AFRODAD

INTERNATIONAL CONFERENCE ON COMBATING ILLICIT FINANCIAL FLOWS FROM AFRICA

Theme: Strengthening Role of Parliament and Civil society in combating IFFs, with special focus natural resources revenue management.

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PRESENTATION ON

UNDERSTANDING ILLICIT FINANCIAL FLOWS & HIGH LEVEL PANEL REPORT AND ITS RECOMMENDATIONS

BY

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Background

- In September 2015, the United Nations Member States adopted the Sustainable Development Goals (SDGs) as the development blueprint for the next 15 years. The SDGs represent a much wider agenda than the original Millennium Development Goals (MDGs), thus the emphasis on the critical need for effective domestic resource mobilization by member states to ensure the attainment of this more ambitious agenda.

- In this view, paragraph 23 of the Addis Ababa Action Agenda (AAAA) also underscores redoubling efforts to substantially reduce Illicit Financial Flows (IFFs) by 2030, with a view to eventually eliminating them. Paragraph 23 of the Addis Ababa Action Agenda (AAAA) reads:

  "We will redouble efforts to substantially reduce illicit financial flows by 2030, with a view to eventually eliminating them, including by combating tax evasion and corruption through strengthened national regulation and increased international cooperation. We will also reduce opportunities for tax avoidance, and consider inserting anti-abuse clauses in all tax treaties. We will enhance disclosure practices and transparency in both source and destination countries, including by seeking to ensure transparency in all financial transactions between Governments and companies to relevant tax authorities. We will make sure that all companies, including multinationals, pay taxes to the Governments of countries where economic activity occurs and value is created, in accordance with national and international laws and policies".

- Illicit Financial Flows are defined as "money that is illegally earned, transferred or utilized" High Level Panel Report. The most immediate impact of IFFs is a loss of revenue and opportunities for domestic consumption and investment.

- Whilst the issue of IFFs has risen rapidly up the political agenda, and some concrete policy changes have been adopted, the highly technical nature of illicit financial flows coupled with the limited availability of data and knowledge of their developmental impacts impose constraints on policy responses and advocacy efforts. There is therefore need to develop and strengthen global CSO awareness on the developmental impacts of illicit financial flows in relation to other aspects of development finance.

- There was a massive outflow of illicit finance from developing countries, estimated in 2013 to be US$1090.1billion, and up by 134% from the 2004 estimate of US$465.3 billion. Cumulatively, developing countries are estimated to have lost US$7.8 trillion in illicit financial flows between 2004 and 2013, vastly exceeding the total cumulative official development assistance (ODA) receipts of US$809 billion estimated for the period 2003 to 2012. Of the cumulative US$7.8 trillion lost between 2004 and 2013, US$675 billion (8.6%) was lost from Sub Saharan Africa, with South Africa and Nigeria being the top sources. (Global Financial Integrity (GFI), 2004-2013 Estimates)

WHY COMBATING IFFS FROM NATURAL RESOURCE SECTOR IS KEY?

- The push for domestic resource mobilization will be meaningless if, it's potential in funding development is undermined by illicit financial flows (IFFs). While many countries have national strategies (legal and institutional) to combat IFFs, such as Anti-corruption Acts, Anti-Money Laundering Acts, and Financial Intelligent Units, their effectiveness in dealing with IFFs remain constrained due to lack of political will, coupled with political interference in the operations of the institutions established to deal with IFFs.

- Though Africa is hugely endowed with natural resources, the mobilisation and utilisation of proceeds from the natural resource sector has not translated into meaningful and tangible benefits for the continent. Africa has remained characterised by poverty, lower economic growth, conflict, war and civil strife - a situation that has been widely described as the 'resource curse'.

- Poor revenue management emanating from weaknesses in the mining policies and mining legal & regulatory frameworks, corruption, weak accountability and lack of independent enforcement of rules, tax evasion and tax avoidance, are some of the factors that have limited the development outcomes of natural resources exploitation.

- These weaknesses have also inevitably contributed to the growth of illicit financial flows (IFFs), which have been depriving African countries of urgently needed resources for investment into critical socio-economic development objectives, thus further hindering poverty alleviation and inclusive development on the continent.

- Among other factors, lack of transparency and weak accountability are identified to be driven by the lack of involvement of relevant stakeholders in the whole extractive industry value chain. The participation of parliament, civil society organizations (CSOs) and the media in shaping policy decisions is a general rule of good governance that ensures checks and balances regarding the work of the executive in important issues related to the governance of the natural resource sector. However, in most cases, these groups are excluded in such discussions.

WHY COMBATING IFFS FROM NATURAL RESOURCE SECTOR IS KEY?

- Furthermore, the issues related natural resource governance such as tax justice and illicit financial flows are highly complex and technical such that legislators, CSOs and the media require adequate capacity building on the same to enable them to effectively engage if given the opportunity to be part of any negotiations or policy decisions related to the extractive sector.

- Conversely, under most government programs, the capacity building of these groups is generally neglected, resulting in their limited knowledge and capacity to meaningfully engage in policy discourses which end up being dominated by the executive.

- Thus, the limited knowledge of these various non state actors on these issues compromise their efforts towards effectively mobilizing domestic resources from the natural resource sector for financing the continent's development agenda.

- In addition to struggling with conducting empirical research that can influence illicit flows and extractives related policies, members of the civil society also lack capacity to effectively demand transparency in tax authorities' operations and request accountability on governments' use of natural resources tax revenues.

- Journalists also grapple with conducting investigative research into tax, illicit financial flows and extractive sectors beyond the press releases issued by tax authorities and mining companies among others.

- Parliamentarians remain constrained in passing laws that ensure efficiency and fairness in generating and using natural resource revenues and curbing illicit financial flows.

HIGH-LEVEL PANEL ON ILLICIT FINANCIAL FLOWS

- The HLP was chaired by H.E, Thabo Mbeki, former President of the RSA and comprised of nine other members from within and outside the continent. Panel's mandate was to 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.
- Drivers & Enablers of IFFs - Illicit financial flows are driven by a number of 'push' and 'pull' factors. Among them poor governance; weak regulatory structures; tax incentives; weak capacities; double Taxation Agreements (DTAs); and financial secrecy jurisdictions and/or tax havens.
- In the Natural resource sector - IFFs occur mainly through corruption, illegal resource exploitation and tax evasion.

- **Some Key Findings**

  - IFFs from Africa are large and increasing.
  - political issue and transparency key for tackling IFFs.
  - Weak national and regional capacities in Africa impede efforts to curb illicit financial flows
  - Absence of global and continental frameworks for addressing IFFs

- Recommendations

  - Independent institutions and agencies responsible for preventing IFFs – establish and strengthen
  - Prevent Corruption

  There are a number of regional level and national level actions that have happened around the Report and its recommendations

  - advocating for implementation of report recommendations at AU level
  - Pan African MPs network on IFFs
  - National level popularization of the HLP report
  - Media coverage of IFF related stories

I THANK YOU