African Union

Domestic Resource Mobilization: Fighting Against Corruption and Illicit Financial Flows

Advocacy Brief

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Finding Solutions to Illicit Financial Flows in Africa and Ways to Mobilize Domestic Resources

The African Union Agenda 2063, "The Africa we want" embodies the vision and plan for Africa to realise its potential blueprint and master plan for transforming Africa into a global powerhouse for future generations. While ideals such as unity, self-determination, freedom, progress and collective prosperity underpin the vision, planning is supported by a strategic framework to realise the goal of inclusive and sustainable development.

The African Union's decision to dedicate 2018 to the theme, 'Winning the Fight against Corruption: A Sustainable Path for Africa's Transformation", indicate the African Union's commitment to rooting out corruption, therefore paving the way for socio-economic development.

It follows therefore that corruption and Illicit Financial Flows (IFFs), are a threat to development in Africa. While the authors of *Domestic Resource Mobilization: Fighting Against Corruption and Illicit Financial Flows* demonstrate excellent understanding of the nature of corruption and the effects of IFFs, and the many remedies that exist globally including in Africa and in Asia, advocacy for this cause requires us to highlight common elements and point to some efficacious recommendations.

IFFs: The What, the How and the Where in Africa

IFFs are widespread and secretive by nature. No one quite knows how to quantify losses in Africa due to IFFs. Estimates of these amounts hover between USD 50 and 80 billion annually and seem to be on an upward trajectory. Shockingly, this amount is higher than the annual Official Development Assistance (ODA) that the continent receives. But how does this take place and who perpetuates these processes, which continue to stymie growth and development and is effectively impoverishing Africa?

The High Level Panel on Illicit Financial Flows from Africa, commissioned in 2011 by the Joint Annual Meetings of the African

Union Specialized Technical Committee (STC) on Finance, Monetary Affairs, Economic Planning and Integration and the United Nations Economic Commission for Africa (UNECA) of African Ministers of Finance, Planning and Economic Development (COM), resulted in the Mbeki Panel Report in 2015.

IFFs can be traced back to commercial activities, such as tax evasion, trade mis-invoicing, and abusive transfer pricing. Next on the list are criminal activities, including the drug trade, human trafficking, illegal arms dealing, and smuggling of contraband. And last but not least in this litany of crimes, is bribery and theft.

The Mbeki Panel Report took the considered view that legal acts in one location with "the intent (...) to hide money [through facilities in another location] even if legitimately earned" constitute IFFs. The definition of IFFs is therefore broadened beyond activities and transactions, which are deemed violations of the law. IFFs affect not only Africa; all developing regions are vulnerable.

This should be seen against the backdrop of exacerbating factors such as poor governance, 'grand corruption' and the ubiquitous use of information and communication technology which is transborder and vulnerable. Put into this mix the so-called drivers of IFFs such as macroeconomic indicators (government deficits, inflation and inflationary expectations); structural variables (increasing trade openness, faster rates of economic growth and their impact on income distribution) and governance-related issues, and we seem to have all the symptoms of a perfect IFFs storm.

Do all African countries suffer from this malaise? From the evidence in the recent past, East and Central Africa have the lowest levels of IFFs, while the southern and West African region have the highest amounts of IFFs. Oil-exporting countries have a prominent share of IFFs, while higher levels of IFFs are linked to the size of economic activity in countries and regions. There is even a 'top ten' of countries in Africa, all of which are implicated in approximately 75% of total IFFs. Dominant on this list are several resource-rich countries.

IFFs: Their Effects

There is a view that access and deployment of a portion of the funds lost through IFFs could have helped African countries to achieve the Millennium Development Goals (MDGs) by 2015.

IFFs reduce and even eliminate expected growth benefits and undermine the development potential in Africa. As an outcome of corruption, particularly so-called 'petty corruption', the negative effects of IFFs are widespread.

Pernicious effects of IFFs and their underlying activities, which have been observed, are the creation of unfair barriers to doing business and precluding competition.

From a socio-economic perspective, IFFs wreak widespread damage at many levels. The erosion of the tax base of affected countries, deprive governments of financial resources needed for public goods, such as education, health and infrastructure. Governance structures and public institutions are weakened, with subsequent diminished public trust in the government and low tax morale.

These obstacles to economic activities and the creation of stable employment may lead the most vulnerable to resort to criminal activities, creating a vicious cycle of corruption and illicit financial flows, inequalities and unemployment.

Where Do the Remedies Lie?

The African Union Commission publication, *Domestic Resource Mobilization: Fighting Against Corruption and Illicit Financial Flows* sets out in great detail both the problem of corruption and IFFs and the remedies and actions needed to eliminate these problems. It includes case studies of various countries where Government, State Institutions, the judiciary, the private sector and civil society have rallied to the call to eliminate corruption and IFFs.

Domestic Resource Mobilization – the process through which countries raise and spend their own funds to provide for their people – is cited as key to establishing a long-term path to sustainable development finance. The acknowledged lodestar for development in Africa is the Agenda 2063.

A dizzying number of options and recommendations for domestic resource mobilization exist. Most have in common three key elements: taxation; savings mobilization and financial inclusion; and curbing IFFs. Domestic resource mobilization can be enhanced through: improvement of the efficiency of existing tax systems by taking profit of opportunities abounding from digitalization and transparency initiatives, the optimization of tax incentives, the rationalization of tax exemptions, the expansion of the tax base, the implementation of specialized taxes, the establishment of solid domestic institutions and policy frameworks. There are many other sources and strategies to mobilize domestic resource.

The approach in this piece is to list selective measures that have been adopted by a number of African countries, rather than straying into a general discussion or comparative commentary. In all cases, the actions listed below are backed up by legislation, which is outlined in some detail in the publication. The summary below is not inclusive and the reader is invited to peruse the relevant chapters in the publication for more details.

At the onset, it should be stated that many jurisdictions in Africa have enacted anti-money laundering laws, consistent with the standards of the Financial Action Task Force, an inter-governmental organization in existence for 30 years.

Led by its President, **Kenya** has adopted policies and institutions to fight corruption and IFFs: the Kenya Anti-Corruption Commission and the Key Anti-Corruption Police Unit with the support of Kenya Anti-Corruption Advisory Board. The latter has membership from professional and business associations, as well as labour and religious organizations. There is also the Permanent National Anti-Corruption Campaign Steering Committee to coordinate a nationwide anti-corruption campaign.

Uganda's Inspector-General of Government is the principal institution tasked with a mandate to eradicate corruption. Initiatives by civil society include the Anti-Corruption Coalition of Uganda and the Centre for Corporate Governance. The Financial Intelligence Authority is mandated to combat money laundering.

A comprehensive anti-corruption strategy and instruments signal **Mozambique's** intention to curb levels of corruption. Within the Public Prosecution Service Office, the Central Office for Combating Corruption has been established as an anti-corruption unit.

Algeria was among the first Arab and African countries to ratify the United Nation's Convention against Corruption, as well as other international and regional instruments. Algeria is committed to reforming the judiciary in pursuit of better performance; the country has signed no less than 57 bilateral agreements and is backing up its intentions with legislation to promote good governance. Capacity building features as part of these plans.

Measures to combat corruption, money laundering and the financing of terrorism have been put in place by **Mauritius.** This includes a legal and an institutional framework, the latter which comprises the Independent Commission against Corruption. In addition, Mauritius has put in place mechanisms for greater transparency in financial systems. To facilitate international co-operation, Mauritius has adopted applicable and appropriate norms, standards and best practices by international bodies.

Cameroon is party to legal instruments adopted within the framework of the Economic Community of Central African States to fight corruption. To this it has added jurisdictional measures, institutional mechanisms and parliamentary mechanisms.

The case submitted by **Burkina Faso** has a refreshingly progressive approach through its emphasis on the institutional framework and new procedures to rationalize domestic resources. Its coherent and dynamic anti-corruption framework is supported by stream-lined administrative procedures regarding taxation and customs. Anti-corruption committees have been set up in the directorates of the Ministry of Economics, Finance and Development, for specific functions, including training and awareness. CENTIF, the National Financial Intelligence Processing Unit, plays an important watchdog role regarding money laundering and terrorist financing circuits.

Morocco is active at institutional and regulatory levels to combat corruption and established the Central Authority for the Prevention of Corruption. Its judiciary is independent. In 2015 the National Anti-Corruption Strategy (2015—2025) was adopted. Public and political governance have been reviewed and improved, and the Kingdom of Morocco has implemented several international conventions.

Benin has a legal and institutional framework covering anti-corruption issues. The former includes national, regional and international instruments, while institutional bodies are defined as either political or technical and specialized. The Front of National Anti-Corruption Organizations is a network of 25 organizations set up since 1998 to fight against corruption at state level and civil society; in addition, Benin has a National System of Integrity.

The list of capacities required to address IFFs are as follows: required soft and society-level capacity; required institutional capacity; and required human capacity. These are essential to bolster the establishment of appropriate rules and regulations. Legal reform covering taxation, banking and capital markets, and tax harmonization are equally essential.

Taxation plays a critical role in domestic resource mobilization. Three rules of thumb for African countries are to invest in programs to achieve the goals set out in the Agenda 2063 and the Sustainable Development Goals; set domestic revenue mobilization as a key component of a fiscal consolidation strategy; and develop adequate capacity to collect taxes to strengthen institutions and develop state capacity.

Interestingly, success stories of sustained revenue mobilization in some African countries (albeit a small sample) provide some clues on what is required for this positive development. An emphasis on the basic building blocks of the tax system is one key element, with a focus on tax policy effectiveness and expanding the tax base, and significant efforts to develop and modernize institutions constitute the ingredients of this effective approach.

Way Forward

While evidence of both domestic resource mobilization and the fight against corruption and IFFs abounds, perhaps the most important driver for positive change in this morally fraught and emotionally charged context, are sustained political will and visionary leadership which is committed and accountable throughout a period of reform. This is critical in achieving a changed mind-set and embedding so-called 'soft capacities' that have been identified as essential for lasting change.

As Africans, we must make sense of what is happening on our continent. We must assimilate information; and we must rally to the cause of ridding Africa of these scourges, empowered by understanding, energy and optimism. Harnessing domestic resources and optimizing available spending would help reduce the dependence on external resources, narrow the huge African development resource gap, foster economic growth, create jobs, and reduce poverty and inequality substantially.

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