



Illicit Financial Flows

Good Financial Governance in Africa

Promoting transparent and responsible use of public finances in Africa

The concealed crimes crippling Africa

The term “Illicit Financial Flows” (IFFs) was first coined in the 1990s and was initially associated with capital flight, a phenomenon typically associated with outflows of money from a country. It now generally refers to cross-border movement of capital associated with illegal activities, or more explicitly, money that is illegally earned, transferred or used. Although the expression “Illicit Financial Flows” is increasingly used, no agreement could thus far be reached on its precise definition. There is an ongoing global discussion on whether and what commercial activities – which lead to tax avoidance – should be regarded as part of IFFs, considering that many business practices to lower tax liabilities are legal (at least) according to the letter of the law.

However, there is consensus that IFFs cover three areas that overlap in practice:

- Acts that are illegal in themselves (such as corruption and tax evasion)
- Funds that are gained from illegal acts (for example, smuggling and trafficking in minerals, wildlife, drugs and people)
- Funds that are used for illegal purposes (such as financing organised crime)

The impact of IFFs

Although these criminal activities are damaging to countries worldwide, Africa is especially vulnerable because of the fact that most countries have a rapidly growing national debt and scarce financial resources. The leakage of wealth from poor countries through tax evasion, money laundering, trade mispricing and other misdeeds poses a huge challenge to political security, and economic and social development on the continent. This is particularly the case in fragile and conflict-affected states as well as in resource-rich countries – illegal activities are more concentrated in the extractive and mining industries than others. In addition, weak governance is regarded as an enabler and a consequence of IFFs.

The battle against IFFs: Role of Good Financial Governance

GIZ's Good Financial Governance (GFG) in Africa programme supports a pan-African dialogue on IFFs on behalf of the German Federal Ministry for Economic Cooperation and Development

(BMZ) and the European Union. With the increasing integration of international markets and economic globalisation, the GFG approach emphasises the importance of strengthening governance systems to fight IFFs, advocating the role of inter-agency cooperation, more robust legal frameworks and improved technical expertise in national administrations.

Every country's context and the underlying activities that result in IFFs will determine the measures to be implemented. In some cases, actions will involve preventing criminal activities, and in others, they may involve identifying and sanctioning serious and substantial illegal tax evasion. Where corruption is a key factor, a country's governance environment always has to be taken into account.

Partner organisations

The GFG in Africa programme supports four regional networks in their efforts to reduce IFFs:

- The African Tax Administration Forum (ATAF), in the area of tax policy and administration
- The African Organisation for Supreme Audit Institutions (AFROSAI), in the area of external financial control and auditing
- The Collaborative Africa Budget Reform Initiative (CABRI), in the area of budget planning and implementation
- The African Organisation for Public Accounts Committees (AFROPAC), in the area of legislative oversight



The GFG in Africa programme supports its partner networks in the fight against IFFs throughout the public financial management cycle. (Graph © GIZ)



Kenyan President Uhuru Kenyatta opened the AFROPAC conference about the role of African legislators in the fight against IFFs. (Photo © GIZ)

workshops related to IFFs organised by the partner networks. One of these workshops was AFROPAC's conference on IFFs in Kenya in August 2016. The conference raised awareness on the role of African legislators in the fight against IFFs.

- Organised a one-day IFFs workshop in Pretoria in July 2016. The objective was to discuss strategies, activities and potential implementation gaps with the partner networks and development partners. The outcome of the workshop underlined the necessity to better translate the political awareness on IFFs into effective in-country actions. This event was the first step in the process of organising a pan-African conference on IFFs and GFG in 2017.
- Integrated the topic of IFFs into ATAF's blended learning audit course and the Executive Master's in Taxation curriculum. The aim is to create a deeper understanding and broaden the awareness of the topic, and establish possible starting points among tax officials in both Francophone and Anglophone African countries to enable them to tackle it.
- Started supporting AFROSAI in planning a parallel audit on IFFs, in collaboration with a number of supreme audit institutions (SAIs) across Africa. It will serve the dual purpose of raising IFFs as an issue for SAIs, as well as documenting lessons learnt and guidelines, which will be disseminated by AFROSAI to its members.
- Together with ATAF, initiated a process of developing a diagnostic assessment tool for trade mispricing. The objective is to enable the relevant authorities in ATAF member countries to better detect and address the malpractice, which is seen as a major contributor to IFFs. Pilot country studies to test the instrument are scheduled for 2017.

The approach

Together with its partner networks, the GFG in Africa programme is launching pilot measures in selected member countries, as well as on a regional level. These activities are designed to generate empirical knowledge, and to support individual and institutional capacity development and peer learning. Ultimately, they should assist in strengthening governance systems that prevent IFFs. The aim is to share and connect the experiences of the different countries, so that they can feed into national, regional and international discussions by the partner networks and the German development cooperation actors.

The objectives are as follows:

- Foster a pan-African dialogue and inter-agency cooperation between partner networks and beyond in order to influence international discussions and agenda setting on IFFs.
- Develop evidence-based (diagnostic) tools with the partner networks to identify suitable and effective steps to reduce IFFs.
- Support partner networks in their capacity-building and technical assistance activities to strengthen technical expertise in national institutions dealing with IFFs.

First steps towards results

Over the last 12 months, the GFG in Africa programme has achieved the following:

- Provided technical and financial assistance at various



During a workshop in Senegal in April 2016, participants of the Francophone Executive Master's in Taxation programme discussed the role that African tax administrations could play to address IFFs. (Photo © GIZ)

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