

COMBATTING ILLICIT FINANCIAL FLOWS (IFFs) FROM AFRICA

Presentation by Mr. Amr Nour

Director, Regional Commissions New York Office

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IFF and the 2030 Agenda

- The 2030 Agenda for sustainable development and the Addis Ababa Action Agenda recognise IFF as a serious problem to be tackled.
- AAAA also looks at IFF from its major sources – corruption, criminality, and base erosion and profit shifting – largely aligned with the Mbeki report.



Not only an African problem, but a serious global one

Table X1: Illicit Financial Flows from Developing Countries, by Region, 2003-2012
(in billions of nominal U.S. dollars)

Region	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Cumulative
Sub-Saharan Africa	12.1	20.3	38.2	51.1	67.0	73.4	75.0	58.0	65.2	68.6	528.9
Asia	131.2	167.1	184.7	201.3	227.3	263.4	267.3	368.1	371.4	473.9	2,655.6
Developing Europe	68.1	73.9	85.9	95.9	131.7	168.1	175.1	170.3	250.9	166.5	1,386.4
MENA	6.0	22.7	57.8	51.1	42.6	131.8	118.6	74.2	109.2	113.4	727.4
Western Hemisphere	80.0	96.9	122.3	103.3	124.9	156.7	112.3	151.4	172.0	168.8	1,288.8
All Developing Countries	297.4	380.8	489.0	502.8	593.5	793.4	748.3	821.9	968.7	991.2	6,587.1

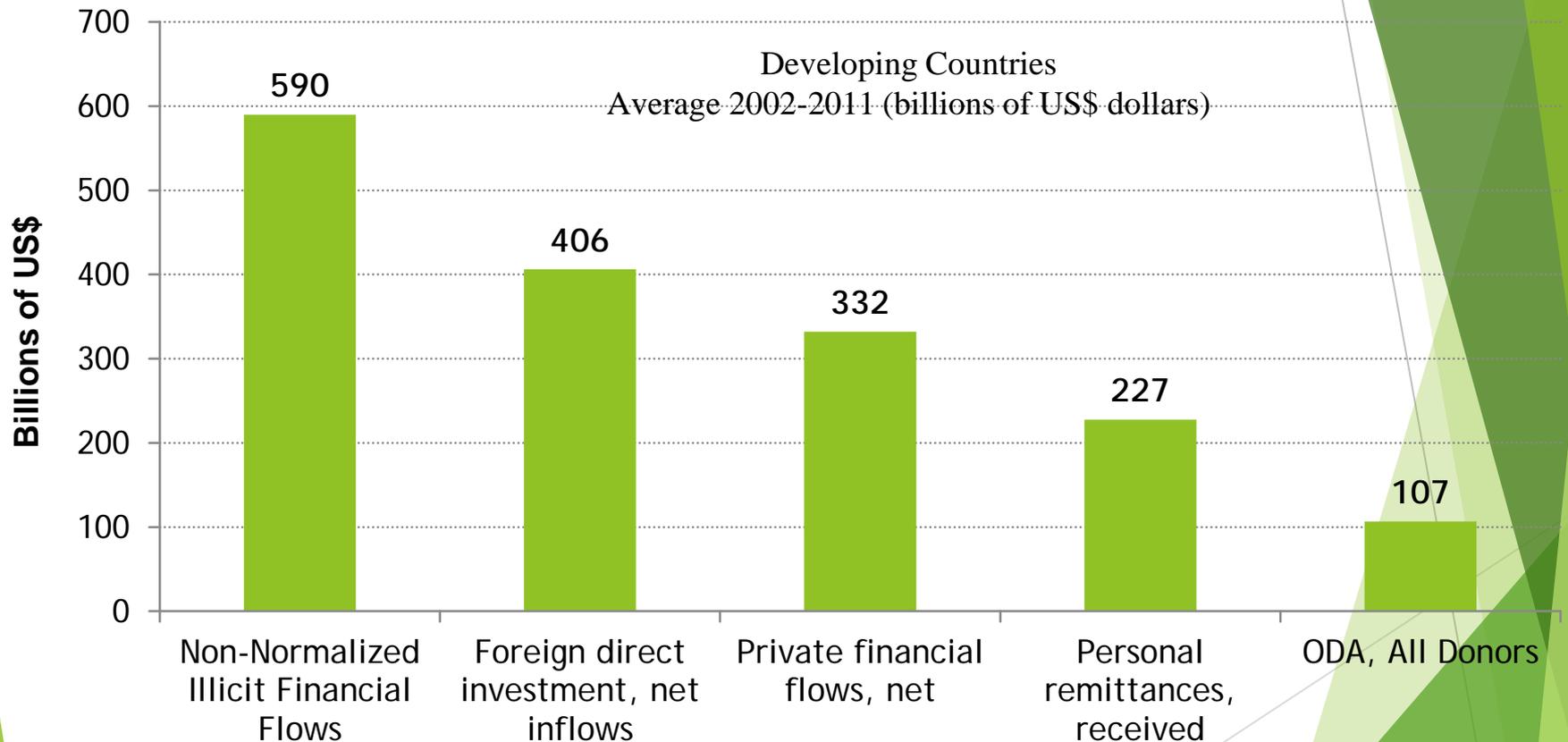
Data from the Global Financial Integrity Report (2014)



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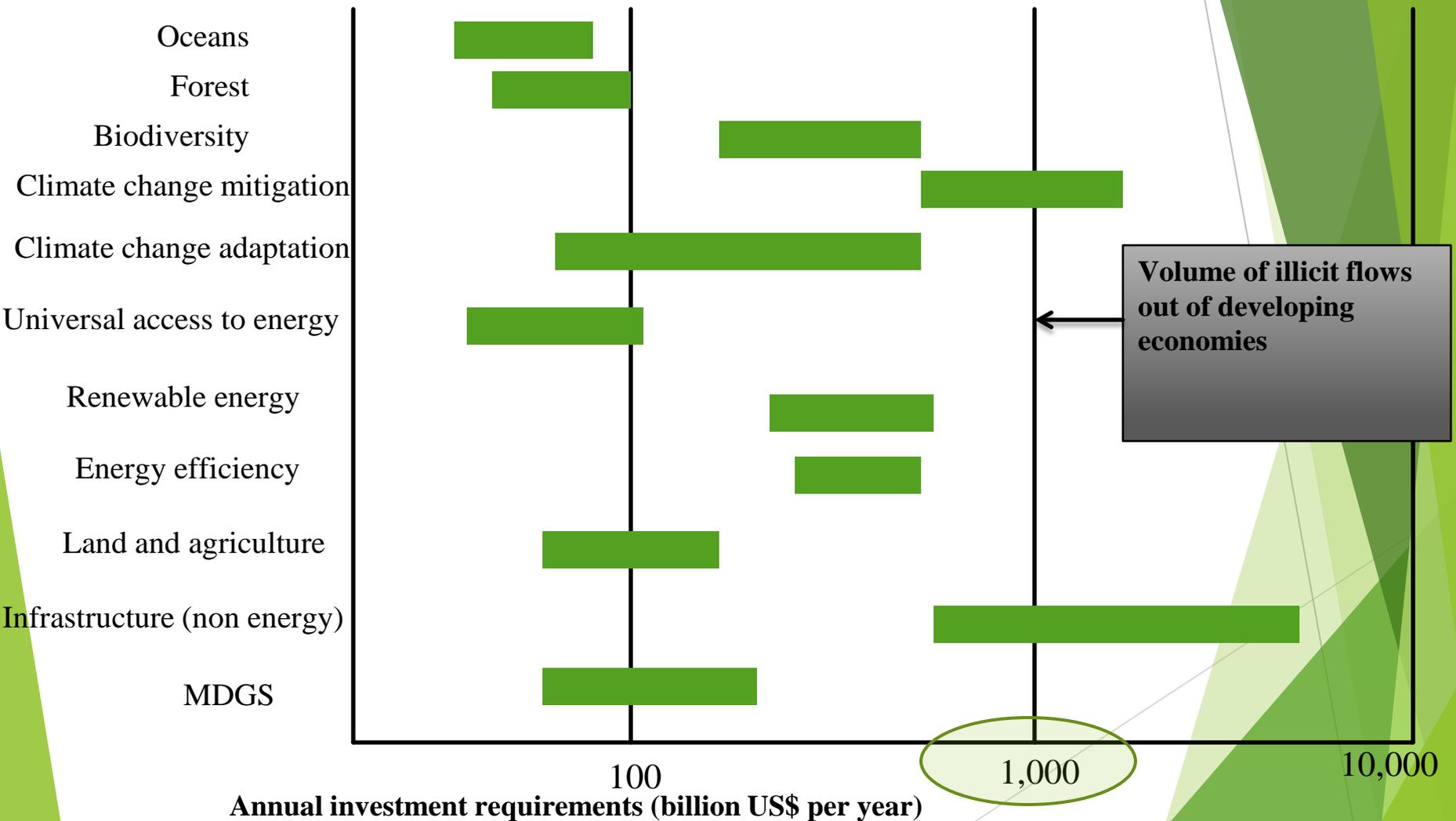
Illicit flows represent a huge transfer of financial resources out of developing economies

➤ Illicit outflows from developing countries averaged US\$ 590 billion dollars between 2002-2011 and reached close to a trillion US\$ dollars in 2011 or roughly 1.5% of global GDP and 5% of global savings.



Source: Global Financial Integrity, OECD, World Development Indicators (World Bank), World Economic Outlook (International Monetary Fund)

Illicit flows could be a 'hidden resource' to fund development goals



Source: Based on UN (2014)

The impact of Illicit Financial Flows is particularly felt in Africa

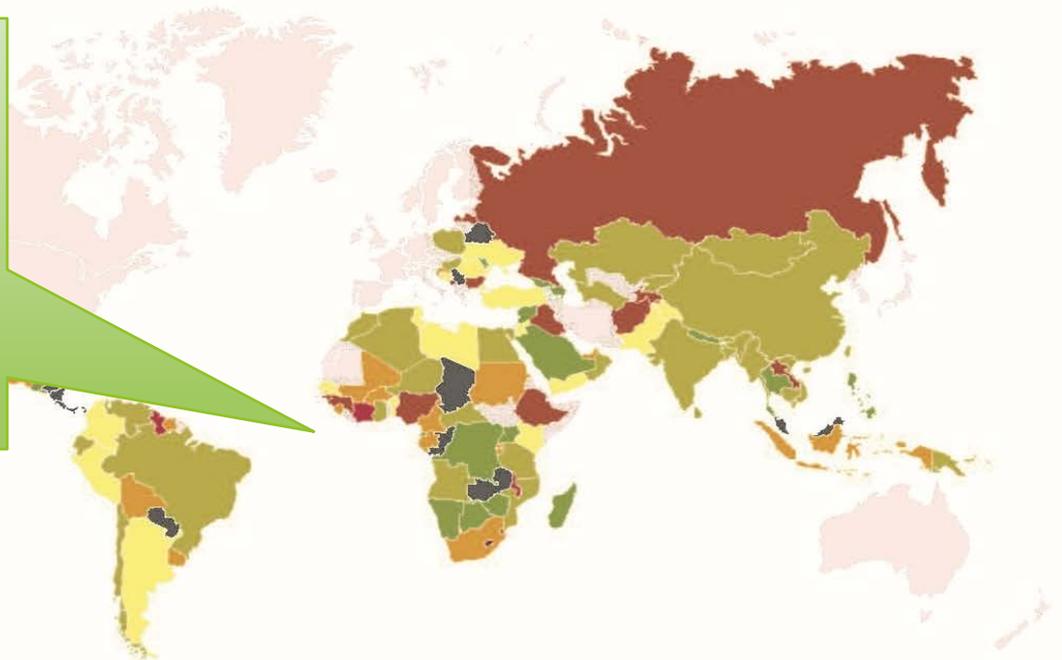
- Average IFF to GDP ratio is the highest in Africa

Heat map of illicit financial flows by country as a percentage of GDP

High levels of poverty - number of people living on less than \$1.25 a day increased from 290 million in 1990 to 414 million in 2010.

Africa's huge resource needs against uncertain ODA trends

Average GDP growth 5%

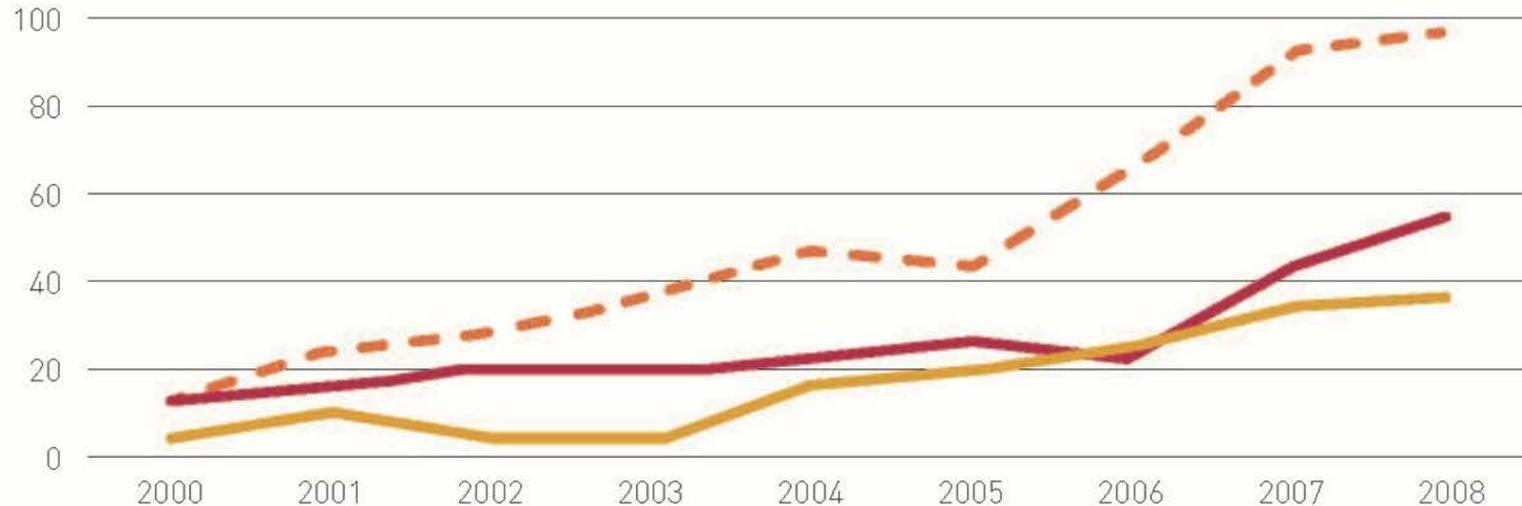


■ >16 ■ 14-16 ■ 12-14 16 ■ 10-12 10 ■ 7-10 ■ 5-7 ■ 3-5 ■ 1-3 ■ <1 ■ No data

Estimates of IFFs from Africa tell only part of the story

- Africa is (conservatively) estimated to be losing more than \$50 billion annually to IFFs (\approx annual infrastructure funding gap)
- Measurement and data issues
- Weight of commercial activities in IFFs

Evolution of IFFs from Africa, 2000–2008 (US\$ Billion)



Global Initiatives to tackle IFF

- The Global Forum on Transparency and Exchange of Information for Tax Purposes (OECD);
- Multilateral Convention on Mutual Administrative Assistance in Tax Matters (OECD);
- Extractive Industries Transparency Initiative;
- Article 1504 of the Dodd-Frank Act (United States of America);
- Foreign Account Tax Compliance Act (United States of America);
- G20–OECD work on base erosion and profit shifting;
- Automatic Exchange of Information (OECD, G8, G20);
- Public register (United Kingdom);



National and Regional Efforts

- **AU: The adoption of the HLP Report on IFFs as a declaration during the 24th AU Summit**
- **AU Convention on Preventing and Combating Corruption**
- **APRM (African Peer Review Mechanism)**
- **Efforts to recover frozen assets**
- **GIABA: Inter-Governmental Action Group against Money Laundering in West Africa (GIABA)**



Recommendations of Report (I)

A. The commercial component of IFFs

1) Trade Mispricing and transfer pricing

- Clear and concise laws against mispricing
- Strengthen capacity to detect transfer pricing

2) Base Erosion and Profit Shifting

- Establish arrangements for exchange of tax information

3) Institutional support for these measures

- Establish or strengthen the independent institutions and agencies responsible for preventing IFFs



Recommendations of Report (II)

B. The criminal component of IFFs

1) Training and empowerment of investigators

2) Information sharing between national financial intelligence units

3) Extending the work of the United Nations Office on Drugs and Crime (UNODC) to the rest of the continent



Recommendations of Report (III)

c. The corrupt component of IFFs

- 1) Integrate IFFs as a specific component in the African Union Convention on Preventing and Combating Corruption**
- 2) Adopt best practices in open contracting**
- 3) Regularly publish lists of Politically Exposed Persons (PEPs) as well as any relevant asset declarations within the context of national rules and regulations**



What the Economic Commission for Africa is doing to support Member States on IFF?

- 1) **Capacity building as part of reporting on the 2030 Agenda**
 - **Statistics**
 - **Preparing a practical document available to all African countries on operational measures to adopt policies against IFFs**
- 2) **Research and advocacy**
 - **Preparing a study of potential methodologies and reforms on taxation of multinational corporations**
- 3) **Working with African institutions such as the African Union and its African Peer Review Mechanism (APRM), so that APRM can also include IFFs in its country assessments**



Learning from experiences on other regions: the case of Bolivia

- In 2004, the government of Bolivia received an estimated \$287 in revenues from its hydrocarbon industry
- Reforms to the industry and renegotiations of contracts began in 2004.
- By 2008, Bolivia was receiving \$1.6 billion from its hydrocarbon industry as a result of these reforms.
- Very useful experience for many African countries who also depend on natural resources

Source: <http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SU005/kaup.pdf>



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Conclusion

- 1) To implement AAAA to reduce IFF
 - Political will and commitment
 - Development lens to address IFF
 - Related capacity building for Africa and other developing countries
 - Upscaling and more inclusive regional and international cooperation

- 2) Other Regional Commissions have been conducting research on IFF in their regions
 - e.g. ECLAC and ESCWA
 - Need for political upscaling and strengthened interregional cooperation

- 3) The need for universal and inclusive platforms in an increasingly interdependent and complex financial world



Thank You



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