

## CURBING ILLICIT FINANCIAL FLOWS FROM AFRICA: THE ROLE OF STRONG LEADERSHIP

*From the African Community of Practice on Managing for Development Results at the African Capacity Building Foundation*



Knowledge Brief  
N°.13

### SYNOPSIS

Illicit financial flows (IFFs) are leading deterrent to Africa's sustainable development. The continent loses at least US\$ 50 billion to these outflows annually, which translates to a loss of about US\$ 1.0 billion for each African country. The region should have been able to generate the resources required to finance its development from within, had it not been this scale of loss. This argument is central to the success of the Sustainable Development Goals (SDGs) that emphasise financing through domestic means. Given the significance of this matter to the achievement of development results in the continent, AfCoP initiated this discussion on curbing illicit financial flows from Africa with the objective of generating perspectives as to how these flows could be effectively tackled and the need to have a strong leadership in the region for the fight against IFFs to become a success. The online discussion took place from 2<sup>nd</sup> to 16<sup>th</sup> September 2015. A total of 10 AfCoP members from various countries shared their views, experiences and insights.

### Introduction

Among the leading problems Africa encounters, are illicit financial outflows from the continent. It is unthinkable for the region to annually lose at least US\$50 billion to these illicit flows<sup>1</sup> in an era when increased development financing to the continent has been at the fore of remedies needed to support its sustainable development. Allowing this to persist will be inimical not only to Africa's efforts but to those of the entire international community. Certainly, continuity of IFFs in the current trend cannot be afforded when domestic financing is central to the effective implementation of the SDGs.

On average, each African country loses about US\$1 billion to IFFs annually, constituting more than five

times the average national revenue of Sierra Leone during 2003-2011; more than two times Seychelles' and Togo's; and slightly above that of Burkina Faso for the same period; excluding grants.<sup>2</sup> Currently, Guinea, Liberia and Sierra Leone need external support for their Post-Ebola Recovery Strategies in the tune of US\$1.5 billion, US\$811 million, and US\$896 billion, respectively.<sup>3</sup> This implies the average continental resources lost to IFFs, if reversed, could be more than fund required for the recovery financial gaps for Sierra Leone and Liberia; and at least 67 percent of the gap for Guinea.

---

<sup>1</sup>African Union/Economic Commission for Africa (2015, pp. 2&79).

---

<sup>2</sup> See African Development Indicators at <http://data.worldbank.org/data-catalog/africa-development-indicators> (visited September 9, 2015).

<sup>3</sup> See <https://ebolaresponse.un.org/recovery-conference> (visited 3rd October 2015).

Against this background, AfCoP decided to launch an online discussion on the aforementioned topic as a means of sharing knowledge and documenting perspectives as to how the continent could curb IFFs. A key thrust of this discussion was the fact that (i) the world had missed huge opportunity to produce better development results for Africa with the Millennium Development Goals (MDGs) due to such issues as losing hundreds of billions of dollars to IFFs during the course of implementing those goals; and (ii) this opportunity is available again with the passing of the SDGs, that Africa could finance these successor goals substantially from within if regional leadership rises up to the need to robustly curb IFFs. The discussion was specifically focused on:

- How are IFFs understood and regularized across Africa and beyond?
- What is the role of African leaders at various levels in addressing these challenges? Calling on them to take up their responsibility in this fight as highlighted in the 2015 UNECA's<sup>4</sup> report of the High Level Panel on Illicit Financial Flows
- What could be the role of the regional economic communities, regional leaders and MfDR experts in addressing the underlying factors to these problems?
- What are the best practices and policies across Africa and beyond on IFFs?
- What are the key capacity constraints around efforts to curbing IFFs, and capacity building initiatives needed in this direction?
- What is the role of various partners in supporting these initiatives?
- What are the recommendations for African leaders to curb IFFs?

<sup>4</sup> UNECA is United Nations Economic Commission for Africa.

The following sections present results of the discussion, summarized around the issues and ideas identified during the process, supported by relevant research works reviewed.

## Understanding Illicit Financial Flows

### *Definitional Issues*

According to the 2015 Report of the High Level Panel on Illicit Financial Flows from Africa, IFFs could be defined as “money illegally earned, transferred or used....In other words, these flows of money are in violation of laws in their origin, or during their movement or use, and are therefore considered illicit.”<sup>5</sup> It broadly categorizes IFFs into three: (i) commercial-related IFFs; (ii) those related to criminal activities; and (iii) corruption related flows. This classification has substantial application to Africa.

According to Beatrice Nabajja Mugambe, an AfCoP participant in the discussion, IFFs comprise resources—monetary or nonmonetary, with a high financial value—“that move in or allocated within and outside a particular country/region of the globe but is not explicitly accounted for in financial systems. Data on such resources is disguised in budget lines while the authorities know very well that such resources are illegal, the reason they attempt to give them certain names or direct the technical officers, particularly in the ministries of finance and central banks, to give them certain budget codes.” Her description of IFFs leans heavily towards corruption and counterproductive policy type, presenting IFFs in light of the following: (i) undue tax waivers to seemingly Foreign Direct Investments; (ii) land deals that are tantamount to “land giveaway” or “land grabs” by governments to rent seekers; and (iii) exchange of resources among government officials and prospective investors in oil, mineral, road, and energy infrastructure deals, among others.

<sup>5</sup> African Union/Economic Commission for Africa (2015, p.23).

## Some Scenarios of IFFs in Africa

### **Commercial related**

In South Africa, a multinational corporation was found to have avoided payment of taxes to the tune of US\$ 2 billion. It falsely reported to tax authorities that a large part of its business was conducted by branches in the United Kingdom and Switzerland, which were running lower tax rates for businesses. It was discovered later that the said subsidiaries in these two countries were of no significance. The South African Government pursued the corporation and had all squandered money paid later. (See the 2015 Report of the High Level Panel on Illicit Financial Flows from Africa, African Union/Economic Commission for Africa (2015, p.27).

A study by Katsouris and Sayne (2013) indicates that Nigeria's oil has been "looted on an industrial scale, with the quantities lost estimated to be about 100,000 barrels a day;" while in Mozambique, whereas some fictitious official records in 2012 had shown a total export of 260,385 cubic metres of logs and sawn timber to the world, records from China indicated that China alone had imported a total of 450,000 cubic metres of these products from Mozambique.

Telecommunications have been another industry that is fraught with IFFs related thefts. An African country is reported to have lost up to US\$90 million annually from stolen minutes in the telecommunications sector, through "diverting international calls and transforming them into local calls, with operators then making fake declarations of incoming international call minutes to reduce the tax payable to the government." (See the 2015 Report of the High Level Panel on Illicit Financial Flows from Africa, African Union/Economic Commission for Africa (2015, p.29 ).

And take the case of iron ore mining concessions in Guinea: The ore from a particular mine was estimated to be able to generate revenues of up to \$140 billion over a period of 20 years. Yet, the

concession granted in a particular year by a sitting government at the time to a multinational was only reported to be generating \$165 million. The graft was only overturned by a new government that terminated the concession when it discovered "that half of the rights to the said US\$160 million concession had been sold to another multinational for US\$2.5 billion. Rightly, the new government was able to re-award the concessions for \$20 billion to three mining firms. (See the 2015 Report of the High Level Panel on Illicit Financial Flows from Africa, African Union/Economic Commission for Africa (2015, p.31 ).

### **Crime related**

There has been a case with United States authorities on money laundering transaction totalling US\$480 million involving Lebanese banks in which sales of second-hand cars were used to launder drug money, with a paper trail going across Benin and Togo to European countries and Lebanon. The banks involved in facilitating these transactions paid fines of up to US\$102 million.

Evidence was also presented of large-scale cash smuggling across land borders and through airports, notably on private and chartered aircrafts. The case of a former governor of a State in Nigeria who used different shell companies, multiple bank accounts and the movement of money through several jurisdictions to launder ill-gotten wealth was a notorious example that came up in the course of the work of the High Level Panel on IFFs.

### **Corruption related**

In the Report of the High Level Panel on IFFs (2015, p.47) commissioned by AU/ECA, the United States Department of Justice is reported to have once frozen about "\$458 million in corruption proceeds stashed in various accounts in the United States and around the world by the late Nigerian dictator Sani Abacha and his conspirators." It reported "in comprehensive detail how the money was stolen from the Central Bank of Nigeria and the role of several

Nigerian banks in transferring the stolen funds to accounts operated by General Abacha across the world...This recovery was made possible through the department of Kleptocracy Asset Recovery Initiative [in the US], which is aimed at seizing/recovering the assets of foreign leaders who steal funds that belong to the citizens they are supposed to serve and, where appropriate, return that money to benefit the people harmed by these acts of corruption and abuse of office.”

## Key Challenges to Curbing IFFs

These were highlighted by the online discussants, **Beatrice Nabajja Mugambe, Ebbah Gadaga, Jasson Kalugendo, and Temtim Assefa**, as well as in the 2015 Report of the High Level Panel on Illicit Financial Flows from Africa (African Union/Economic Commission for Africa 2015, pp.41-42).

- Weak governance, political will and institutional capacity: A weak business, policy and institutional environment may encourage IFFs.
- Conflict-ridden countries: Weak regulatory structures are common in conflict and post-conflict states.
- Weak tax administration systems: This has several consequences for promoting IFFs relating especially to commercial activities. Tax systems lack the necessary global trade statistics to adequately inform its response to abuse of transfer pricing. A few African countries have transfer pricing units in their internal revenue services.
- Adverse-selection is a leading problem in according tax incentives to foreign direct investment. While according unproductive tax incentives could be intentional to enable the flourish of IFFs for selfish gains on the side of policymakers, where such incentives are well-intentioned,

policymakers could not tell the hidden intention of the recipients—FDIs.

- The existence of financial secrecy jurisdiction. As many countries and territories across the globe aspire to become financial services centres, they become vulnerable to IFFs actors who will try to hide stolen resources from other countries, often weak states.<sup>6</sup>
- The syndication involved in carrying out IFFs makes them very difficult to curb; especially the involvement in corruption of top government officials operating at different levels of governance.

## Initiatives aimed at Combating IFFs

**Beatrice Nabajja Mugambe** presented a compelling Ugandan example during the discussion as follows: CSOs in Uganda have pursued a Black Monday Movement in the fight. On that day, they wear black clothes to show that people are tired of theft; encourage the public not to buy goods or services from businesses owned by thieves and only support Ugandans working honestly to make a living; encourage the public not to glorify people who have ill-gotten wealth by isolating every thief implicated in a theft scandal through actions such as not inviting them for burials, events, and weddings; and releasing a monthly newsletter on corruption related scandals and also recognising those government officials that are doing their best to fight the vice.

International institutions and initiatives that can be leveraged in the process include: World Customs Organization; United Nations Tax Experts Committee; United Nations Office on Drugs and Crime; Financial Action Task Force; Organisation for Economic Cooperation and Development (OECD); The Global Forum for Transparency and Exchange of

<sup>6</sup> See also Tax Justice Network at [https://en.wikipedia.org/wiki/Financial\\_Secrecy\\_Index](https://en.wikipedia.org/wiki/Financial_Secrecy_Index), for distribution of financial secrecy ratings across countries (visited 3rd October 2015).

Information for Tax Purposes of OECD; Open Government Partnership; and United Nations Convention Against Corruption. (See the High Level Report on IFF by African Union/Economic Commission for Africa 2015, pp.45-48).

## Conclusion and Recommendation

It is clear from the above discussion, that Africa's development can be substantially financed from within the region if the leadership of the continent is well prepared and committed to plugging the loopholes through which its resources have illicitly leaked out of the region. Doubling efforts to curb these illicit capital flows is a must if the continent should emerge and transition into an advanced region.

### Recommendations

During the online discussion, **Aimtonga Amani** presented the following six outcomes of the Nairobi first Sub-regional workshop on Curbing Illicit Financial Flows from Africa, read by Dr. Adeyemi Dipoolu, Director of Capacity Development Division of United Nations Economic Commission for Africa, on behalf of the workshop panel:

1. Strengthening institutional, regulatory and human capacity.
2. Increasing advocacy for commitment, collaboration and reforms.
3. Strengthening of normative Frameworks to stem IFF, including common legislation at continental level; Sub-regional efforts; and beneficial impact of soft laws.
4. Strengthening technical capacities, including renegotiating and revisiting domestic tax administration; recovery of sovereign assets and support for negotiations.
5. Addressing abusive transfer pricing and trade mispricing.
6. Follow up on global processes relating to curbing IFFs.

### Others

- Increase capacity of anti-corruption agencies to cover transfer pricing transactions to minimize its abuse.
- Encourage exchange of information between African financial intelligence units on cases of people and companies prosecuted for facilitating the movement and laundering of proceeds of IFFs.
- Integrate IFFs' concerns in the African Union's Convention on Preventing and Combating Corruption.
- Implement all recommendations in the 2015 UNECA's report of the High Level Panel on IFFs.

### Specific Recommendations for Civil Society, Media, AfCoP and Partners

- Increase advocacy for commitment, collaboration and reform.
- Increase the role of civil society and the media in the budgetary processes of national governments.
- Public access to budget and procurement information should be enhanced.
- Forge cooperation and networks among non-state actors against IFFs.
- Encourage National CoPs to undertake country level research and reporting on the incidence of IFFs.
- AfCoP may consider developing a communication strategy on IFFs, and increasing debate on this topic.

## Annex 1

The online participants are Jasson Kalugendo; Aimtonga Amani Makawia; Beatrice Nabajja Mugambe; Joseph Moina Samah; Ebbah Gadaga; Donald Houessou; Beyene Gizaw; Tamirat Yacob; Dr. Temtim Assefa; and the *moderator*, Sheka Bangura.

## Reference

African Union/Economic Commission for Africa. 2015. Report of the High Level Panel on Illicit Financial Flows from Africa. Africa Union and Economic Commission for Africa.

Kar and Cartright. 2010. Illicit Financial Flows from Africa: Hidden Resources for Development. Washington, DC: Global Financial Integrity.

[http://www.gfintegrity.org/storage/gfip/documents/reports/gfi\\_africareport\\_web.pdf](http://www.gfintegrity.org/storage/gfip/documents/reports/gfi_africareport_web.pdf).

Katsouris, C. and Sayne, A. 2013. Nigeria's Criminal Crude: International Options to Combat the Export of Stolen Oil. Chatham House.

Murphy, R. 2009. Transfer Pricing. Tax Justice Network.

<http://www.taxjustice.net/topics/corporate-tax/transfer-pricing/>.



## Acknowledgement

This knowledge brief is intended to summarize good practices and key policy findings on managing for development results. AfCoP Knowledge products are widely disseminated and are available on the website of the Africa for Results initiative (AfriK4R), at: [www.afrik4r.org/page/resources](http://www.afrik4r.org/page/resources).

This knowledge brief is a joint work by the African Capacity Building Foundation (ACBF) and the African Development Bank (AfDB). This is part of the knowledge products produced by ACBF under the leadership of its Executive Secretary, Professor Emmanuel Nnadozie.

The product was prepared by a team led by the ACBF's Knowledge, Monitoring, and Evaluation Department (KME), under the overall supervision of its Director, Dr. Thomas Munthali. Within the KME Department, Ms. Aimtonga Makawia coordinated and managed the processes of producing the product while Dr. B Diawara, Dr. P Mutopo, Mr. K. Boakye, Mr. F. Thoto, and other colleagues provided support with initial reviews of the manuscripts. Special thanks to colleagues from other departments of the Foundation who also supported and contributed to the production of this brief. The ACBF is grateful to the Africa Development Bank which supported production of this product under grant number 2100150023544.

The Foundation is also grateful to Dr. S. Bangura, as the moderator of the online discussion, which contributed to the development of this publication. The Foundation also wishes to express its appreciation to AfCoP members, partner institutions and all individuals that provided inputs critical to the completion of this product. The views and opinions expressed in this publication are the reflections of the author and participants of the discussion. They do not necessarily reflect the official position of the ACBF, its Board of Governors, its Executive Board, nor that of AfDB management board and the secretariats of the AfCoP- MfDR Project.