

## **DECLARATION ON CURBING ILLICIT FINANCIAL FLOWS THROUGH GOOD FINANCIAL GOVERNANCE**

### ***“UNITED AGAINST ILLICIT FINANCIAL FLOWS”***

**We**, the African Organisation of Public Accounts Committees (AFROPAC), the African Organisation of Supreme Audit Institutions (AFROSAI), the African Tax Administration Forum (ATAF), and the Collaborative Africa Budget Reform Initiative (CABRI), at the joint network Conference on Illicit Financial Flows (IFFs) hosted by AFROSAI in Yaoundé, Cameroon from the 24<sup>th</sup> to the 26<sup>th</sup> of May 2017 express our deep concern on the negative impact of IFFs on our continent. We value the leading work of the African Union (AU) High Level Panel led by President Thabo Mbeki, and declare herewith our serious intention to “track it, stop it and get it” by optimising our respective mandates.

#### **In BUILDING on the:**

- Principles laid out in the Good Financial Governance (GFG) Declaration of the three networks, AFROSAI, ATAF and CABRI, at the forty-seventh annual meeting of the AfDB in Arusha in 2012, which were further endorsed by AFROPAC in 2014;
- Declaration on IFFs by the Heads of State and Government of the African Union at the Twenty Fourth Ordinary Session of the AU Assembly in Addis Ababa, Ethiopia, from 30 to 31 January 2015;
- Commitment expressed in Agenda 2063, and the 2030 Sustainable Development Goal target 16.4 which aims to “... significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime”.

#### **1. We RECOGNIZE that:**

- 1.1. Good Financial Governance equates to the responsive, prudent, effective, transparent and accountable management of the continent’s public financial resources and requires robust tax, budget, financial management, audit and oversight institutions that operate within the rule of law;
- 1.2. The roles of the four GFG networks in facilitating peer exchange and learning amongst their members will provide opportunities for specific actions in legislative oversight, effective management of public resources, tax administration, public sector auditing and the strengthening of transparency, accountability and integrity;
- 1.3. IFFs pose a huge challenge for economic and social development as well as political security on the continent, particularly in resource-rich countries and in fragile and

conflict-affected states. IFFs stifle economic growth and poverty alleviation efforts and damage the foundations of society. They undermine the integrity of government, drain hard currency reserves, reduce tax collection, 'crowd out' investment, weaken free trade and industrial sector development;

- 1.4. The leakage of wealth from poor countries through tax evasion, money laundering, corruption and other misdeeds is becoming an ever bigger worry for Africa. The High Level Panel (HLP) estimates of IFFs in Africa amount to a staggering \$50 billion outflows per annum, which has been increasing steadily. The magnitude of IFFs affecting Africa exceeds total Overseas Development Assistance to the continent;
- 1.5. Weak governance is regarded an enabler and a consequence of IFFs. The lack of collaborative and coherent strategies to curb IFFs further reinforces an environment which allows IFFs to continue to thrive.

## **2. We CONFIRM that:**

- 2.1. The fight against IFFs requires the development of appropriate tax, budgetary, fiscal and auditing policies that are effectively implemented, regulated, and subjected to efficient oversight.
- 2.2. Africa needs to develop the relevant legislative policies, procedural frameworks, technical expertise, capacity, as well as ethical conduct to curb IFFs;
- 2.3. Effective activities aimed at curbing IFFs in Africa require a concerted multi-sectorial and cooperative governance approach; however, progress in this regard has been slow or fragmented;
- 2.4. Good Financial Governance can only be realized when all elements of the Public Financial Management cycle function well and interact coherently. This allows the GFG networks to create interlinkages and to leverage each other's work better;
- 2.5. By representing tax administrations, supreme audit institutions, ministries of finance and legislators, the networks can actively fight against IFFs and support good governance by: improving their tax systems, capacitating tax administrations, promoting budget transparency, strengthening audit functions, and enhancing parliamentary and legislative oversight.

## **3. We COMMIT to:**

- 3.1. Tackling IFFs by upholding the principles and values of the AU as articulated in the 2015 IFF Declaration and pledging to work with the AU Commission at a technical level;
- 3.2. Combatting IFFs by promoting the principles of Good Financial Governance and fiscal transparency through the networks. Country level coordination efforts between all relevant institutions in the budget cycle will be essential for success;

- 3.3. Making IFFs a shared priority, committing to joint and individual action and intensifying the exchange of information and technical expertise on IFF-related activities, by developing appropriate results-driven interventions. These will include:
  - 3.3.1. Support to relevant authorities in member institutions in the fight against IFFs stemming from the extractive sectors;
  - 3.3.2. Support for capacity building and technical assistance activities strengthening expertise and inter-agency cooperation between national institutions dealing with IFFs;
- 3.4. Publishing and disclosing the results of these interventions to the relevant stakeholders, thereby promoting greater country level, regional and global cooperation;
- 3.5. Engaging the members of the GFG networks, financial regulatory authorities and institutions, as well as other stakeholders, including advocacy and outreach groups.
- 3.6. **Through AFROPAC, to:**
  - 3.6.1. Voicing the call by AFROPAC members for accountability and transparency of governments, thereby exposing the extent of IFFs. AFROPAC recognises that this will require strong support from civil society working with committed and engaged legislators;
  - 3.6.2. Promoting a coherent approach to legislation on financial matters. AFROPAC recognises that it will necessitate a strong political will to spearhead the inclusion of good practices in legislation in areas like public finance, bank oversight, cross-border security, and tax and customs systems which are affected by IFFs;
  - 3.6.3. Developing legislative reforms enhancing public financial management systems and arming PFM institutions with the required legal backing allowing for detection, prosecution, and recovery of IFFs;
  - 3.6.4. Strengthening the individual country PACs, creating a message of accountability across the continent.
- 3.7. **Through AFROSAI, to:**
  - 3.7.1. Promoting strong public financial management, Good Financial Governance, accountability and oversight through professional and capacitated external auditing;
  - 3.7.2. Auditing the capacity of key agencies and departments responsible for financial management controls, governance and oversight regarding IFFs;
  - 3.7.3. Promoting information exchange on the results of audit outcomes across the regional, sub-regional and country levels, optimising the impact of SAIs in curbing IFFs.

**3.8. Through ATAF, to:**

- 3.8.1. Strengthening tax governance by developing specific legislative measures to tackle trade mispricing and similar malpractices, assisting member states in establishing and refining transfer pricing capacity and compliance risk management methodologies;
- 3.8.2. Enhancing the dialogue and collaboration on IFFs amongst member states, as well as providing guidance on the approach to tackle IFFs;
- 3.8.3. Strengthening co-operation on IFF specific capacity building among member states in order to build administrative expertise by engaging in the 16 Member Consortium that seeks to consolidate IFF capacity building for regional tax administrators.

**3.9. Through CABRI, to:**

- 3.9.1. Strengthening transparency in the extractives sector by promoting effective and transparent revenue management and anti-corruption measures.
- 3.9.2. Promoting fair, open and competitive public procurement including diligent state owned asset administration and supervision by assisting African public sector institutions in strengthening their procurement systems.
- 3.9.3. Undertaking research and disseminating the results, including on country risks and threats profiles pertaining to IFFs through a diagnostic tool for African ministries of finance.

(See Annexure for definitions of IFFs and roles of networks)

## ANNEXURE

### DEFINITION OF IFFs

The term was first coined in the 1990s and was initially associated with capital flight. It now generally refers to cross-border movement of capital.

According to the High Level Panel (2015) IFFs are generally made up of three main sources, namely:

- Commercial transactions including tax evasion and/or tax avoidance through abusive transfer pricing and trade mispricing. It is estimated that between 65 percent of IFFs fall in this category;
- Criminal activities, such as trafficking and smuggling of people, drugs and arms, as well as fraud in the financial sector, such as unauthorized or unsecured loans, money laundering, stock market manipulation and outright forgery make up between 20 to 35 percent of IFFs;
- Corruption and the theft of public funds usually involve bribery and abuse of public office and is said to make up the remainder of IFFs.

According to the HLP estimates, these three sources of IFFs amount to the staggering figure of \$ 50 billion in outflows per annum.

### ROLES OF NETWORKS

**AFROPAC**, the African Organization for Public Accounts Committees is a network of Public Account Committees and Committees with similar responsibilities from all AU member states whose aim is to enhance Parliamentary oversight and promote accountability in member states.

AFROPAC ensures committed and coherent PAC voices that are able, through effective legislative and policy interventions, to adequately address the issue of capital flight from the African continent. The facilitation of strong accountability frameworks and IFF engagement forums is essential for curbing errant economic activities and building strong PFM structures.

**AFROSAI**, the African Organization of Supreme Audit Institutions is an Africa-wide network of Supreme Audit Institution and aims to ensure effective financial oversight over the use of public resources in member states. The organization seeks to do this by promoting and developing the exchange of ideas and experiences between SAI members in the field of public financial control and the auditing of public organizations, enhancing the technical and institutional capacities of Supreme Audit Institutions in Africa.

AFROSAI and its member SAIs continue to advise governments in the region for strategies, policies and practices that support effective revenue mobilisation and application as well as the monitoring of industries such as the extractives and natural resources which are key in IFF activity.

**ATAF**, the African Tax Administration Forum, aims at promoting efficient and effective tax administrations to improve the living standards of the people of Africa. It facilitates tax governance policy reforms that enhance domestic revenue mobilisation in member countries and address the gaps which currently allow tax evasion. ATAF does this by capacitating members to devise measures that address deficiencies in tax administration systems, inhibit tax evasion, and generally build a taxpaying culture in their jurisdictions.

ATAF aims to identify revenue leakages particularly in the form of fictitious invoicing, smuggling and similar covert activities associated with the extractive and natural resource industries. Enhancing revenues will contribute towards improved economic and democratic governance as it will reduce reliance on uncertain external aid.

**CABRI**, the Collaborative Africa Budget Reform Initiative, is a network of Ministries of Finance which aims at strengthening member state public sector institutions by enshrining accountability and transparency in their financial legislation, processes, procedures, systems and capabilities. It seeks to ensure effective fiscal governance through efficient resource mobilisation and fair, open and competitive procurement of goods and services.

CABRI is committed to furthering budget transparency and accountability, both of which are key tools necessary in curbing IFFs and associated corrupt practices. Budget transparency is crucial for the management of public resources, while the availability of reliable, regular, comprehensive, and accessible information on resource decisions is a prerequisite for the accountable management of public funds.