



ILLICIT FINANCIAL FLOWS (IFF) TRACK IT, STOP IT, RECOVER IT!

Presentation on the Report of the High-Level
Panel on Illicit Financial Flows from Africa

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Presentation

- 5 Focus areas
 - IFF: What it is and why we need to worry about it
 - The High-Level Panel, its method and Report
 - Highlights of the Report
 - IFF's key actors
 - IFF's key drivers and enablers
 - Institutional and policy responses
 - Challenges and successes
 - Key Recommendations
 - Summary of findings
 - Capacity Imperatives
 - ACBF's Role



What is IFF?

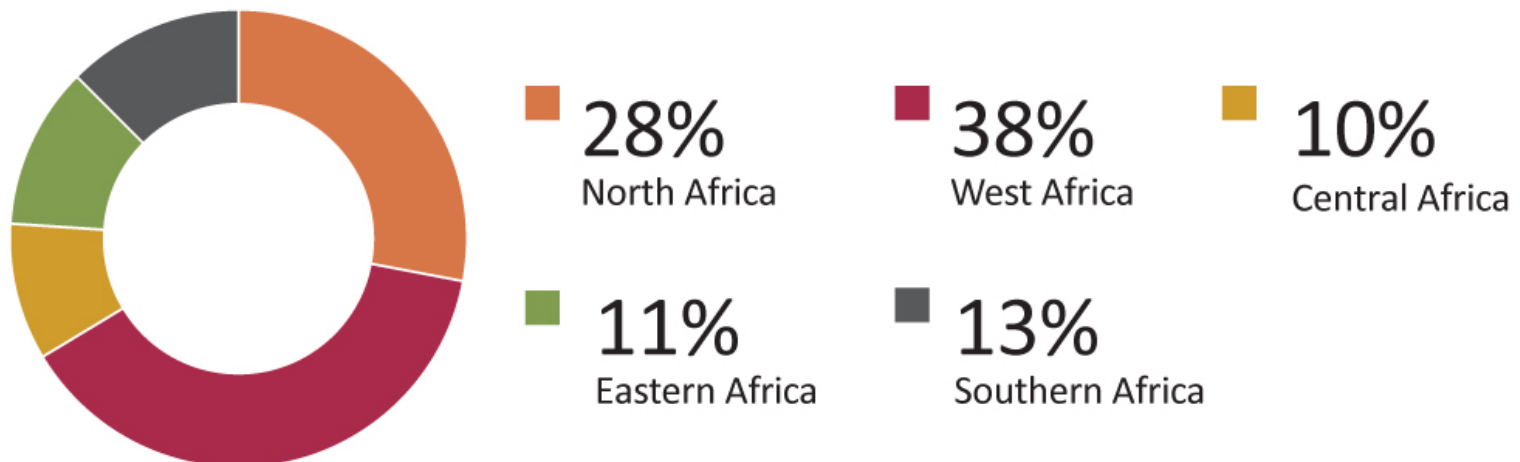
- Money that is illegally earned, transferred or utilized. (Global Financial Integrity)
- Typically originates from three sources:
 - commercial tax evasion, trade misinvoicing and abusive transfer pricing;
 - criminal activities, including the drug trade, human trafficking, illegal arms dealing, and smuggling of contraband; and
 - bribery and theft by corrupt government officials.



- Of the US\$50-60 billion annual illicit outflows from Africa
 - Commercial activities are by far the largest contributor
 - Followed by organized crime,
 - Then public sector activities.

Corrupt practices play a key role in facilitating these outflows.

Cumulative illicit financial flows from Africa by region, 1970–2008



Source: Authors' calculations based on Kar and Cartwright-Smith (2010).



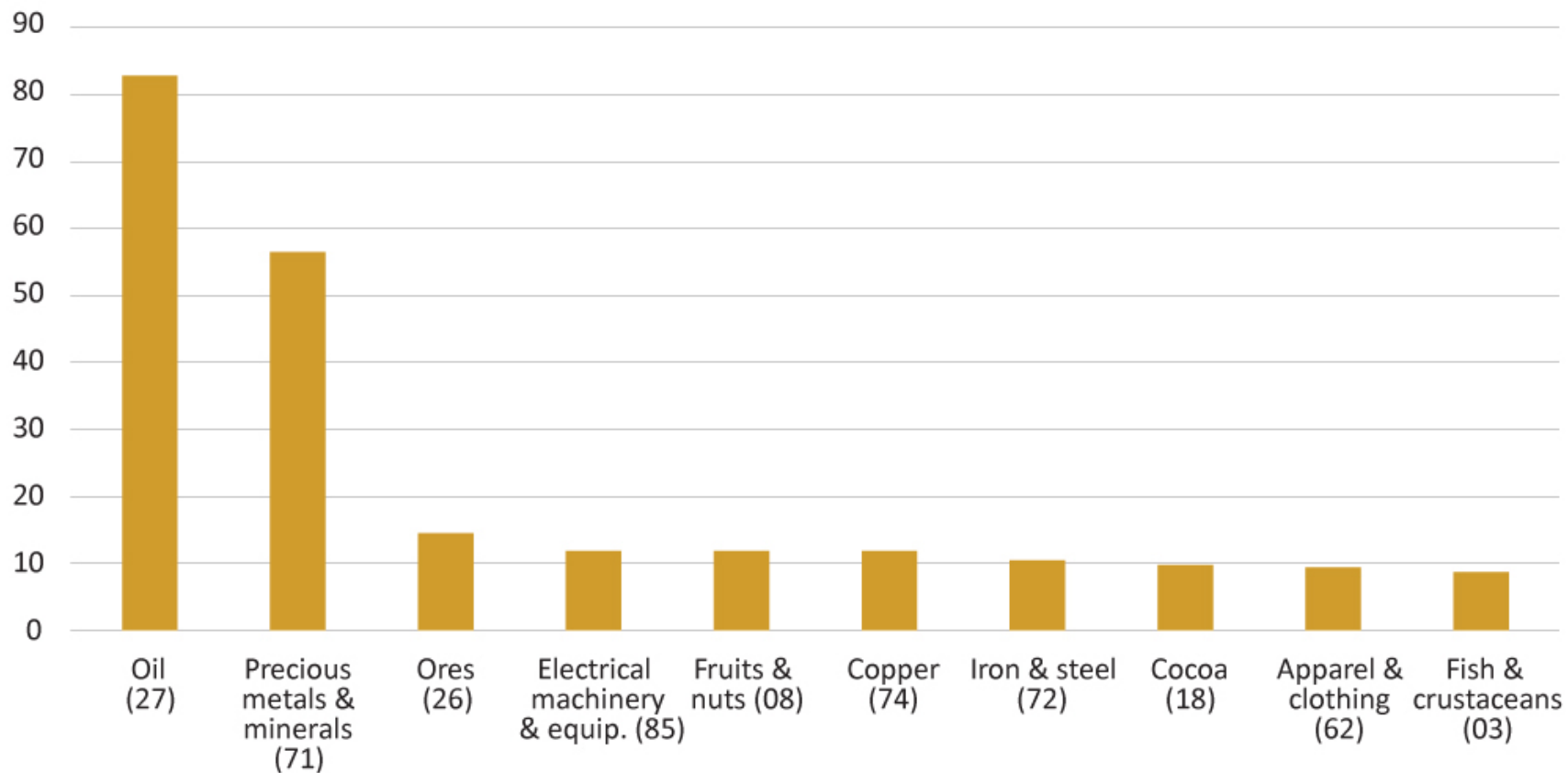
Top 10 African countries by cumulative illicit financial flows, 1970–2008

Country	Cumulative IFFs (1970–2008) US\$ Billion	Share in Africa's Total IFFs
Nigeria	217.7	30.5%
Egypt	105.2	14.7%
South Africa	81.8	11.4%
Morocco	33.9	4.7%
Angola	29.5	4.1%
Algeria	26.1	3.7%
Côte d'Ivoire	21.6	3.0%
Sudan	16.6	2.3%
Ethiopia	16.5	2.3%
Congo, Republic of	16.2	2.3%

Source: Based on Kar and Cartwright-Smith (2010).



Top 10 sectors by cumulative illicit financial flows for Africa, 2000–2010 (billions of dollars, trade mispricing only)



Note: Top 10 sectors are by HS2 classification. See annex IV for full details about HS2 codes and definitions.

Source: ECA calculations.



Why we need to worry about IFF

- The reality of Africa financing more and more of its own development
- The magnitude and intensification
 - \$50 - \$60 Billion flowing out of Africa each year
 - Does not include most underground and criminal activities
- The governance and development effect
 - Development consequences
 - Increasing inequality, deepening unequal distribution of power and ability to achieve the MDGs
 - Undermining state capacity and weakening governance
 - Discouraging transformation and transparency
 - Straining Africa's capacities
 - Undermining international development cooperation

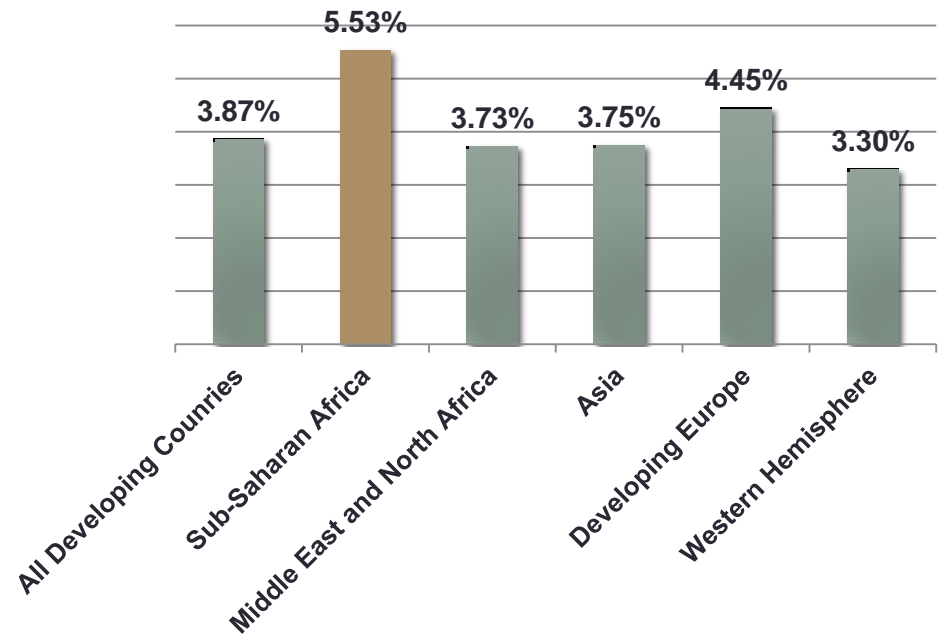


Why we need to worry about IFF

Sub-Saharan Africa GDP, IFF, ODA and FDI (2003-2012)

GDP (nominal)	US\$9,565.4 billion
Illicit Financial Flows (IFF)	US\$528.9 billion
Official Development Assistance (ODA)	US\$348.2 billion
Foreign Direct Investment (FDI)	US\$248.1 billion

Average Annual Illicit Outflows as percent of GDP

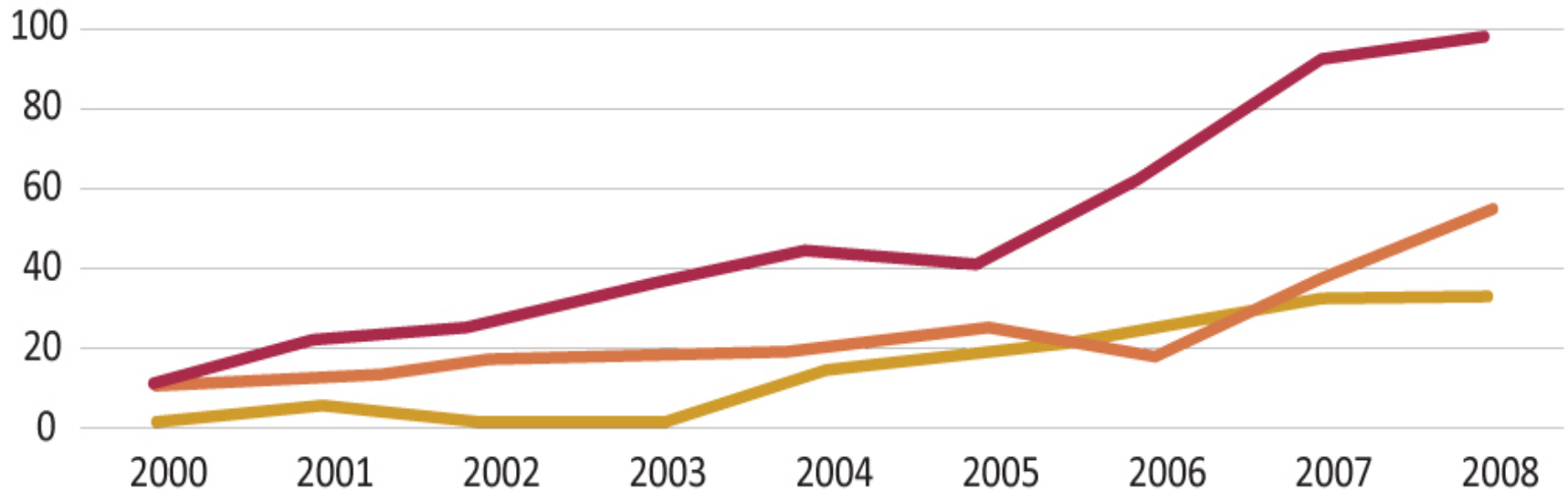


Source: Global Financial Integrity, Annual Report 2014.



IFF is intensifying over time

Evolution of illicit financial flows from Africa, 2000–2008 (billions of dollars)



■ 2010
Kar and Cartwright-Smith - all IFFs

■ 2010
Kar and Cartwright-Smith - trade mispricing only

■
ECA's methodology - trade mispricing only

Source: Based on Ndikumana and Boyce (2008), Kar and Cartwright-Smith (2010), Kar and Freitas (2011) and the ECA methodology.



The High-Level Panel

- Membership

- President Mbeki and 9 eminent personalities from the continent as well as from partner countries, appointed in their personal capacity and selected on their professional credentials.

- Mandate

- Determine the nature and patterns of illicit financial outflows from Africa;
- Establish the level of illicit financial outflows from the continent;
- Assess the complex and long-term implications of IFFs for development;
- Raise awareness among African governments, citizens and international development partners of the scale and effect of such financial outflows on development; and
- Propose policies and mobilize support for practices that would reverse such illicit financial outflows.

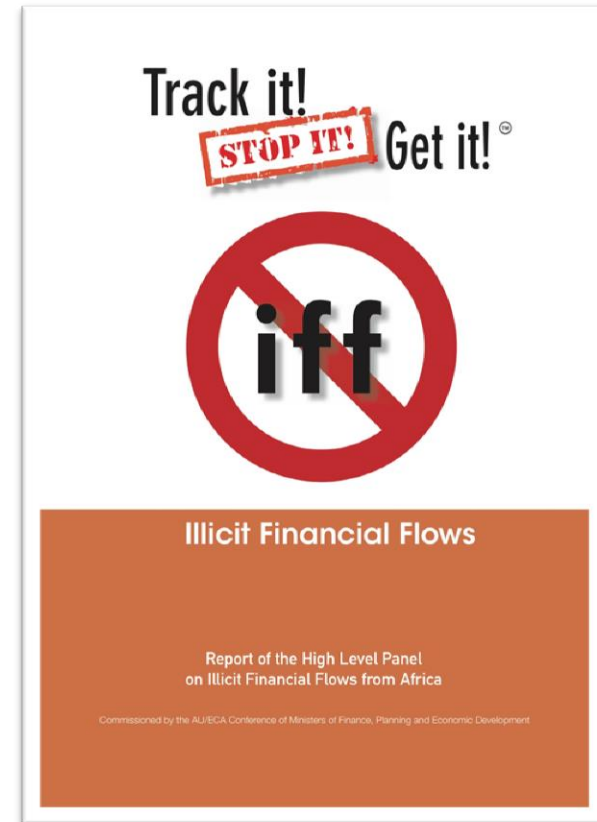


- Method of operation of the HLP
 - Research
 - Country Cases
 - Algeria, DRC, Kenya, Liberia, Mozambique, Nigeria
 - Advocacy
 - Inclusive consultations—
 - insights and inputs from governments, the private sector, civil society organizations
 - Subregional consultations for East and Southern Africa were held in Lusaka, Zambia, while consultations in West and Central Africa took place in Accra, Ghana. The consultations for North Africa took place in Tunisia.
- Reached out to the rest of the world:
 - US government agencies, the Secretariat and Member States of the United Nations and the Organisation for Economic Cooperation and Development. Useful meetings were held with the World Customs Council, the European Parliament, the World Bank and the International Monetary Fund. In the United States, policy seminars also took place in the Brookings Institution and the Corporate Council for Africa.



The Report

- The 122-page report reflects the HLP's work on IFF since it was established in February 2012
- Organized in 5 chapters plus annexes as follows:
 - Tackling illicit financial flows from Africa
 - Understanding the phenomenon of illicit financial flows from Africa
 - The governance and development impact of illicit financial flows
 - Findings and policy implications
 - Recommendations



Who are the main actors?

- Private sector in Africa
- Criminal networks
- African governments
- Civil society organizations (CSOs)
- Global actors
 - Non-African governments
 - International organizations



What are the drivers and enablers?

- Poor governance
- Weak regulatory structures
- Tax incentives
- Existence of
 - financial secrecy jurisdictions and
 - tax havens



What's Being Done?

- There are...
 - National and regional efforts
 - Global efforts
- However,
 - The important question of recovery remains



National and Regional Efforts

- African countries recognize the importance of tackling IFF especially money laundering
 - Various countries have taken steps to establish legislations, tighten existing laws and create anti IFF mechanisms
 - National anticorruption legislations and institutions
- African countries have membership in
 - The Inter-Governmental Action Group against money laundering in the sub-regions
 - The Financial Action Task Force
 - The Financial Crimes Enforcement Network
 - Egmont Group of Financial Intelligence Units



Regional and Sub-Regional

- African Union
- The AU Summit has a comprehensive Convention dealing with money laundering
 - The African Union Convention on Preventing and Combating Corruption was signed by the AU Assembly of Heads of States in Maputo , 11 July 2003.
- The APRM's country assessment also deals with the issue
- RECs:
 - In the sub-regions a number of institutions address AML problems have been created—a number of them affiliated to the Financial Action Task Force (FATF)
 - FATF-style regional bodies (FSRB).
 - ECOWAS: GIABA--Intergovernmental Action Group against Money Laundering in West Africa
 - East and Southern Africa: ESAAMLG—Eastern and Southern Africa Anti-Money Laundering Group
 - MENA: MENAFATF—Middle East and North Africa Region Financial Action Task Force
 - Central Africa: GABAC—Central African Action Group against Money Laundering
 - Their mandate includes the development of strategies to protect the economies of their member states from the laundering of the proceeds of crime, improvement of measures for combating money laundering and strengthening cooperation among members



How well are the responses?

- In many African countries, regulatory agencies and institutions have been established with responsibilities that cut across various dimensions of IFFs.
- In Nigeria, for example, some of the related institutions include:
 - Nigerian Ministry of Finance
 - Central Bank of Nigeria
 - Economic and Financial Crime Commission
 - Independent Corrupt Practices and other related Commission
 - Federal Inland Revenue Service
 - Nigeria Custom Service
 - Nigeria Drug Law Enforcement Agency
 - Nigeria Extractive Industry Transparency Initiative
 - Nigeria's Code of Conduct Bureau
 - Special Control Unit against Money Laundering
 - Nigerian Financial Intelligence Unit
 - Nigeria Police Service
- Despite the various institutions and their efforts aimed at curbing IFFs and related problems, the magnitude of the challenges experienced by these institutions overwhelms their implementation capacities.



What are the challenges?

- Most of these institutions face problems such as...
 - inadequate capacity (including equipment, adequate and relevant skills);
 - shortages of funding (requiring them to rely on unpredictable foreign assistance); and in some cases, inadequate support from the judicial system.
- In addition to these constraints, the situation is further complicated by...
 - a lack of coherence between the institutions,
 - the duplication of responsibilities among the different agencies, ineffective coordination between them, and insufficient expertise to deal decisively with the IFF phenomenon.
- In some instances tax authorities may not report tax crimes to law enforcement authorities even after they have reclaimed stolen tax funds from the perpetrator.



Other problems exist at national and regional levels

- The lack of adequate regulatory frameworks;
- Lack of information and telecommunication facilities, transportation and other relevant infrastructure;
- Lack of adequate funding and reliance on unpredictable foreign assistance;
- Shortage of technical and human capacity to deal with crime perpetuated by sophisticated companies and individuals;
- The involvement in corruption of top government officials operating at different levels of governance; and
- The perception of citizens of resource-rich countries that resource rents are free for all to harvest if given the opportunity.



Global Efforts

- Initiatives in the US
 - Dodd-Frank Act
- EU's Accounting and Transparency Directives
- Extractive Industries Transparency Initiative
- Automatic exchange of information
- Declaration of Beneficial Ownership



The challenge of recovering money illegally shifted abroad

- Often money illegally shifted abroad is lost forever!
- Even when there is hope for recovery, progress is often slow
 - **Egypt**. Still unable to recover an estimated US\$11 billion believed to have been transferred illicitly from the public purse during the era of the former President Hosni Mubarak
- There are encouraging signs and some successes:
 - **Nigeria**, which leads on IFF share, is also credited as representing the single most successful case of asset recovery by a State. \$2.3 billion illicitly transferred by Abacha has been recovered.
 - Aggressive tax avoidance by multinational corporations is being curtailed in **South Africa** , e.g. the recovery of US\$2 billion in taxes from an MNC
- Some global efforts are encouraging
 - Kleptocracy Asset Recovery Initiative
 - World Bank's Stolen Assets Recovery Initiative
 - UN's Office of Drugs and Crime



Key Recommendations

- An African problem with global solution—involving African and non-African private and public actors.
- Recommendations in 4 Areas:
 1. The commercial component of IFF
 2. The criminal component
 3. The corruption component
 4. Responsibilities of Africa's partners



Some details on the commercial side

- Trade mispricing
 - Make illegal, intentional or inaccurate stating of price quantity, quality or other aspect of trade in goods and services to manipulate or evade taxation
 - Register companies for tax purposes
 - Customs to use available databases to compare prices
 - States to start collecting trade transaction data
- Transfer pricing
 - National and multilateral agencies to make fully and freely available, and in a timely manner, data on pricing of goods and services in international transactions
 - African countries should urgently establish transfer pricing units
 - Require MNCs to provide the transfer pricing units with a comprehensive report showing their disaggregated financial reporting on a country-by-country or subsidiary-by-subsidiary basis
- Base erosion and profit shifting (BEPS)
 - Automatic exchange of tax information among African countries
 - Call for an automatic exchange of tax information globally, subject to national capacity and attention to necessary confidentiality



- Other recommendations

- Require that beneficial ownership information is provided when companies are incorporated or trusts are registered
- Review current and prospective double taxation conventions, particularly those in place with jurisdictions that are significant destinations of IFFs, to ensure that they do not provide opportunities for abuse.
- Use regional integration arrangements to introduce accepted standards for tax incentives to prevent harmful competition in the effort to attract foreign direct investment.
- Join such initiatives as FATF and EITI

- Institutional support for these measures

- Establish or strengthen the independent institutions and agencies of government responsible for preventing IFFs.
 - Including (but are not limited to) financial intelligence units, anti-fraud agencies, customs and border agencies, revenue agencies, anti-corruption agencies and financial crime agencies.
 - All such agencies should render regular reports on their activities and findings to national legislatures.
- Create methods for effective information sharing and coordination among various institutions and agencies
- Put in place robust mechanisms for supervision of banks and financial institutions



Africa's Partners

- The international community to eliminate secrecy jurisdictions, introduce transparency in financial transfers and crack down on money laundering
- Stronger collaboration between Africa and US, EU, G8 and G20 for greater transparency in international banking
- Partners to require publicly available disaggregated financial information on their MNCs
- Require beneficial ownership information for incorporation
- Elaborate global governance framework for asset freezing, management and repatriation
- Replicate successful laws as global best practices and standards
- UN, IMF and World Bank to play a more coherent and visible role in tackling IFF



What are the main findings?

The IFF Panel's 15 findings

1. IFF from Africa are large and increasing
2. Ending the flows is a political issue
3. Transparency is key across all aspects of IFF
4. Commercial routes of IFF need closer monitoring
5. African countries' dependence on natural resources extraction makes them vulnerable to IFF
6. New and innovative means of generating IFF flows are emerging
7. Tax incentives are not usually guided by cost-benefit analyses
8. Corruption and abuse of entrusted power remains a continuing concern
9. More effort needed in asset recovery and repatriation
10. Money laundering continues to require attention
11. **Weak international and regional capacities impede efforts to curb IFF**
12. Incomplete global architecture for tackling IFF compounds the problem
13. Financial secrecy jurisdictions must come under closer scrutiny
14. Development partners have an important role in curbing illicit financial flows from Africa
15. IFF issues should be incorporated in and better coordinated across UN processes and frameworks



The Capacity Imperatives

- “The biggest cross-cutting challenge found through our country case studies is the lack of appropriate capacity to ensure that illicit outflows are curtailed” (IFF Report 2015: 79).
- Weak national and regional capacities impede efforts to curb IFF
- This is reflected at various levels:
 - Lack of data
 - Lack of awareness and inadequate understanding of the issue
 - Lack of transfer pricing units
 - Insufficient number or inadequately skilled experts
 - Lawyers, accountants, tax experts, law enforcement officers, customs officials, financial experts, etc.
 - Capacity retention issues



Developing capacity to Track it, Stop it and Recover it

- We need to build or strengthen the capacity to address the drivers and enablers of IFF and implement the recommendations of the Panel
 - Secrecy jurisdictions
 - Corruption
 - Trade mispricing
 - Transfer pricing
 - Money laundering
 - Capacity to determine and verify the amount of natural resources being exported
 - Capacity for inter-institutional cooperation, coherence and coordination
 - Train and equip investigators in such things as poaching and drugs, arms and minerals trade.
- Building capacity will require
 - Capacity audit
 - Capacity development and retention
 - Inter-institutional coherence, cooperation and coordination
 - A multi-stakeholder, multi-sectoral and multi-level approach



What should ACBF do?





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