

# Chapter 68

## Rational Asymmetric Development: Transfer Mispricing and Sub-Saharan Africa's Extreme Poverty Tragedy

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### ABSTRACT

*A recent publication by the World Bank on Millennium Development Goals (MDGs) has established that extreme poverty has been decreasing in all regions of the world with the exception of sub-Saharan Africa (SSA), in spite of over two decades of growth resurgence. This chapter explores the role of transfer mispricing in SSA's extreme poverty tragedy. The analytical structure entails: (1) emphasis of rational asymmetric development as the dark side of transfer pricing; (2) linkages between financial reporting, international financial reporting standards (IFRS), transfer pricing and poverty; (3) evidence that the recent growth resurgence in African countries has been driven substantially by resource-rich countries which are experiencing high levels of exclusive growth and extreme poverty; (4) the practice of transfer mispricing by multinationals operating in resource-rich countries of SSA and (5) a Zambian case study of extreme poverty and transfer mispricing schemes by Glencore in the copper industry. While transfer mispricing is contributing to diminishing African growth, available evidence shows that the component of growth that is not captured by transfer mispricing does not trickle down to the poor because the African elite is also animated by practices of rational asymmetric development. Policy implications for the fight against extreme poverty are discussed.*

### 1. INTRODUCTION

A recent publication by the World Bank on Millennium Development Goals (MDGs) has established that extreme poverty has been decreasing in all regions of the world with the exception of sub-Saharan Africa (SSA) (Caulderwood, 2015; World Bank, 2015). Consistent with Asongu and Kodila-Tedika (2015), about 45% of nations in the sub-region are substantially off-track from attaining the MDGs extreme

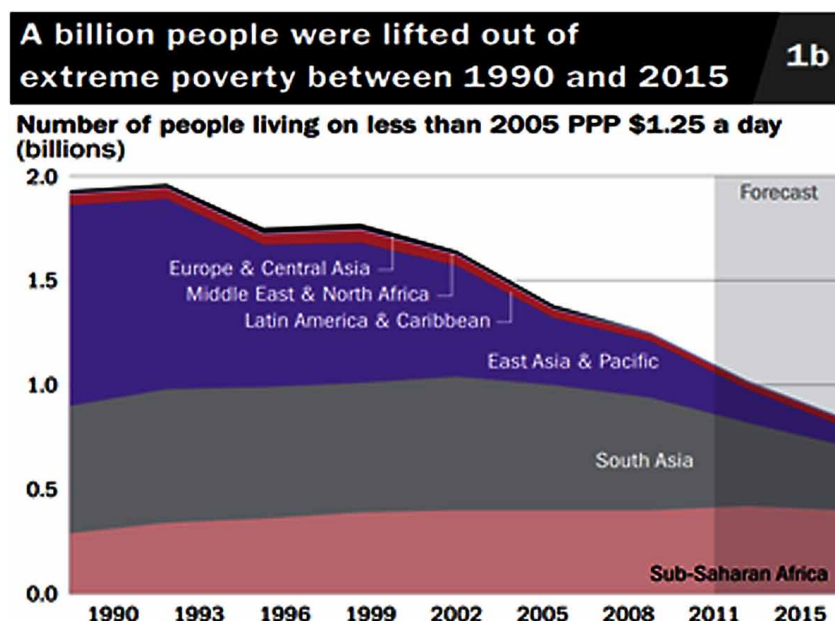
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poverty target. From the evidence provided by Figure 1, it can be noticed that, but for SSA, extreme poverty has been decreasing in all other regions of the world. This is an unfortunate tendency, despite about two decades of growth resurgence that began in the mid 1990s (Alan & Carlyn, 2015, p. 598). In the light of these observations optimistic narratives about African rising should be treated with extreme caution, notably: (i) Pinkivskiy & Sala-i-Martin (2014) on all African countries attaining the MDGs extreme poverty target by 2014, with the exception of the Democratic Republic of Congo; (ii) Leautier (2012) on Africa's growing leadership role in the World and (iii) the continent witnessing considerable poverty decline compared to other world regions (Fosu, 2015a). It should be noted that the cautious position of Fosu is much more articulated in Chapter 1 (Fosu, 2015b) of his recent book on 'growth and institutions in Africa' (Fosu, 2015c). Nonetheless, such overly optimistic positions may have been motivated by a stream of the literature on 'the African growth miracle' (Young, 2012): a motivational current in the literature which is likely to be more concerned about promoting the interest of neoliberal ideology and capital accumulation. Therefore, neglecting fundamental ethical concerns like: ecological crisis, inequality and sustainability in job creation (Obeng-Odoom, 2013, 2014).

Over the past decades, a lot of scholarly attention has focused on the causes of African poverty (Englebert, 2002; Jerven, 2011; Kodila-Tedika & Agbor, 2014; Asongu & Kodila-Tedika, 2015). The plethora of studies has either been based on the existence of an African dummy or the assumption that the continent is fundamentally different from other regions of the world. Some of the documented reasons for persisting poverty include: social barriers to economic growth and technological change (Amavilah, 2015); deinstitutionalization of Africa (Nunn, 2008, 2009; Nunn & Puga, 2012) and/or loss of traditional African institutions (Amavilah, 2014a, 2006; Lewis, 1955); inability to make a clear distinction between 'private property rights' and 'private use rights' (Amavilah, 2015); overvaluation of foreign knowledge and undervaluation of local knowledge (Brush & Stabinsky, 1996; Raseroka, 2008; Lwoga

*Figure 1. Comparative regional poverty levels*

*Source: World Bank PovcalNet*



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