III. Understanding the wealth gap and governmental dependence on external financing

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Since fighting poverty, narrowing the wealth gap and reducing governmental dependence on external financing were and are goals of this research, some presentation regarding the situation in those areas in our countries is appropriate. As mentioned in II/5 it is also seen to be of importance to present the context within which the problems described need to be seen, namely the phenomenon of Illict Financial Flows. At the same time, since there are many publications on those topics, this part will be shorter than the following ones.

1 Wealth gap

As detailed above in II/2, one has to distinguish between income inequality and wealth inequality.

1.1 Income inequality is rising

In all three countries, inequality regarding household income is on the increase. When measured with the Gini coefficient[1], the development during the last decade for which data is available is as follows

- Germany: From 0.25 (1995) to 0.30 (2014) [2]
- Kenya: From 0.42 (1994) to 0.445 (2013)[3]
- Zambia: From 0.476 (1996) to 0.74 (2015)[4]

At first sight, this is surprising since the economic development in all three countries during the times observed was not too bad – as is stated even for the most unequal country, Zambia. Furthermore, for Kenya and Zambia, the impact of the 2007 World Financial and Economic Crisis has not even been taken into account.

At the same time, it cannot be denied that income concentration is increasing due to the fact that the income share of the top decile gains, while the increases for the bottom decile either decrease or, at best, stagnate. For the most recent data available, the distribution of household income for Germany (2010) and Kenya (1999) looks as depicted in the following table 1. The development depicted is matched by the development of functional income distribution when looking at the National Income and Expenditure Statistics: In Germany, the share of income for labour is clearly decreasing, the share of income from business and wealth is increasing.

More knowledge about the income distribution among the top 10%, whose share in income continues to rise, would be desirable because it would illustrate an even higher concentration among the top 1% of the population. Here, however, knowledge is very limited due to the small size of the group as well as data and privacy concerns. For Germany, at least, it is known that, depending on the statistic consulted, a CEO of large businesses earns between 147 and 167 times as much as an average worker of the business he or she are leading.

[1] The coefficient varies between 0, which reflects complete equality and 100 (or 1), which indicates complete inequality (one person has all income or consumption, all others have none).

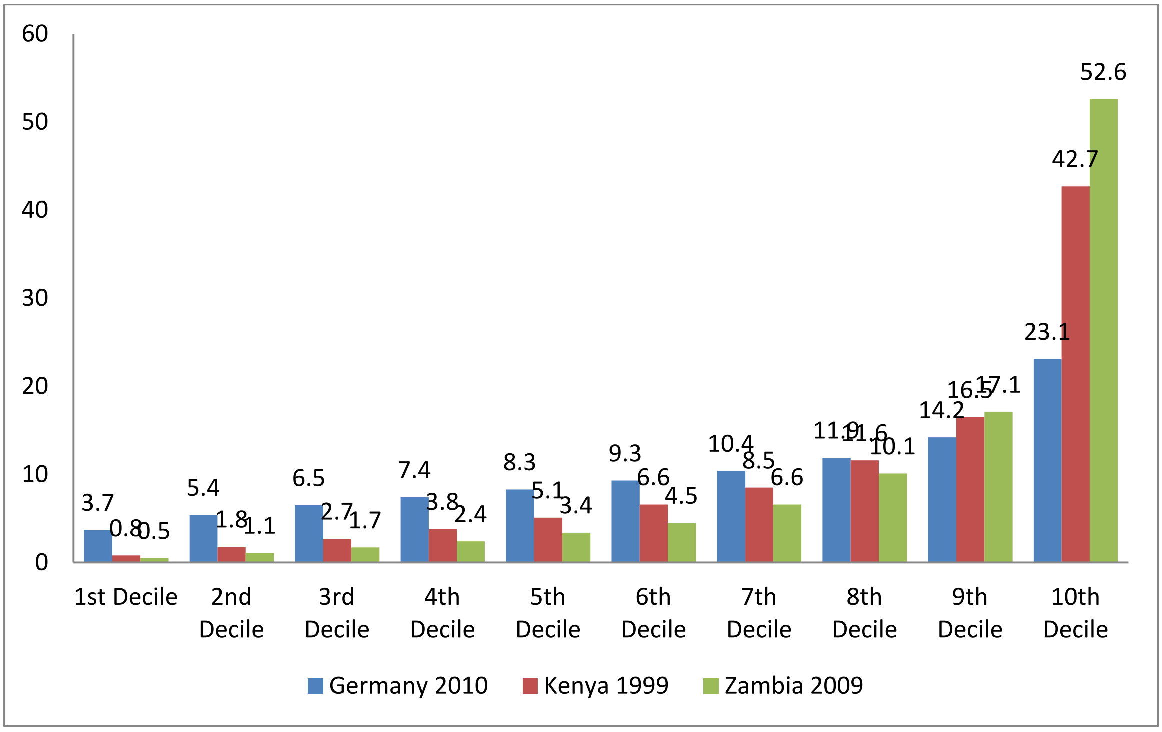
[2] Retrieved from https://www.chartbookofeconomicinequality.com/inequality-by-country/germany/ and https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/EinkommenKonsumLebensbedingungen/LebensbedingungenArmutsgefaehrdung/Tablen/Einkommensverteilung_SILC.html

[3] http://inequalities.sidint.net/kenya/abridged/gini-coefficient/

[4] https://www.theigc.org/wp-content/uploads/2017/09/Policy-brief-Inequality.pdf

More knowledge about income at the top would also be important to judge the justifiability for the gap between high and low incomes as well as the composition of income received not only from labour, but also other sources, most importantly "unearned income" from capital and rent. Here exists little transparency. There is knowledge about income from labour since here automatic deductions of taxes and mandatory social security contributions occur "at the source" via the employer in Germany as well as with the Pay As You Earn (PAYE) System in Kenya and Zambia. That way, national tax administrations have some knowledge about income from labour. This is not the case with income from rent and capital: Here, tax authorities depend on declarations on part of those receiving this income (and would have to check if they had mistrust towards the truth of submitted declarations which is, of course, a matter of staff and other resources).

Graphic 1 Distribution of Income in Germany, Kenya and Zambia[5]



The reasons, why income-inequality is increasing, are complex and cannot easily be answered for Germany, Kenya and Zambia. There are, however, indications that there is a link between the implementation of deregulation, privatization and other policies arising from the neoliberal paradigm which occurred worldwide between the mid-1980s and mid-1990s.

1.2 Formal Low-pay sector, Informal/Shadow Economy

Statistics above have the deficit, at least for Kenya and Zambia, that it measures only that which can be measured, namely jobs in the formal sector about which wage payments are

[5] The German data is based on SOEP surveys of private households. Other surveys, using other criteria and methods, set the share of income concentration among the top 10% as high as 36%. Data for Kenya (Society for International Development, 2004, p. 6), data for Zambia (Central Statistical Office, 2010).

known. In both states, however, formal employment is rather the exception than the rules. First, however, some more information regarding the “working poor” in the formal segment:

“Working poor” exist in the formal employment sector in all three countries, namely those who earn so little that it is, at times, difficult for them to lead a decent living. In Germany this segment started to grow from 2005 onwards. Government loosened labour market regulation to enable more mobility and flexibility and also paid social security contributions for some emerging job categories, namely the “MiniJobs”. When it was introduced it was meant to be a transient phenomenon, since it was hoped that those starting in this segment will find a way into more quality jobs. But as it turns out, it was and is there to stay and it is growing. OECD in its 2015 report on inequality (“In it together”) noted critically that by now almost 40 percent of all jobs in Germany belong to this “atypical” segment which, on average, earns 56% of those working in quality jobs and whose wage increases (if there are any) are below those achievable by those working in quality jobs with trade union backup and support. Wage obtainable for well 1.3 one million people working in this segment in 2013 did not enable them to lead a decent living, which is why it had to be topped-up by social welfare. Therefore it is true to say for Germany both that unemployment is receding and is at a record high. One attempt to improve the situation here was the introduction of a legal minimum wage of EUR 8.50, the problem being, that there are exceptions and rumours about cheating.

Different from that is the German Shadow Economy, namely a sector where hundreds of thousands people work “off the books” and without paying taxes and social security contributions, especially in labour intensive economic sectors such as construction, agriculture, cleaning or private nursing care. The reasons for this segment in Germany are manifold, three can be named: First, the costs of labour are high because of the combined burden of wage, tax and mandatory social security contributions, which is why businesses in some sectors try to employ people off the books in order to keep costs down. Second, a number of German people simply want to earn some “aside cash” to spend, without losing a major share to the state and social security. Third, this segment is the only available labour for hundreds of thousands non-Germans who are not entitled to legal work in the formal sector and who themselves (and their families, partly left behind in their countries of origin) depend on that which is being on offer in this segment. In short: Here, the market mechanism of demand and supply can be observed, but at least no German citizen has to work here out of need since all German citizens are entitled to basic social welfare support.

This is very different from Kenya and Zambia. First, a table comparing some indicators for the three countries:

Table 1 Formal and informal employment (in 1000 and percent)

	Formal employment	Informal Employment	Size of informal sector in relation to total GDP, country average 1999-2007[6]

[6] (Schneider & al., 2010)

	2016	Germans	Non-Germans	
Germany (2012)[7]	41,610	7,650	871	16.0%
		Rural/ agriculture	Urban/non-agriculture	
Kenya (2013)[8]	2,366.9	7,176.4	3,973.7	33.2%
Zambia (2012)[9]	847.4	2,784.9	1,867.3	47.1%

In both African countries, informal employment is more widespread in agriculture because of the still existing extent of subsistence farming. A marked difference is that in Germany still the largest part of employment takes place in the formal sector, while it is the other way round in Kenya and Zambia. More differences are:

While in Germany, the Shadow Economy exists partly because there is too much regulation on the labour market, the informal economy in Kenya and Zambia exists because there is too little state ability to register and regulate economic activities. Next, and due to previous privatization policies and demographic developments, it is here where young people entering the labour market can find jobs. Another reason for the large share of informal employment may exist because of interrupted and non-finished education, which has many people, especially from rural areas looking for employment in towns, lack qualification for, and therefore access to, formal employment.

Both the low-pay segment in the formal employment sector as well as the Informal/Shadow Economy are problematic for Germany, Kenya and Zambia: People working here earn too little to pay taxes and social security contributions (except, of course, VAT for consumption), which is why they do not adequately contribute to the costs of the common good. At the same time, they need public support if they come in need, either via social welfare in Germany or publicly subsidized food programs, e.g. shortly after the 2008 World Financial and Economic Crisis, when Kenya and Zambia had to keep world market prizes for Maize artificially down so that low income group could cover their basic needs.

A common feature in all three countries is, to conclude, that employment in the informal sector does not necessarily imply low wages and exploitation. In all three countries one can generate considerable wealth in this segment, not the least because of savings on taxes and social security contributions. Even in Slum areas flourishing businesses exist, employing many people and generating considerable turnover

[7] For informal employment (Schneider, Schattenwirtschaft, Steuerhinterziehung und Schattenarbeitsmärkte in Deutschland sowie in anderen OECD-Staaten: Was wissen wir (nicht)?, 2014a, p. 36) For formal employment https://statistik.arbeitsagentur.de/Statistikdaten/Detail/201212/ama/heft-arbeitsmarkt/arbeitsmarkt-d-0-pdf.pdf Those working in the formal low-pay segment included under "formal employment".

[8] (Kenya National Bureau of Statistics, 2015)

[9] (Central Statistical Office , 2013, p. 64)

1.3 Poverty

Poverty is well researched in Germany, Kenya and Zambia which is why here not too much new can be said apart from our view that not only quantitative, but also qualitative indicators should be of importance, e.g. the purchasing power, accessibility of institutions and the extent of self-determination.

In Germany, poverty is most commonly measured by reference to the net-equivalized disposable household income: Whoever earns only 60% of it or less lives either with the risk of poverty, in relative income poverty or outright poverty. Here, as everywhere in the world, the statistics has its ups and down and the increase of those living in poverty increased over a longer period of time only moderately, e.g. from 14.7% in 2005 to 15.4% in 2014. What is troubling, however, is that the economy grew considerably in those years and that there were equally considerable increases in real wage for labour as well as private and corporate wealth holder. It seems, therefore, that the lowest segment of society is remains cut off from this development. The “face” of poverty in Germany are predominantly single parents families, mostly headed by mothers, the ageing, long-term unemployed and non-Germans.

In all three countries are noticeable regional differences in poverty: In Germany, the East (former East Germany) and North are comparatively poorer than the West and South, in Kenya and Zambia the divide is, once more, along the rural-urban divide.

The “poverty head count” in Kenya, for example, is for rural areas around 49.1% (2005/06) and 54.98% (2012), for urban areas 33.7% (2005/06) and 35.53 (2012). In Zambia it is also rural areas where poverty is strongest: In the Luapula Province, for example, the share of people living in extreme poverty rose from 53.6 (2006) to 64.9% (2010), while the same share in Lusaka lies around 10%.

In all countries seems to be a link between poverty and household size (e.g. the number of children) as well as (access to) education. While in Germany, households with children per se are in higher risk of poverty, the problem in Kenya and Zambia rather lies in the need of children to assist the family with work and therefore have less time for education – if they have easy access to education at all and if schools are adequately equipped and staffed.

In all three countries seems also to be a link between the 2007 World Financial and Economic Crisis. In Germany consequences were more indirectly due to government intervention efforts to stabilize financial and economic institutions. In Kenya it can be observed that real average earnings are on the decrease since 2008 for four consecutive years (see SR/1.2.2), in Zambia, about one third of the jobs in mining and related industry were lost. One needs to be aware that all this happened in the absence of adequate social security provisions and the fact that each of the employed has about 15-20 people being dependent on his income (see SR/2.2.2).

A challenge for traditional and modern solidarity mechanisms – if there are any (see below#).

1.4 Wealth inequality is rising

When income inequality is high, wealth inequality is even higher, that much most scholars agree regarding Germany, Kenya and Zambia in principle. The problem is that there is little data and evidence to substantiate this “guesstimate”. Reasons for this ignorance is the lack of transparency regarding the ownership of wealth assets, either, because no data exists or because that data is inaccessible for a number of secrecy reasons (see below#). Insight via representative household surveys are scare because the top segment of private and corporate wealth holder is comparatively small, thus eluding representative sampling, and even if super-wealthy households are targeted due to statistical oversampling, information provided by interviewees is subject to voluntary disclosure and error, following the famous saying of Princess Gloria of Thurn und Taxis: ‘Whoever knows what he owns is not seriously wealthy.’

This lack of transparency and knowledge is far more extensive for Kenya and Zambia than it is for Germany, where there are at least some “intelligent guesstimates”.

There is an even higher concentration of wealth at the top of the population than there is in the concentration of income: Of privately owned wealth assets, amounting to ca. EUR 6.3 trillion, close to 60% are owned by the top 10% of private households, resulting into a Gini-coefficient of around 80, which is one of the highest in the world. While the World Financial and Economic Crisis caused a slight “dip” in the number of millionaires, the number continued to rise again shortly afterwards and reached new record heights.

For Kenya, the number of wealth holder can only be deducted. According to data of the Kenyan Revenue Authority, only 100 people are registered with KRA as those whose income exceeds KSH 44 million, qualifying them as High Net Worth Individuals (HNWIs). The interesting fact is that, at the same time, an estimated 40,000 people live in the top ten high end housing estates in Nairobi alone, where average housing prices range from KSH 35-65 million (USD 420,017-780,031). One wonders, how those people can afford living, if they do apparently not earn adequate income. (Christian Aid; Tax Justice Network, 2014, p. 67)

It can be assumed, however, that financial institutions and wealth asset manager know a bit more about the distribution of wealthy people since it can be assumed that private and corporate wealth holder are more open with them than they are with government authorities: Here, the Knight Frank Wealth Report 2016 reveals the following:

Tabelle 2 Distribution of Millionaires, Mulitmillionaires and UNHWIs in Germany, Kenya, Zamibia

	Germany	Munich	Kenya	Nairobi	Zambia	Lusaka
Millionaires	824,000	85,800	8,500	6,200	1,000	600
Multi-Millionaires	25,400	2,650	340	250	40	20
Ultra HNWIs	9,310	971	105	77	16	8
Billionaires	93	??	1	??	--	--

1.5 The importance of land for wealth and poverty

A common feature in all three countries is the importance of real estate and real property both for ordinary, even poor, people, and for the portfolio of private and corporate wealth holders at the same time. And this is the case even though regulations concerning private land and house ownership in these countries are very different.

For ordinary and poor people this is more obvious. In all countries, for example, a privately owned, self-used house is among the most widespread and most important wealth assets and insurances against sickness and old age. In Germany, for example, 44% of all households lived in an own house, in Zambia 53.9% (both for 2010).

The importance for people in the countryside, especially for those living from farming, the possession of land is even more obvious. While, especially in African countries, traditional land holding and land use protected poor farmers in what they were doing for sustaining their families, the tendency is increasingly going to the acquisition of land-titles as the question of entitlement and the right to use a given plot of land. In Zambia, the procedures are such, that poor people are more often than not disadvantaged if it comes to the possibility to acquire plots of land for the own use: There are numerous forms and procedures required, which is a challenge for all those not having any adequate education (among this groups women are even more disadvantaged since they often did not complete education), and there is the question of securities and guarantees that those acquiring land are able to develop it. This in turn requires ownership of a bank account, this in turn requires financial assets – all of which small farmer or business people hardly possess, not the least because access to banking institutions in rural areas is very limited. Here, therefore, wealthy and educated people are privileged right from the start by securing titles for land, with the result that in Kenya 40 percent of Kenya's rural population resides on five percent of its arable land and three percent of the population controls 20 percent of the land.

Against the ups and downs of stock markets and risks due to the appreciation and depreciation of currencies and crises such as the 2000 Dot.com crises or the 2007 Word Financial and Economic crisis, possession of land both in urban and rural areas is a valuable, dead-safe possession: It cannot disappear into nothing and there is always the need for people for food and housing. As it turns out, the concentration of land ownership among the top 10% of the population is increasing, the concentration increases further among the top 5% and 1% in our three states. Hoarding land is valuable for several reasons: For landgrabbing and/or speculating on the increase or decrease of value, for letting to others, for building houses themselves and renting or letting them, for tax deduction in the case of maintenance, for tax saving options if advised by clever tax consultants and lawyers etc.

This questions an important observation even of Catholic Social Teaching, postulating, that private ownership even of land is the best way to develop its potential for the best of all. However: If private property means that those possessing land can arbitrarily do with it what they like, even though it lies idle while others suffer, there is a grave ethical problem. On the other hand it is also historically proven that private property, combined with a sense of responsibility towards the common good, is the best way to make use of land for all. But does this imply the right and entitlement of ownership of a lot by the few? How can natural goods such as air, water and soil belong to few rather than all in the first place? Between those extreme positions this research has to maneuver for a position. A tricky issue for this research project in this context is the fact that, in varying degrees, the Catholic Church is also a major owner of real estate and real property in Germany, Kenya and Zambia.

1.6 Redistribution and Social Mobility

Interesting enough, all three countries had inequality-reducing policies in place: Germany between World War II and the late 1980s, Kenya and Zambia after independence. But if it is correct that inequality is rising and, in all countries poverty is consolidating rather than receding the question is what can, and is, done against it.

In Germany income inequality is cushioned by a well-established system of redistribution, i.e. of transfers and benefits to poorer households which diminish market inequality, i.e. inequality which would exist if only market income without those transfers were the yardstick. In 2011, and based upon data related to the report “Divided we stand”, the Gini coefficient in Germany based upon market income (before taxes and transfers) lies at 0.49, whereas the Gini coefficient based upon disposable income (after taxes and transfers) goes down to 0.29. Beyond that exists an extensive system of institutions accessible for people coming from low-income households, assisting them at least in principle to advance in life. However, as OECD and other research states, the redistributive effect is decreasing and, alongside with that, social and income mobility is decreasing. Nowadays it is more important in what family a child is born in: Is the family poor, the likelihood is considerable that the child will not make a lot of progress. Is the family wealthy, all options are available for the child’s advancement. That way, income and social mobility influence each other.

In Kenya and Zambia, no comparable systems of social security and solidarity are in place, public institutions for health care or education are worse off. Accordingly, they do not cover adequately the needs of a growing population, thus not advancing adequately social and income mobility. This also has to do with the inability of African governments to tax those in their countries who could contribute to public tasks and the common good since where there is less collected, less can being spent.

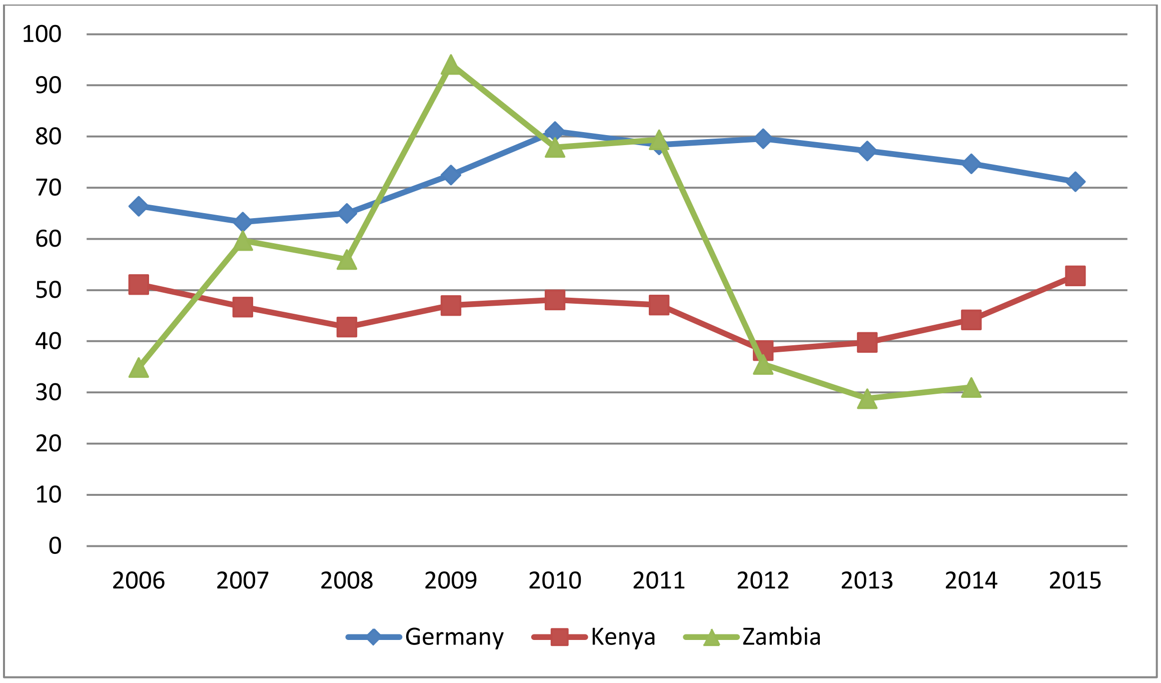
2 Governmental dependence on external finance

2.1 Development of governmental debt

Regarding governmental dependence on external financing, one assumes at first sight that there is little in common between Germany, Kenya and Zambia: Since Germany is one of the wealthiest states in the world, governmental dependence on external financing is not such a pressing issue as it is in Kenya or Zambia. But even for Germany, the accumulated debt of all governance levels, by now is beyond EUR 2 trillion and the influence of external finance on public households is a pressing issue.

The following table illustrates the development of the government debt-to-GDP ratio:

Graphic2 Goverment debt vs. GDP ratio in Germany, Kenya and Zambia[10]



The reasons for the extent of debt is partly different from country to country, partly similar in the three countries. For African countries, for example, mismanagement and corruption of previous governments as well as the policies of the institutions of the Washington Consensus, such as the IMF or the World Bank contributed their share to the existing situation. In Germany, an important event was the unification between East and West Germany, requiring a huge amount of finances to bring living conditions in the East on West German levels.

One common feature for the increase in governmental debt in all three countries were the influences of neoliberal policies such as deregulation, international competition combined with the reduction of top tax rates for private and corporate wealth holder. Another common feature was the impact of the 2007 World Financial and Economic Crisis (see above!) which both resulted in lower tax revenue on the one side, and higher expenditures for stabilizing financial and economic institutions or the direct support of poor people in the respective countries.

2.2 Coping with debt, interest and repayment

Arguably, Germany is unlikely to default but the economic and social costs of avoiding defaulting are high: In 2015, the budget for payment of interests on governmental debts and/or the repayment of debt in the federal budget was EUR 26,784.709 million - the third largest sub-budget in the federal household behind Defence (EUR 33 billion) and Labour & Social Affairs (EUR 126 billion). At the same time, Germany has no problems whatsoever to access

[10] Data for all three countries was available on the website "tradingeconomics.com", namely for Germany under http://de.tradingeconomics.com/germany/government-debt-to-gdp, for Kenya under http://www.tradingeconomics.com/kenya/government-debt-to-gdp and for Zambia under http://www.tradingeconomics.com/zambia/government-debt-to-gdp

external market and place bonds (“Bunds”) for sale. In fact, German “Bunds” are so heavy in demand that those buying are even prepared to accept 0% or even negative interest on their acquisition. In June 2016, for example, even interest for 10 year “Bunds” went into the negative. Even better: Germany even profits from the situation since it does not need to pay interest on its debt.

The IMF’s assessment gives Kenya a clean bill arguing that by 2033, Kenya’s external debt, which is on the rise at the moment, will decline to 8 percent of GDP. But debt repayment for Kenya has to be put in its historical perspective. When the international community came up with the HIPC debt Initiative Kenya was left out since it was said to have a sustainable debt level. Kenya’s exclusion from debt relief, however, implies that Kenya has been paying out over time more funds than it receives, thereby reducing domestic resources available for development. The huge burden of external debt constitutes a serious obstacle to growth and employment creation as investment resources have to be used to meet external debt obligations.

Zambia, unlike Kenya, risks defaulting on its debt, even though Zambia profited from the HIPC debt relief program in 2005. Although Zambia’s debt is currently sustainable, the escalating rate of loan contraction suggests that the limit may be reached sooner than later. In a space of just two years (2012 – 2014), the government has borrowed from the international bond market US$ 1.750 billion. In 2012 government borrowed US$750 million and in 2014 government borrowed another US$ 1 billion. Although the borrowed resources are for infrastructure development, there is no mention of a proper financing strategy for repaying borrowed resources.

2.3 Cui Bono? Or: Who profits?

An old and universally valid saying is “Somebody’s wealth is somebody else’s debt” – and vice versa. This applies for all countries in this research, even though it is best visible for Germany. If one looks at the development of private and corporate wealth on the one side and national wealth on the other, the first is increasing, the latter decreasing. Or: If one compares governmental debt and private and corporate wealth, both are increasing. Stating the obvious is one, establishing a link between both is more difficult. Some thoughts nevertheless:

It is widely known that Kenya and Zambia are indebted to external donors of money such as institutions like the IMF, the World Bank, but also or those banking and investment institutions buying bonds and obligations issued by Kenya and Zambia on the international market. The interesting question here, as elsewhere, is: Who owns those banks and, therefore, profits from interest payments made by Kenya and Zambia? At the same time, it is less well-known that even a wealthy state like Germany is indebted and here as well one might ask: to whom?

The emission of bonds (“Bunds”) and other forms of debt obligation is organised by the Federal Republic of Germany Finance Agency who publishes on their website information for institutional and private buyers. At the time of the research, around 40 institutional buyers were registered with the German Federal Reserve Bank. It is difficult to know in whose name institutional buyers act in auctions, i.e. the beneficiary owner(s) are unknown. Names are revealed only upon request by authorities. Therefore, it is conceivable that behind those "institutional buyers" also German businesses and German private persons are hiding since they may place their orders for German bonds with foreign banks –all this might even be resulting into a tax avoidance scheme. The discussion surrounding the "rescuing" of Irish and Greek Banks during the Eurozone-Crisis also put a finger upon the fact that the real rescue effort was directed towards those who held Irish and Greek debt, among which French and Germany financial institutions ranked prominently. If all this is true then we witness some redistribution from the bottom to the top, since it is the ordinary taxpayer who has to settle the bill for interest and repayment with his hard earned money.

For Kenya and Zambia, detailed statistics are sometimes unavailable regarding to whom the countries owes money. The Zambian government recently borrowed US$ 192 million from China for improving the country's security. This was hidden from the public until information was leaked to the media.

2.4 The problem of ODA

But what about Official Development Aid, i.e. (unconditional) grants from developed countries to developing countries? Since the 1950s aid has attracted critics who claim that it is largely wasted and/or that it makes recipients more dependent by reducing growth and tax collection, and promotes corruption, a position also strongly advocated, for example, by the Zambian Economist Dambisa Moyo (2009). Three main arguments have been advanced to explain the disappointing results of most ODA (1.) aid is misallocated (donors give aid for strategic reasons to the wrong recipients), (2.) aid is misused (the government pursues non-developmental agendas) and (3.) GDP growth is not the right measure of aid effectiveness. Taxation, combined with democratic institution, popular participation and empowerment is, in the view of this research, an adequate answer to the phenomenon of dependency, created and sustained by inadequate ODA policies.

3 Illicit Financial Flows (IFFs)

3.1 A new phenomenon

Illicit Financial Flows are increasingly getting attention both from governmental and non-governmental sources because they highlight the structural background and causes available for private, corporate and criminal wealth holder to shift around assets and ownership titles in the attempt to hide all that from the own government in general and the tax man in particular. The term comprises a wide range of very different criminal, illegal and illicit practices, the first two difficult to discover since they take place out of the view of governments and the public, the latter difficult to identify as such since they refer to the huge grey area between that which is still legal and that which is already. This is a relatively new phenomenon because of several reasons, for example:

- The technical possibilities emerging from financial and ICT globalization over the past decades such as the internet, formal, informal and offshore banking etc.

- Differences in legal concepts defining punishable acts, e.g. tax evasion is punishable in Germany, but only tax fraud in Switzerland, or: bribing non-German officials was legal in Germany up to 1999 and even tax deductible.
- International mobility of global capital, but restriction of national authorities to the confines of national, requiring complicated procedures ahead of any cooperation with other authorities.

The term covers a range of individual phenomena as different as proceeds from corruption, bribery and other proceeds from crime, money laundering, aggressive tax avoidance, tax evasion and tax fraud, monetary flows within the shadow/informal economy, trade mispricing and misinvoicing, capital flight and terrorism financing. All of them are in common that they damage the common good in many ways:

3.2 Direct and indirect effects, losses and gains

IFFs have direct and indirect effects. The more direct effects are, e.g., payments of bribes to civil servants overseeing tender procedures for public contracts, the non-payment of taxes when successfully hiding assets or cheating on customs when underdeclaring imported goods.

Indirect losses are equally, perhaps more serious for a country. For example, the bribed civil servant will give the contract not to the best bidder under market terms, but the one paying the (highest) bribe, which might result in bad work doing damage to the national infrastructure or forcing otherwise healthy businesses into bankruptcy with the resulting loss of (tax paying) jobs. Or: Channeling proceeds from criminal deeds, e.g. drug dealing, from developed countries to developing countries and entering it there via money laundering into legal economic structures and institutions, that way negatively impacting on governance structures Or: By investing criminal proceeds from developing countries into the housing and estate market of a developed countries, costs for housing for the ordinary citizens are artificially raised and made unpayable.

While it is pretty obvious who is losing out under such circumstances, namely the common good of the many, it is not so obvious that there are those who profit: clearly those directly saving in expenditure or harvesting illicit or illegal profits. But also other members of local and national elites which are needed in order to implement all those illicit and illegal activities or do at least not undertake any serious attempt to fight them. Here, of course, not only direct bribery is required. Due to “personal friendship” among “business partners” or white collar intermediaries building bridges between those partners, things often are made smoothly without anybody realizing what is actually going on. Another serious impediment is that many structures useful for criminal and illegal actors are also useful for (legally and illicitly acting) private and corporate wealth holder, whose lobbying on behalf of their own advantages profits at the same time those acting in the shadows.

3.3 Secrecy & lack of transparency

Data leaks via CDs, Offshore-, Luxemburg-, Swiss Leaks and the Panama Papers illustrates the previous: A number of those Offshore Constructions available for tax avoidance, planning, or “optimization” are, at the same time, used to hide outright criminal activities such as money laundering, arms-and drugs deals or trafficking. Whether those constructions are legal or not, depends on its use and the intention underlying its use. In other words: Whether something is legal illicit, illegal or criminal requires a case-to-case-analysis before any appropriate action can be taken. This, at the same time, is difficult for authorities since that which is going on in those "secrecy jurisdiction" is (still) protected by a large number of "secrecies" such as the banking-, tax-, trade-, data-, privacy-, social- secret and other secrecy regulations which authorities have to respect unless there is a justifiable suspicion that something illegal is going on, which would justify investigation and prosecution. The problem is, however, for authorities to first acquire this justifiable suspicion in the first place.

Without Whistleblowers behind the above mentioned leaks ignorance about this swamp of illegal and illict activities would probably still be unknown and international attempts to shed more light into that would still lag behind.

3.4 Some insights from Germany, Kenya, Zambia

Regarding Germany, people at times are surprised that Germany sits on rank 8 of the 2015 Tax Justice Networks Secrecy Index, ahead of the United Kingdom and British Virgin Islands, behind Switzerland and the Cayman Islands. This categorization has to do with the size and attraction of a country's banking sector as well as the availability of "Offshore constructs" and practices and the density of controls (or lack thereof). Indeed, Germany offers a number of privileges and options to non-Germans to hide money via Germany and it there are justifiable "guesstimates" that more the EUR 90 billion of assets from developing countries are resting inside Germany for various reasons. Equally, the University of Halle tried to assess the amount of money flowing into Germany for the purpose of money-laundering and came to a figures between EUR 50-100 billion (Bussmann, 2015).

That Germany as destination country for IFFs more likely than not seems to have fear of losses was also made embarrassingly public by the way the German government delayed and obstructed attempts by other EU member states to increase transparency of beneficiary ownership of shell corporations and the accessibility of those registers. How large the out- and inflow of IFFs to and from Germany might be is open to speculation, but it is safe to say that it is solidly up into the region of double digit billion Euros per year. It was known even before the Panama Papers that Germany is an attractive destination for money launderer from all parts of the world, and here investment into construction (e.g. via cash payments to illegal labourer) or the purchasing of prime locations in German cities via Offshore constructions is of particular importance, not the least because there are hardly any capacities on part of the authorities to check who is behind such activities and investments.

Kenya also tries to secure its place in the world of modern finance by offering its capital Nairobi as a International Financial Service Centre for the East of Africa. Secrecy is rife: There was no publication of a Double Taxation Agreement between Kenya and the well known tax haven of Mauritius, which is why the NGO Tax Justice Network went to court, trying to gain insights that way. Kenya is estimated to have lost around US$ 2 billion between 2000 and 2008 to illicit outflows of capital, equivalent to about 70 per cent of the country's 2010/11 development budget of US$ 2.7 billion. There are likely to be significant tax losses as a result of this level of capital flight. Kenya Revenue Authority (KRA) has been investigating a number of multinationals, including the country's three largest flower companies, for abusive transfer mispricing. Also the booming Nairobi housing market raises suspicions regarding money laundering practices from organized crime money arising from, e.g. arms deals and Kat trade in neighbouring Somalia. Illicit Financial Flows in Zambia are, as in the case of Kenya, largely associated with the operations of Multinational Corporations and Zambia is said to have lost between 2001 – 2010 USD 8.8 billion. These illicit outflows come on top of tremendous outflows from legal corporate tax avoidance scheme. According to experts, those practices are aided by the complexity of the Zambian tax regime for mining companies, enabling those to manipulate transactions through inflating costs and underestimating revenue. To this effect, there is need for the government to develop a sustainable mining sector tax regime that is comprehensive and addresses some of the fiscal issues in the mining sector.

According to the latest "guesstimate" by Global Financial Integrity, Kenya is losing an annual average of USD 83 million, Zambia of USD 2.9 billion, more than Zambia had 2014 in the governmental budget which amounted to USD 2.7. With that, Kenya is placed on rank 49, Zambia on rank 125 of 149 states under examination (Kar & Spanjers, 2015).

Finally: the absolute numbers are as important as the relative ones, especially when measured against the states' GDP, the latter really revealing the magnitude of loss for developing countries:

Table 3 Estimated Revenue loss in 2013 based upon studies by the IMF and the Governments Revenue Database

Germany				Kenya				Zambia			
IMF bn USD	GRD in bn USD	IMF % GDP	GRD % GDP	IMF bn USD	GRD bn USD	IMF % GDP	GRD % GDP	IMF bn USD	GRD bn USD	IMF % GDP	GRD % GDP
22.09	15.05	0.61	0.42	1.22	1.06	2.70	2.34	1.13	0.98	5.10	4.42

Source 1 (Cobham & Janský, 2017)

All in all: IFFs profit few and damage many, but profit and damage are, once more, unfairly distributed: It is members from among the elite in any developed and developing country of the world which profits from IFFs, and it is the large majority of people suffers damage, bears the burden and pays the bill. It is therefore that so little effective progress is achieved so far in fighting those damaging practices.

4 Root causes

In the course of our research we could not ignore that most, if not all, stated developments originate in, or are influenced by, a common set of values and norms: Neoliberalism and its "gospel" of privatization and deregulation as well as cuts in public institutions and services. For many decades this paradigm shaped the institutional outlook of the globe, Germany, Kenya and Zambia included. The dynamic inherent in this form of "competitive capitalism" (Friedman, 1982, p. 12) lead to a number of political decisions initiating today's crises in the context of human labour, growing inequality, resource-overexploitation and climate change. We follow those establishing a link between neoliberal policies and the emergence of working poor, the increase of the informal or shadow economy and the decline of state power relative to financial and economical actors up to the point where Multinational Enterprises are in the situation to enforce favourable treatment from governments. And while there is undoubtedly some progress in diminishing overall global material poverty and inequality, progress is not uniformly spread across the countries and the accompanying costs of this progress for present and future generations are high, especially in the area of social justice and ecological sustainability.

Neoliberal, competitive thinking left its imprint also upon tax policies, legislation and administration and, consequently, upon revenue collection and spending. First of all, there is the "tax consensus", being part of IMF policies for many decades (Marshall, 2009), but most importantly, because within neoliberal thinking and "supply-side economics", the competition among "locations" includes "tax competition" with the inherent danger of a "race to the bottom".

5 Conclusion

Having reached that far, some observations can be made and some conclusions can be drawn: Under the conditions of globalization and the growing competition of states for residences of private resp. headquarters of corporate wealth holders, a number of concessions were made towards those two groups. To be mentioned are the lowering of top tax rates for personal and corporate income tax as well as the "letting go" of legal practices withdrawing assets from taxation, e.g. via Offshore Constructions and transfer pricing.

Another feature are differences in transparency. In Germany, the situation of people receiving social welfare benefits or are dependently employed (similar the Pay As You Go earner in Kenya) is much better known to the authorities than the situation of private and corporate, let alone criminal, wealth holder in those three countries.

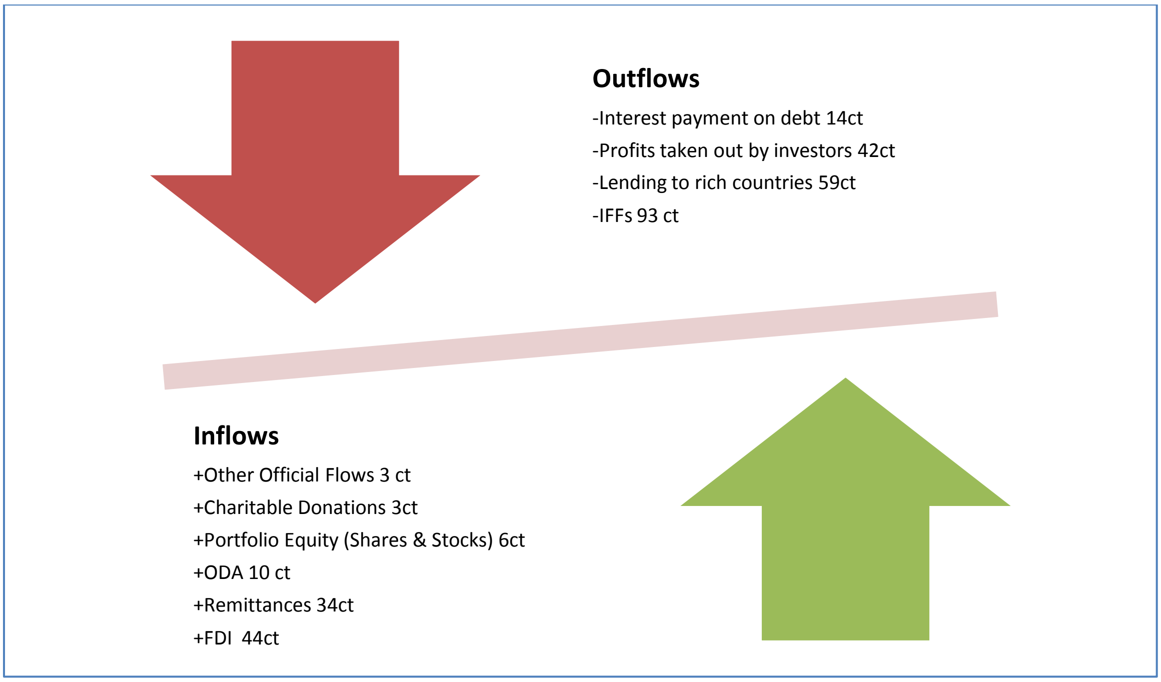
Regarding the poor, on the other hand, their situation remained at best stagnant and has in some places worsened, especially because their (nominal) wage might have increased, but their purchasing power has been declined.

It can be assumed that poverty, in the three countries will continue to increase in the foreseeable future: In Germany, because the solidarity system is already under strain due to the ageing population and the number of people working in the low-pay segment, being already under- or non-insured. In Kenya and Zambia, traditional solidarity networks are crumbling because of rural-urban or even international migration while, at the same time, no modern and alternative social security provisions are in place.

Regarding debt, the level attained and persisting in Germany, Kenya and Zambia is worrying and even though there are some advantages in governmental debt and even if there are some aspects from which Germany seems to profit this research joins those, e.g. the IMF (2015), who put forward the opinion that the current levels of governmental debt is not sustainable and are posing risks and burden not only for currently living, but also future generations.

On that background, and also being aware of the statement above (2.2) that Kenya pays more in interest and repayment than receiving one might be surprised to learn that African countries are not really poor: They rather lose more money than is entering their countries. An Eurodad study on the "State of Finance for Developing Countries" in 2014 came to the conclusion that for every Dollar entering developing countries, two dollars are leaving them (Griffiths, 2014), which looks graphically as follows:

Graphic 3 Financial in- and outflows from developing countries in 2014


Outflows
-Interest payment on debt 14ct
-Profits taken out by investors 42ct
-Lending to rich countries 59ct
-IFFs 93 ct
Inflows
+Other Official Flows 3 ct
+Charitable Donations 3ct
+Portfolio Equity (Shares & Stocks) 6ct
+ODA 10 ct
+Remittances 34ct
+FDI 44ct

The largest source of outflows are IFFs, which would include money from tax evasion and aggressive tax planning, this trend is general, even though there are differences between LICs LMICs and UMICs. Needless to say that it is the poorest countries which are hardest hit, especially when looked at it not in absolute numbers but in percentage relating outflows to the national GDP (pp.15ff.). Not surprising is further the outflow due to the payment of interest for loans and debt, surprising seems to be the remaining two: Lending to rich countries refers to the need of poor countries to look for secure investment of their reserves which they might need in times of need, for example buying bonds from the US or Germany which is de facto lending money to them. Repatriation of profits means the withdrawal from assets from poor countries back to wealthy countries in times when they are needed there, for example in the aftermath of the World Financial and Economic Crisis. Ever since 2008, repatriated profits exceed FDI inflows (p. 20).

Obviously, if states were better adapted to today's globalizing world, the collection of much more revenue would be possible to improve both the common good of all and especially the poor as well as the preservation of natural goods (water, climate) and the maintenance of public goods such as infrastructure, health care and education. But: while private and corporate wealth holder in Germany, Kenya and Zambia are very adapted and therefore privileged states have not yet adequately adjusted to present trends and challenges. How exactly deficits in tax law and tax administration are, how they need to be assessed and what should be done will be dealt with in the following parts of this research report.

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