

Remarks of the Chairperson of the High Level Panel on Illicit Financial Flows from Africa, Thabo Mbeki, at the meeting of the Caucus of the African Governors of the World Bank and the IMF: Luanda, Angola – 27 August, 2015

Chairperson of the African Caucus, Honourable Ministers, Distinguished delegates and participants, Ladies and Gentlemen:

I would like to thank you for inviting us to make some remarks on the subject of illicit outflows of capital from Africa. I would also like to thank the Government and people of Angola for the warm welcome and hospitality extended to us.

My remarks are made in the context of the Report of the High Level Panel on Illicit Financial Flows from Africa which you as the African Ministers of Finance and of Planning and Economic Development decided should be set up, and which I had the privilege to chair.

As you know, this Report was adopted by the AU Assembly of Heads of State and Government at its January meeting this year. Accordingly I would like to believe that you are familiar with its contents.

You will therefore have seen that it fully confirms the view you held that Africa is confronted by a serious challenge of the illicit outflow from the Continent of large volumes of capital which we need to address its development needs.

Necessarily this means that as Africans we have an absolute obligation to act on this matter to ensure that acting together with the rest of the world which serves as the destination of these illicit outflows, we stop this bleeding of valuable resources which legitimately belong within our Continent.

In the detail, the Report makes some of the categorical statements that:

- **illicit financial flows from Africa are large and increasing: in this regard our Panel said that Africa loses at least \$50 billion annually through trade mispricing only; other investigations show that Africa lost US\$ 1.8 trillion between 1970 to 2008 through illicit outflows;**
- **corruption and abuse of entrusted power is a cross cutting factor embedded in all manifestations of these illicit outflows and must therefore remain a matter of continuous attention: in this regard our Panel sought to draw attention to the two interventions of corrupt practice with regard to the illicit outflows, these being (i) the facilitation of the process of the outflows, and (ii) the illicit expatriation of corruptly acquired wealth;**
- **almost two-thirds of the illicit outflows are attributable to the large commercial corporations, about thirty percent (30%) to such criminal activities as drug, human and weapons trafficking, and about five (5%) being funds exported by those who have acquired these resources by corrupt means;**
- **ending these outflows is a political issue: the Panel made this statement to underline the fact that though the challenge practically to combat illicit outflows requires various technical capacities, the very determination to undertake this task and therefore the marshalling of the required resources first and foremost require the necessary political will especially on the part of our Governments;**

- **transparency across all aspects of the outflows is key to achieving success in the struggle against this phenomenon: by definition those who engage in these outflows will strive to ensure that the illicit nature of these transfers is hidden through whatever means necessary and possible. This is why it becomes absolutely necessary to strive for maximum transparency with regard to all the relevant financial transactions especially those of the commercial corporations;**
- **the dependence of African countries on natural resources extraction and export makes them especially vulnerable to these outflows: this is because of the difficulty of establishing accurately the value of the extracted resources and the returns from the international sale of these as well dealing with the matter of transfer pricing in which the mining companies might be involved;**
- **new and innovative means of generating the illicit outflows are emerging: these include the use of modern communication technologies (ICTs), trade in services and the management and pricing of proprietary knowledge;**
- **weak national and regional capacities impede efforts to curb the illicit outflows: the Panel made this statement because it is clear that to combat these outflows requires the necessary interventions by such African state institutions as the revenue authorities, customs, the Central Bank, the financial intelligence centre, anti-money laundering units, the auditing authorities, anti-corruption authorities, the police and so on. In addition, it is clear that the necessary legislation is required, among others to allocate the necessary mandates to these institutions, that these institutions should cooperate in the fight against the illicit outflows, and that our countries should cooperate at the regional level as some of these outflows move across the common borders;**
- **the tax incentives which many of us make available to attract foreign direct investment are not usually guided by cost-benefit analyses: the Panel made the observation that one of the dangers we face is that we might engage in a race to the bottom as we use these tax incentives to outbid one another as possible destinations for Foreign Direct Investment having failed to take into account that many investors will take their decisions to invest considering the need to respect the extant tax regime in our respective countries;**
- **it is imperative to build the necessary global architecture to tackle the outflows and the global offensive to end these outflows should be coordinated through processes and frameworks located within the United Nations: the Panel made this proposal because objectively it is clear the solution to the problem of the illicit outflows must involve action both by our own countries as we have already indicated as well as the rest of the world since these outflows out of Africa end up somewhere else in the world.**
- **Further to avoid a piecemeal approach to this matter which would inevitably result in an incomplete response, it is necessary that there should develop a common global understanding of the phenomenon of the illicit outflows and therefore the elaboration of a commonly agreed global response to this phenomenon. We strongly believe that this common global response should be overseen by whatever relevant institution of the United Nations. We believe that the recent Addis Ababa International Conference on Financing for Development has already taken some important decisions in this regard;**

- **the issue of financial secrecy jurisdictions and tax havens must be confronted to end the practice of hiding these outflows at these destinations: this important matter can only be addressed successfully through a concerted global intervention;**
- **our development partners have an important role in curbing these illicit capital flows from Africa: in this regard we also believe that we would achieve better results quicker if this matter is not left merely to such decisions as each of our development partners might take, but that both we and our partners should act respecting a globally agreed response to combat the illicit capital outflows; and,**
- **more effort is needed to address the issue of asset recovery and repatriation: practical experience has proved that it is difficult to achieve these objectives and therefore that processes to address this challenge should be elaborated and agreed globally. This includes the proposal contained in our Report that assets identified for repatriation should not, before such repatriation, continue to be held by financial institutions which received them, but should rather be held in an escrow account at such institutions as the African Development Bank.**

It is indeed correct that the African Caucus decided that this session should address the issue of the illicit financial outflows in the context of improved domestic resource mobilisation.

This is for the simple and obvious reason that these outflows mean that our Governments lose large tax revenues that are due to the state, and our economies lose significant capital which we need to respond to our development challenges.

Our Report on the Illicit Financial Flows out of Africa pays due attention to the negative impact all this has on our capacity to meet our development goals. The mere fact that our Continent loses more resources from these outflows than it receives through development assistance is sufficient to indicate the seriousness of this matter.

I am certain that our sessions at this Meeting dealing with the Regional Economic Outlook, Economic Transformation and Diversification and Financing Regional Transformative Infrastructure Projects will more than adequately remind us of the development tasks we face, including with regard to such an important matter as infrastructure.

For instance, according to the Africa Infrastructure Country Diagnostics of the African Development Bank as published in its 2015 report, to meet its needs, Sub-Saharan Africa should invest in infrastructure in excess of \$93 billion annually over the next ten years.

We believe that it is very encouraging that in the Declaration the AU Assembly issued when it adopted the Report and Recommendations of our Panel it expressed its concern at the “increasing scale and extent of illicit Financial Flows from Africa, particularly from our extractive industries and natural resources, which (Flows) constitute a drain on the resources required for Africa’s development.”

And indeed the Declaration issued by the Assembly contains an unequivocal commitment by Africa’s political leaders to end the drain on our development resources as represented by the illicit outflows, and therefore serves as a manifestation of the required political will which we have mentioned.

It is also important that the Pan African Parliament, acting as a valued echelon of the elected representatives of the peoples of Africa, has also taken a keen interest in the subject.

We are also very pleased that as you know, the July Addis Ababa International Conference on Financing for Development took very important decisions concerning the matter of the Illicit Financial Flows which are consistent with those contained in the Report you commissioned.

The action agenda adopted by the Conference committed to the world community of nations to the substantial reduction of IFFs by 2030 and eventually eliminating them by:

- **combating tax evasion and corruption;**
- **strengthening national regulation;**
- **increased international cooperation;**
- **reduce opportunities for tax avoidance;**
- **inserting anti-abuse clauses in all tax treaties;**
- **enhancing disclosure practices and transparency in both source and destination countries;**
- **ensuring that companies pay taxes to the governments of countries where economic activity occurs and value is created.**

The conference also agreed that countries:

- **must ratify and accede to the UN Convention against Corruption;**
- **should work to ensure the return of illicitly transferred assets;**
- **strive to eliminate safe havens; and,**
- **scale up international tax cooperation.**

Happily, the decisions taken by the Conference on Financing for Development mean that the action agenda adopted by the AU Assembly in January this year has now been endorsed by the entirety of the international community.

We have gathered here in Luanda as the Finance Ministers and Central Bank Governors in our respective countries and as the African Caucus of the Governors of the World Bank and the IMF. We would also like to believe that in a real sense you are meeting to follow up on the work you commissioned our Panel to do – to examine the issue of the illicit financial outflows from our Continent and make recommendations about what Africa should do about this matter.

We therefore believe that indeed you do need to sit together to discuss what you should do as Finance Ministers and Governors of the Bretton Woods institutions practically to respond to the Report and Recommendations which have now been adopted by the AU Assembly of Heads of State and Government.

We would therefore like to appeal that you yourselves should continue to demonstrate the political will to tackle the matter of the illicit outflows by helping to ensure that each of our countries does indeed adopt the required legislation and build and capacitate the necessary state institutions so that each of our countries has the ability to intervene in a sustained manner to curb and end the illicit outflows.

As we visited various African countries in the course of preparing our Report, the matter of radically improving the capacity of our state institutions arose quite insistently. Our Report contains some suggestions in this regard. We believe that as Finance Ministers you have a particular responsibility in this regard.

As we prepared our Report we were also privileged to interact with the leadership of both the World Bank and the IMF at their respective headquarters in Washington D.C. We were very pleased with the keenness they showed to do everything necessary to help combat the illicit financial outflows.

We humbly suggest that now that our Panel's Report has now been issued and in the light of the supportive decisions of the Conference on Financing for Development, you should, as Governors of the World Bank and the IMF reengage these important institutions to influence them to attend to the issue of the illicit outflows in a systematic and sustained manner.

We have already drawn your attention to the important decisions on the matter of the illicit financial outflows which were taken at the Conference on Financing for Development.

In this regard we believe that you should also establish a properly structured process to interact with the African representatives at the UN in New York, and also our other representatives at the EU in Brussels who would also have access to the European Parliament, as well as our representatives in Paris who can interact with the OECD.

We are making this suggestion because we are firmly of the view that our Continent, with you leading all of us, should stand out as a principled activist to encourage the speedy global implementation of the decisions taken at the Conference on Financing for Development regarding the matter of illicit financial flows.

Again as the Caucus knows, next month the UN General Assembly will adopt the post-2015 Sustainable Development Goals. It is obvious that to accomplish these goals will require large resources.

Given the commitment our Continent has made to itself, which it affirmed during the Conference on Financing for Development, that it will do everything possible and necessary to mobilise domestic resources to address its development goals, it stands to reason that we must redouble our efforts to respond to the Sustainable Development Goals in part by making the necessary progress with regard to curbing the illicit financial outflows from our Continent.

Before I conclude, I would like to mention two additional matters which we believe need your support.

We are working with the AU Commission, the UNECA, the UNDP and African Development Bank to develop a computer based practical tool that would assist our revenue authorities successfully to curb the use transfer pricing as a means illicitly to transfer capital out of Africa. This tool would be beneficial also because it dispenses with the need for staff that is specialised in transfer pricing matters.

We will commend this tool to our countries through the AU, once it is ready.

Secondly, the UNECA and the AU Commission have partnered with civil society organisations on an advocacy campaign to raise the levels of awareness on illicit outflows throughout our Continent. We would appreciate it if you would support this important initiative.

It is clear that we have to put in the necessary effort to ensure that the necessary progress is made to curb and end the illicit financial outflows from our Continent.

In this regard I believe that we would serve the important cause we have been discussing very well if, as we apply ourselves to the tasks at hand, we constantly remind ourselves of the very wise words of the late President of Angola, Agostinho Neto, which he made in response to the challenges the young Republic faced soon after independence that – “The most important thing is to solve the problems of the people.”

Please accept our best wishes for the success of this important Meeting of the African Caucus.

Thabo Mbeki Foundation

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