

## Chapter 4

# Continental-Level Coordination and Collective Action Against IFFs

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# The Rationale for Coordination

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- The AU HLP Report (2015) highlights the need for “concerted response [that] depends on the necessary decisions being taken at political level.”
- The Panel’s rationale for coordination is: “lack of **appropriate capacity** in any **given agency** to fight IFFs.” IFFs **are multidimensional** in nature, and hence fighting it requires **multiple agencies** leveraging their **mandates** and **instruments** in a coherent manner.
- As a proponent of coordinated action against IFFs, the AU HLP has been central to African efforts of creating an effective coordination platform in the fight against IFFs.
- Over the past 10 years, the AU HLP has been instrumental in forming, advancing, maintaining and financing various coordination structures

# Coordination Structures AU HLP Supported

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- **Consortium to Stem IFFs** – An African-wide collaborative platform established in 2016 for consolidating efforts of research, sensitization and advocacy for policy action against IFFs.
- Chaired by HE Thabo Mbeki and DCP of AUC, its primary objective was to share information, align efforts, combine resources and streamline messaging.

*“Strong collaboration and consistent engagement between various African institutions, particularly those who had been specifically identified within the Special Declaration, is extremely crucial.”*

Kwesi Quartey, former DCP of AUC.

- The Consortium has working groups - Anti-IFFs, CAPAR, Extractives, Trust Fund and Monitoring & Evaluation
- Between 2016 and 2022, the Consortium was the central platform for Africa’s collaborative action against IFFs.
- Since 2022, its works have slowed down due to unnecessary confusion, institutional politicking around mandates, disturbing role of donor funding, exit of key personalities from leadership of consortium member and other capacity issues.

# Coordination Structures...Cont'd

- **Anti-IFF Working Group** – A subset of the Consortium comprised of institutions with direct programmatic engagements on IFFs. Serves as a technical arm tackling the discourse around IFFs through research, production of knowledge and harmonization of African efforts with AU HLP recommendations.
- Co-Chaired by CoDA and Economic Department of AUC, it had ECA, ATAF, ALSF, TJNA, PALU and Trust Africa as members.
- **Key Undertakings** - sensitization of professional ecosystems (lawyers and auditors), pushing for continental standards and calibrating continental action through sharing of information on what is going on in platforms such as UN, OECD, G7, G20 and others.
- **Working Group on CAPAR** – A working group set to advance the implementation of CAPAR, which is a response to the AU HLP's finding: "Action should be taken to overcome the obstacles to the proper functioning of asset recovery initiatives in Africa, including providing legal and financial expertise and aligning domestic policy and institutional frameworks with global instruments."
- Co-Chaired by AU HLP and AUC, it has national asset recovery agencies (Nigeria and Senegal) and Pan-African institutions as members.
- **Key undertakings** - Championing CAPAR, drafting of two key frameworks (management of recovered assets and establishment of escrow accounts), and organization of thematic workshops.

# Coordination...Cont'd

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- **Working Group on Extractives** – With 22 African countries classified as resource-rich, with minerals and natural gas contributing to more than 25% of their export revenue, the working groups focuses on the nexus between IFFs and natural resources.
- AU HLP underlines that there is direct relationship between size of extractive sector in national economy and incidence of IFFs. Underreporting in quantity and quality of natural resources drives tax evasion.
- The WG has CoDA, World Bank, ALSF, AUDA-NEPAD, AfBC and AU-DEA as members.
- **Key undertakings** - Organization of CAMRED, research on extractive sector taxation, and information sharing on contract structuring, local value addition, natural resource governance frameworks and extractive sector transparency.

# IFFs Week

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- A flagship annual event of the AU HLP focused on streamlining continental action against IFFs.
- Convened under the Consortium, the IFF Week is a platform to sustain the momentum, guide the narrative and highlight emerging issues.
- Held in Johannesburg, the Week has been instrumental in grounding the AU HLP's role in stirring continental level coordination.
- The Week sees technical discussions, thematic working sessions, networking events and bilateral meetings with the Chair of the AU HLP.
- The IFF week has been instrumental in collective ideation on programmatic interventions, discussion on alternative solutions and crafting strategies of global engagement.



# Other African Initiatives

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- The AU HLP Report has led to the initiation of various efforts by different agencies aimed at researching, creating awareness, training, advocacy and capacity building around IFFs.
- Most of the initiatives are focused on a specific aspect of IFFs or a specific sector.
- Two initiatives worth mentioning
  - ▶ **Stop the Bleeding Campaign** – A time-bound campaign initiated by six African organizations. From 2015 - 2018, the campaign mobilized youth movements, trade union and local CSOs against IFFs in Africa. Reported 1 million support signatures and two regional flagship events.
  - ▶ **Pan-African Conference on IFFs and Taxation (also called PAC)** – An annual conference organized by TJNA and other stakeholders. Focused on raising awareness on issues related to IFFs and taxation. Till 2024, 12 PACs have been organized. Yet, the dichotomy of IFF and Taxation stands in contrast to AU HLP's view.



# Reality Check?!

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Has Africa managed to have a functional coordination platform against IFFs?

The answer is **NO**

- Despite a decade of effort by the AU HLP, Africa is still divided in its actions against IFFs. No responsive, inclusive, well-resourced and politically supported continental coordination mechanism.

Factors behind lack of an effective coordination platform are:

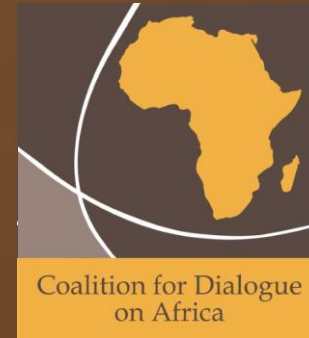
- **Lack of commitment** – Coordination platforms such as the Consortium to Stem IFF see lack of institutional commitment to the collective agenda. Often, commitment is tied to individual leaders in institutions. Some institutions also involve in contradictory parallel processes.
- **Lack of shared vision** – Not all stakeholders agree with the emphasis on creating a mechanism for lasting, sustainable and institutional response to IFFs. There is also a race to please non-African interests. Some institutions even import standards of non-African agencies. Hence, no elaborated African vision on how to tackle IFFs.

# Reality Check...Cont'd

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- **Insufficient capacity** – Most institutions point out to insufficient human and financial resources as factors hindering their effective participation in coordination platforms.
  - ▶ Isn't collaboration one way to address the capacity conundrum?
  - ▶ Can Africa continue to look for handouts to attend to its capacity gap?
- **Interventionist donor policies** – Most continental initiatives meant to contain IFF are financed by support from destination countries. Support comes with conditions. Certain views that contrast with the African stance are imposed on grantees, e.g. Reducing IFFs to AML/TF or corruption

As a result of these and other factors, consistent and coherent African action against IFF remains an unmet target.



## Chapter 5

# National Level Challenges of Implementing the Recommendations of the AU HLP

# Background

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- The AU HLP identified that Africa losses \$50bn (recent estimates put the figure at \$90bn) to IFFs through commercial, criminal and corrupt activities.
  - ▶ Commercial activities - Transfer pricing, trade mispricing, mis-invoicing of services and intangibles, unequal contracts, aggressive tax avoidance, illegal export of FX and so on
  - ▶ Criminal activities - Money laundering, human and drug trafficking
  - ▶ Corruption - Abuse of public office.
- Africa's development financing needs range from \$900bn to \$1.3tn (Mo Ibrahim Foundation).
- African infrastructure financing needs stands at \$181bn to \$221bn (AfDB).
- Although global and continental collaboration is needed, the critical responsibility to contain IFFs stands at national level.
- Hence, AU HLP – IFF Secretariat continued to facilitate **state-led, nationally-owned** national level assessment and response.

# National Level Assessment Cycle

National Level Assessment is a five-step process pivoted on an assessment matrix created out of the recommendations of the AU HLP.

- **Pre-Assessment** – High-level political engagement, planning missions and initial stakeholder discussion.
- **Assessment** – Liaising with national level agencies, establishment of an inter-agency committee, identification of national consultant and assessment
- **Validation** – Feedback by national level actors
- **Responding** – Development of national level action plan.
- **Implementation, Monitoring and Evaluation**

\*NLA undertaken in 16 African countries, with 2 full cycle implementation, 8 at national level action plan and 6 at assessment level.



# National Level Implementation of AU HLP Recommendations

## Set 1 – Institutions

- Recommendations relate to establishment of statutory institutions and agencies, and transfer pricing units.
- These are AU HLP's advise for a sustainable and institutional responses to contain IFF. They qualify purpose and status, but not specificities.
- The recommendations recognize that political, economic, social and cultural context of countries vary.
- This is the set of recommendations that most African countries have progressed well on.
- The dominant response to AU HLP's Report is the establishment of FIUs by countries. Other institutions that most countries have include AML/TF committees, Beneficial Ownership Registration Units, Transfer Price Units, Anti-Corruption Agencies. Others include specialized law enforcement units for money laundering, financial crimes and fiscal fraud.

The major gaps in setting up institutions are:

- ▶ Overlapping mandates    ▶ Insufficient resources allocation    ▶ Lack of national level coordination
- ▶ Weak enforcement of laws    ▶ Capacity issues vis-à-vis the growing complexity of commercial IFFs
- ▶ Reducing IFF to AML/TF – A new frontier of pressure on Africa (influenced by popular AML/TF standards such as FATF)??????

**Success Stories** – Nigeria has put in place an effective national level coordination platform that guides effective anti-IFF and asset recovery efforts. High-level political buy-in, commitment from responsible institutions, ownership of the national cause, technical backstopping and long-term view.

**Worth Mentioning** – Ghana's Organized and Economic Crimes Office, Malawi's Fiscal and Fraud Department in the Malawian Police Service (MPS), DRC's Anti-Corruption Agency (put under the Presidency), are worth mentioning for pivoting national law enforcement.



# National Level...Cont'd

## Set 2 – Improving Processes and Procedures

This is a set of 6 recommendations dealing with creating databases on trade, tax information, goods import and export and sanctions on corporations. Also include non-bank regulation and centralized gov't procurement.

- Customs units in most of the countries have a database of comparables based on HSC Classifications, with ASYCUDA being the widely used system.
- But data quality is a huge challenge. Incomplete and poor quality data input is a major gap in the national level trade data.
- Undeveloped capacity in customs officers is a major driver of incomplete data.
- Data on corporate sanctions by FIU is not accessible to all agencies. For example, regulators of extractive sector lack access to such data and hence negotiation of contracts with MNCs often happen without it.
- In almost all countries, FIU financial sanctions data is not integrated with corporate registration data. National level AML/TF information exchange platform is not inclusive – doesn't include stakeholders dealing with contracts, advisory services, fund management and financial intermediation.
- Centralized public procurement – a very good system but internal controls are very weak in many countries. Hence, the risk for IFFs is very high due to large size of contracts.
- Non-bank regulation very weak in most African countries. Lack of regulatory sandbox, high degree of informality, variance in compliance requirements and less attention by central banks.
- In West Africa – unregulated foreign exchange bureaus pose a huge challenge. Standards for licensing, periodic reporting, physical inspection, enforcement of KYC, digitization, documentation and so on are very weak.

Excessive dependence on cash also facilitates huge loss to IFFs.

- Backdoor channels between banking and informal sector, unchecked role of significant shareholders, role of PEPs in boardrooms and shareholding structures, exposure to foreign liabilities, correspondent banking, instant money transfer systems and enforcement of sanctions are all weak edges of the system.

**Overall, the need to create stringent and responsive processes and procedures at national level remain one of the primary calls of the time.**



# National Level...Cont'd

## Set 3 – Developing Rules and Regulations

A set of 5 recommendations dealing with rules and regulation on elimination of secrecy jurisdictions, corporate registration, misstating of trade in goods and services, MNCs reporting and beneficial ownership (BO).

- Growing financialization of African economies brings risk for IFF as it leads to regulatory relaxation on account opening and operations, company ownership, disclosure of information, reporting of suspicious transactions, tax related information and so on.
- Increasing competition to attract FDI is one factor leading to lax in financial sector regulation.
- Mixed results - Our experience shows increasing tightening of capital control and KYC requirements in formal financial sector. Countries such as Nigeria, Malawi, Tanzania, Algeria and Tunisia responded to FATF gray listing.
- Serious regulatory gaps observed in DRC, Zimbabwe, Senegal and Mali – high rate of informality plus cash-economy worsening the stance.

TJN's Financial Secrecy Index, all 18 African countries have a score of 50 or above (in a scale of 0 to 100). Between 2020 and 2022, four countries (Rwanda, South Africa, Seychelles and Ghana) have seen regression on financial secrecy regulation – BO, transparency requirement of legal entities, integrity of tax and financial regulation, and international cooperation.

- All countries that we are engaged have done some form of tax reform – large tax payers offices, one-stop shop, enhancing company registration, BO databases and financial reporting standards.
- Yet, no country obliges country-by-country and subsidiary-by-subsidiary reporting.
- National EITI chapters are subservient – limited to reporting MNC self-declarations.
- In cases where the laws and regulations are there, such as BO and external trade declarations, enforcement is very weak. There is a need to enhance national law enforcement efforts.

# National Level...Cont'd

## Set 4 – Advocacy and Partnerships

This set of recommendations focuses on advocacy for favorable environment for CSOs, voluntary initiatives likes EITI, budgetary transparency, open access to PEP databases and membership to ATAF.

- CSOs advocating for legal reforms, public sector transparency and accountability of political systems are facing widespread restriction. Alternatives channels of advocacy, such as the digital space, are being increasingly policed.
- Yet, local CSOs remain resilient and adaptive. Increasing dependency of CSO on foreign financing is a huge challenge. CSOs are classified as high risk sectors of money laundering in countries such as Senegal, Mali, Niger, Ethiopia and Sudan. **Deliberate act to silence CSOs or real risk????**
- 24 African countries are members of EITI network. But national chapters are hugely influenced by gov't. So their independence is under question. They do no crosschecking of MNC reports.
- ▶ Budget transparency has improved in many countries. CABRI's Budget in Africa (BiA) database has documents of 42 African countries. Gaps remain in access to budget statements, budget speeches, macro and fiscal frameworks and medium-term expenditure frameworks.
- ▶ International Budget Partnership (IBP) shows average transparency score has increased from 29 in early 2000s to 39 in 2021. But sub-national budget transparency still missing in most countries.
- No African country has made PEPs databases public yet. No organized PEPs database exists in most countries. Hence, asset registration and declarations laws are not enforced.

**Bottomline: Creating strong networks of local advocacy is crucial to push for better systems to contain IFFs.**

# National Level...Cont'd

## Set 5 – Coordination, Training and Global Collaborations

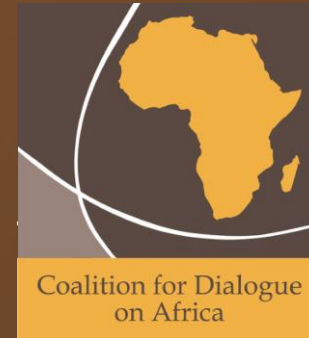
The last set of recommendations focus on information sharing and coordination, training of investigators, unified response to OECD approaches and liaising with Bank of International Settlement.

- A major gap in African countries is there is no clearly defined and mandated coordination platform for Anti-IFF efforts. Various platforms of different shape and forms exist – AML/TF Committee, Joint Security Agencies Committee, Judiciary Pools and National Law Enforcement Committee or ad-hoc structures.
- Focal agency of anti-IFF efforts vary – Ministry of Finance, Central Banks, FIUs, Anti-Corruption Agencies, and Special Unit within Presidency.

When MoF is the lead, wide-reaching cooperation occurs. When Central Bank is the lead, technical discussion prevail over policy action. When Anti-Corruption agency is the lead, the focus will on criminal and corrupt IFFs than on the large chunk of commercial IFFs.

- Our experience shows that anti-IFF efforts lead by an inter-agency committee with MoF as lead agency bring optimal coordination.
- Training of law enforcement officers in many countries is very weak. In most countries no functional training plan exists. Collaboration with higher education institutions is also lacking.
- On unified response to OECD, out of the 23 African countries that are members of the OECD inclusive framework, only 2 refused to sign the new rules introduced in 2021. We have seen incongruence between national stance and one promoted by representing experts in these global platforms.
- Partnership with BIS is weak. Only South Africa is a member of the Locational Banking Statistic initiative of BIS.

Overall, improvements in coordination and global collaboration seem to be a function of policy clarity and political commitment.



## Chapter 6

# Conclusion and Recommendations

# Conclusion

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- Ten Years after the AU HLP Report, Africa is still divided in its efforts to combat IFFs.
- Continental-level coordination remains a significant gap.
- National level implementation of the recommendations of the AU HLP shows mixed results. There is strong progress in setting institutions, but the processes and procedures are lacking. Enforcement of existing laws is very weak.
- Africa is also not doing well in global partnerships against IFFs, setting endogenous standards, information sharing and training of public officers.
- Trilateral partnership between public sector, private sector and CSOs is non-existent.
- Policy clarity, political commitment and leadership are key elements required to keep the momentum against IFFs.



# Recommendations

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- **Renewed focus on domestic resources creation** – A focus on taxation fails to embrace the potential of monetary sovereignty in creating domestic credit through publicly-owned banking networks.
- **Settling the Measurement Debate** – Africa needs to move beyond piloting measurement methods. No methodology is perfect, hence a use of a mix of methodologies based on data availability and national level capacity should be the strategy. We suggest the joint use of PCM and PFM methods.
- **Realize Inclusive, Legitimate and Responsive Coordination Platform** – It is time for African stakeholders to work towards the vision encapsulated under the AU Declaration on IFFs.
- **Streamline national level actions** – Effective anti-IFF effort requires a focus on national-level actions. Phase II of the engagement of the AU HLP is something to consolidate efforts around.
- **Align Financing with Priorities** – Instead of focusing on piecemeal activities, African stakeholders should be focused on systemic elements.

# THANK YOU!