Misinvoicing practices loses Africa billions of dollars

A study published by UNCTAD last year revealed huge discrepancies in trade accounting in South Africa, Zambia, Nigeria and Côte d'Ivoire. The report shows that records of trade data (both exports and imports) over a period of 14 to 20 years by the respective developing countries did not match those of their reported trading partners (destination) for selected commodities.

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“Significant amounts of lost revenue and foreign exchange earnings due to trade misinvoicing (under-invoicing and over-invoicing) have devastating implications for African countries – most of which are commodity dependent,” says Prof Charles Adjasi, head of the development finance programmes of the University of Stellenbosch Business School (USB).

“The report states that there is significant export misinvoicing in the countries studied. These discrepancies, according to the report, amount to tens of billions of dollars or 67% of commodity exports in some countries.

“There are serious revenue loss implications with trade misinvoicing and, even if these discrepancies are just statistical artefacts of wrong trade reporting formats, they signify bad bilateral trade data or inaccurate bilateral trade information. It has a debilitating effect on an economy particularly on its growth and development efforts.

“Two important activities are critical to economic management and planning – resource mobilisation and reliable information or data. Resources are key to finance economic decisions, be they current and/or new investments in all facets of the economy, health, education, infrastructure and the like. Reliable information and data are vital for planning, monitoring and economic management decision making. The failure to manage these two activities effectively has been a challenge in African countries and most of the developing world at large.

“Such situations can create a conducive route for further undesirable economic leakages such as capital flight in the case of export misinvoicing and smuggling in the case of import under-invoicing, two detrimental consequences which African governments must avoid at all costs.

“We need to strengthen our institutions in monitoring economic activity and generating accurate and timely information and data. The persistent combination of poor data, inaccurate information, revenue leaks and fiscal constraint will make economic management ineffective and development planning unrealistic. It is time to take a much deeper look at resourcing and better managing our institutions, especially trade-related ones,” he concludes.