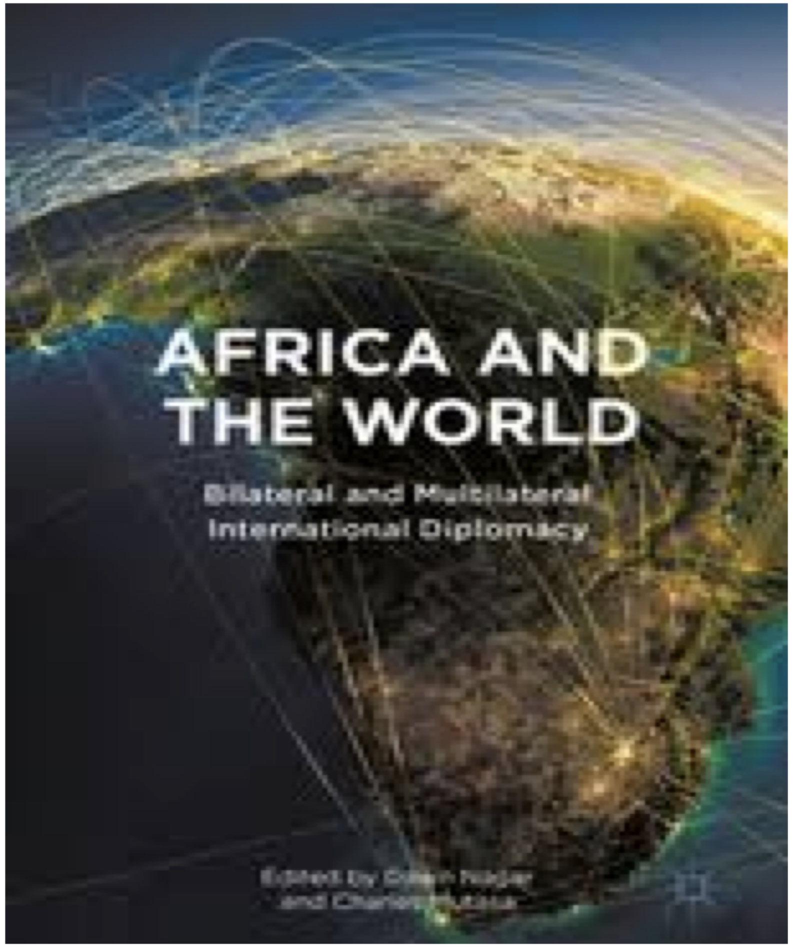
SIXTH AFRICAN REGIONAL FORUM ON SUSTAINABLE DEVELOPMENT

26TH FEBRUARY 2020

You become wise when you begin to run out of money - Ghana Proverb

- The financing gap to achieve the SDGs in developing countries is estimated to be around US$2.5 to 3 trillion.

- The Agenda 2063 Financing and Resource Mobilisation Strategy, while not providing such estimates, suggests that **75-90% of finances shall be sought out of DRM**



DRM and the Global Financial System

- Will be dependent on strengthening global partnership for sustainable development and combatting corruption and curbing illicit financial flows.
- In 2019, the gross world product was estimated at over US$86.60 trillion and total wealth reached US$360.6 trillion out of which **US$4.1 trillion reflected Africa's minimal share.**
- Clearly, there is no shortage of financing at the global level. The problem is that the available finance is not being channeled toward sustainable development.

So, what needs to be done?

- Recommendation 1: re-organisation of the global financial practices to generate funds for sustainable development

- Recommendation 2: strategically leveraging private flows from digital technologies.

- *Digitalisation has unlocked new sources of finance, from 'bottom up' and by better matching investors with sustainable investment opportunities.*

The potential of FinTech and digital business models towards financing SDGs and Agenda 2063

The role of FinTech

- FinTech has changed the way we *store, save, borrow, invest, move and spend money*. This results from:

  - Transformation of the structure of the financial industry in Africa that is heavily inclined toward the provision of mobile money accounts.

  - The creation of apps through which access to credit, cross border transfers, remittances and issuance of digital currency is facilitated.

  - Close to 10% of GDP in Africa in transactions occur through mobile money (IMF 2019).

The potential of FinTech in Africa

- The continent is now home to approximately 491 FinTech start-ups, attracting 39.7% of total funds that are raised on the continent.

- In 2018, 200 out of these 491 African based FinTech start-ups raised US$334.5 million towards investment. This demonstrates that the correlation between digital technologies and revenue mobilisation is quite strong and can therefore be leveraged to implement SDGs

Mauritius Africa FinTech Hub in 2019 suggests that FinTech is set to grow to US$3billion from US$200million by 2020 in sub Saharan Africa.

DRM through FinTech

- In 2015, the Financial Sector Deepening Africa Report presented statistics revealing that:

  - peer to peer (P2P) business lending in Africa accounted for US$16 million,
  - donation-based crowdfunding generated US$31.4 million in revenue,
  - equity based crowdfunding totalled US$4 million and
  - reward based crowdfunding generated US$8.5 million

Digital business models

- The digitalisation of the economy has resulted in delivering services online through new digital business models, such as:
  - subscription based,
  - ad-supported,
  - freemium, and
  - e-commerce.
- It has helped businesses to reach previously inaccessible rural and underdeveloped areas. Digital interaction has also enabled businesses reach customers globally resulting in increased revenues from sales and services.

DRM Potential of Digital Business Models

- In 2019, Netflix, a subscription-based model accessible in Africa generated a total global revenue of approximately US$5.5 billion.
- While the ad-supported YouTube company also accessible in Africa earned US$15.1 billion from ad revenue globally.
- The African online gaming industry which is based on the freemium model is estimated to be worth US$174 billion, while earnings from the e-commerce model are projected to generate US$29billion for Africa.
- These statistics are indicative of the potential in finance to strategically unlock, leverage, and catalyse private flows and domestic resources towards financing SDGs and Agenda 2063 in Africa. Digitalisation, therefore, can change how African states choose to implement and most importantly, finance SDGs.

IFF Challenges – Digitalisation has the potential to facilitate criminal aspects of IFF

- Digitalisation has changed the way we interact with money. We are able to automatically facilitate transactions without human intervention and this in turn can pose risks.
- Let us take the example of cryptocurrencies. They can be used for speculation and as a method of payment for transactions both on the surface web and the dark web.
- A 2019 study found that 'approximately 1/4 of bitcoin users are involved in illegal activity,' and around **'$76billion of illegal activity per year involves bitcoin'.** This is a clear indication of a digitalised symbiotic relationship between finance and the existing clandestine markets.

Clandestine nature of digitalisation can enable movement of illicit finance

- New business models can be used to steal financial data (carding), make illegal financial transfers (loot boxes), disrupt or manipulate data (phantomware for sales suppression) and execute any other unlawful actions (fraudulent intercept/bypass signal transmissions).

Carding

- Such criminal activity cost the African continent to lose US$3.5 billion in 2017

- The hacker identifies vulnerability in the victim’s online presence and exploits the weakness to send a malware that infects the point of sale (POS) terminal. The malware then collects victim’s information (reads credit card data), exfiltrates the data and transfers it to the hacker. The hacker then uses the stolen data to make an earning by selling it to carding forums, which are websites for selling credit and debit card data.

The use of online gaming websites to creating online money laundering accounts

- The game-based model itself can be used to launder money.
- 2019 statistics reveal that the:
  - Kenyan online game industry is worth over US$50 million,
  - while Egypt holds US$293 million as the lion's share of revenue generated from online games,
  - followed by South Africa's gaming industry estimated at US$216 million.
  - Morocco and Nigeria follow closely behind with estimated earnings at US$129 million and US$122 million.

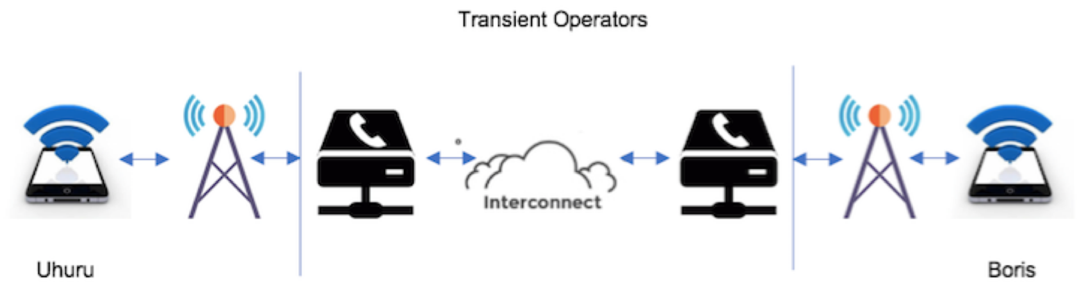
It is expected that the African online gaming industry will be worth US$174 billion by 2021

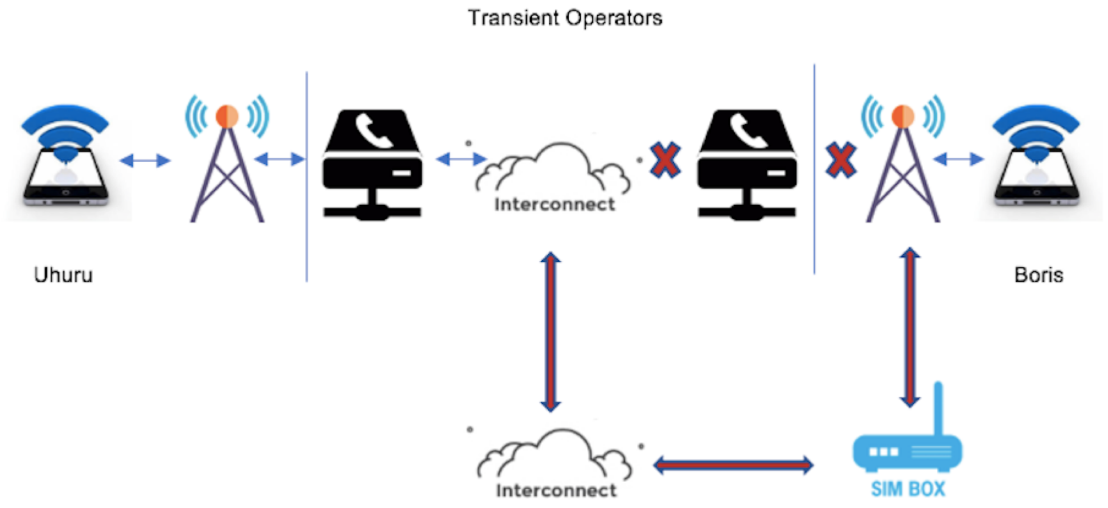
Electronic sales suppression and under-reporting of income

- EUR22 million in losses in South Africa.
- The use of phantomware and zappers as electronic sales suppression tools have been commonly used to **covertly manipulate the sales record**. The service provider, usually from a foreign jurisdiction, can delete, alter and replace sales data or cause remote crashing of the hard drive which then makes it **difficult for tax authorities to detect.**

Interconnect bypass device

- SIM box fraud has cost:
  - Ghana US$5.8 million,
  - Kenya US$500 million, and
  - Uganda US$144 million.
  - Generally, Africa loses at least US$150 million every year to SIM box fraud.





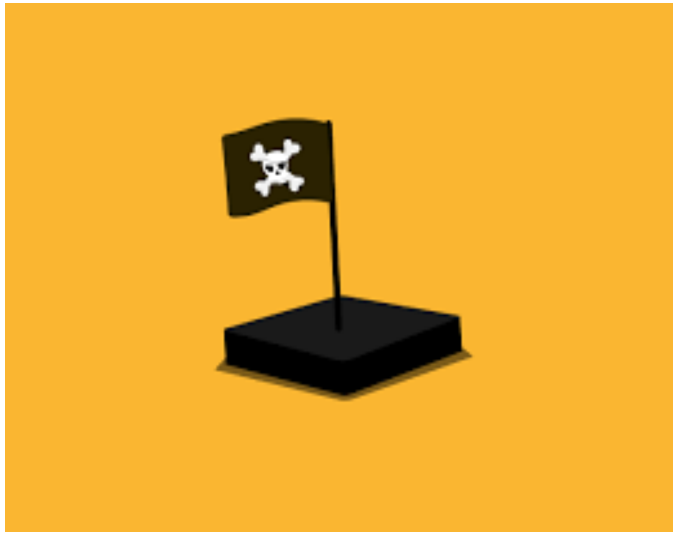
Manipulation of electronic surveillance and monitoring systems

- Fishing vessels engaged in illegal, unregulated and unreported (IUU) activities use digital tools to manipulate the Vessel Monitoring System (VMS) that enables authorities to track and monitor their location.

- Global losses as a result of IUU fishing is estimated to be between US$10 and US$23.5 billion per year.

- West Africa loses approximately US$1.3 billion annually in IUU fishing.

- Kenya alone loses US$100 million per year to IUU fishing.



The reliability of VMS transmission can be compromised by tampering with its onboard black box by cloning the onboard communications terminal so that the surrogate gives out false information and interfering with the outgoing signal from the blue box or the incoming positioning signal from the GPS.

Concluding remarks

- Digital finance can add US$4.2 trillion in new deposits and US$2.1 trillion in new credit.
- Such rapid growth of the digitalisation of the economy also makes it susceptible to illicit attempts to either make an illicit gain, an illicit transfer or use the digital space to cover and integrate their illicit gains through the internet and digital technologies.
- Consequently, this undermines the state’s tax collection capacity. affecting the long-term sustainable development of economies, and implementation of the SDGs and Agenda 2063.

Concluding remarks

- National tax policies can be developed to include subscription based, ad-supported, freemium, and e-commerce business models within the country’s tax base.

- National level analyses on
  i. harnessing digitalisation to maximise development goals,
  ii. determining the methods of financial flows over digital business platforms, and
  iii. identifying loopholes that erode revenue generation, are paramount to secure financing of the SDGs and Agenda 2063.

Delighted to hear your feedback!

latif@lai-latif.com
@LylaALatif