

A stylized map of Africa is centered in the background, rendered in a dark teal color. A large, thick, white swoosh-like graphic element curves from the top right towards the bottom right, partially overlapping the map.

# ILLICIT FINANCIAL FLOWS & THE E.I SECTOR

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# STATEMENT OF INTENT

Making a difference in the performance of SAIs

## OUR MISSION

AFROSAI-E is, through innovation, committed to cooperate with and support its member SAIs to enhance their institutional capacity to successfully fulfil their audit mandates, thereby making a difference to the lives of citizens

## VALUE STATEMENT



**Innovation  
and  
Creativity**

**Developing  
Competence**

**Enhancing  
Confidence**

**Improving  
Credibility**

# PRESENTATION OUTLINE

- ✓ IFFs As a Development Challenge for Africa
- ✓ What are IFFs
- ✓ IFFs & EI: Questions along the Value Chain
- ✓ Splendid Isolation of SAIs
- ✓ Linking ISSAI 12 to SDGs

# IFFS AS A DEVELOPMENT CHALLENGE FOR AFRICA

In order to significantly improve its domestic resource mobilization efforts, Africa has to urgently address Illicit Financial Flows (IFFs).

IFFs are a huge drain on Africa's resources, including tax revenues, and hinder the level of savings required to address key development issues.

# IMPACT OF IFFS

- **Weakening Governance** - weakening public institutions and ultimately reducing the capacity of the state to provide public resources and welfare for the people.
- **Development Consequences** – high opportunity cost of lost revenues given the scale of the outflows which have an impact on growth and ultimately job creation.
- **Discouraging Transformation and Transparency** - by discouraging value creation, IFFs impact negatively on African aspirations for structural transformation.
- **Undermining International Development Cooperation** - global efforts to promote partnerships for aid effectiveness and development effectiveness are undercut by illicit financial flows.

# IFF: WHAT ARE WE TALKING ABOUT?



**IFF: an obscure matter**

# DRIVERS & ENABLERS OF IFFS

- **Push Factors:**

- I. Poor governance
- II. Weak regulatory structures
- III. Tax incentives

- **Pull Factors:**

- I. Financial secrecy jurisdictions and/or tax havens

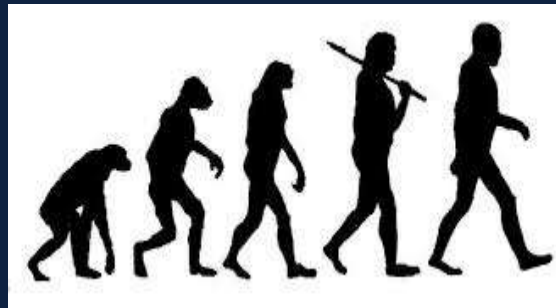


# PERSPECTIVES ON RESPONDING TO IFFS

## Revolution?



## Evolution?



## Divine intervention?



# What is there ....so far

# THINKING ALONG THE AFROSAI-E E.I VALUE CHAIN



# 7 STEPS OF THE AFROSAI-E E.I VALUE CHAIN

## LEGAL FRAMEWORK

### Three main types of legislative requirements:

- Constitution - Legislation - Regulations or instructions



## SEISMIC SURVEYS AND DATA MANAGEMENT

### Understanding the process:

- Existence of database - Ownership of survey data - Environmental considerations



## AWARD OF CONTRACTS AND LICENSES

### Three main types of contracts:

- Production sharing contracts - Concession agreements - Technical service agreements



## MONITORING OF OPERATIONS

- Metering equipment
- Health, security and environment



## COLLECTION OF TAXES AND ROYALTIES

### Sources of revenue:

- Taxes - Royalties

### Specific risks:

- Theft of petroleum
- Transfer pricing



## REVENUE MANAGEMENT AND ALLOCATION

### Sustainable use of revenue:

- Avoid "dutch disease" - Establishment of petroleum fund



## IMPLEMENTATION OF SUSTAINABLE POLICIES

- Environmental concerns
- Local community involvement

# **IFF AND AUDIT FOCUS AREAS IN THE EXTRACTIVES VALUE CHAIN - SOME GUIDING QUESTIONS**

## **1. Legal Framework (LF):**

- Does the LF ensure transparency in the sector?
- Does it include control mechanisms on all levels or does it provide loopholes?
- Does it provide adequate sanctions for misconduct?
- Is the system of taxes and royalties coherent, adequate and fair?

## **2. Data Management**

- Do we as a country know our assets well enough?

# **IFF AND AUDIT FOCUS AREAS IN THE EXTRACTIVES VALUE CHAIN - SOME GUIDING QUESTIONS**

## **3. Rights, contracts, licenses**

- Do we have what is needed to ensure fair and balanced conditions (knowledge, capacity, transparency, anti-corruption regulations)?

## **4. Monitoring of operations**

- Are we able and equipped to prevent underreporting, misinvoicing, contraband?

## **5. Taxes and royalties**

- Are the rules implemented and enforced effectively?
- Are the payments transparent and can their allocation be tracked?

# **IFF AND AUDIT FOCUS AREAS IN THE EXTRACTIVES VALUE CHAIN - SOME GUIDING QUESTIONS**

## **6. Assessment & collection of revenues**

- Do we have mechanisms in place needed to ensure accurate and complete revenue assessment and collection (knowledge, capacity, transparency, anti-corruption regulations)?

## **7. Implementation of sustainable policies**

- Do we have in place transparency in policy formulation with deterring consequences for failure to uphold such policies?

# CONSIDERING COLLABORATIVE APPROACHES TO IFFS





WHAT WAS SPLENDID ISOLATION IN BRITAIN?

# SPLENDID ISOLATION

GESE HISTORY



01

Promote PFM and GFG

02

Audit capacity of key agencies/departments responsible for financial management controls, governance and oversight

03

Exchange audit outcomes across regional, sub-regional and country levels

04

Professional and capacitated external auditing

**DECLARATION: AFROSAI**

# 01

Strengthen tax governance:

- trade mispricing and malpractices
- transfer pricing capacity
- compliance risk management

# 02

Collaboration amongst member states

# 03

Strengthening administrative expertise in the 16 Member Consortium for regional tax administrators

## DECLARATION: ATAF

# 01

Transparency in the EI sector:

- revenue management
- anti-corruption measures

# 02

Promote fair, open and competitive public procurement, state owned asset administration and supervision

# 03

Research country risks and threats through a diagnostic tool for African ministries of finance

## DECLARATION: CABRI

# Current Work In Progress On IFFs By AFROSAI-E

## Problem Statement

- IFFs in the E.I sector are everywhere and broad making it difficult for SAls to address them. There is no framework for SAls to consider when approaching IFFs.

## Solution

- Development of an IFFs Risk Assessment Model for SAls which allows SAls to focus their efforts on IFFs more efficiently and effectively.



# IFFS : LINKING ISSAI 12 TO SDGs

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# ISSAI 12: THE VALUE & BENEFITS OF A SAI

## Three Key Principles of ISSAI 12

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1. Strengthen accountability, transparency and integrity of government and public sector entities

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2. Demonstrate ongoing relevance to citizens, Parliament and other stakeholders

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3. Be a model organisation through leading by example

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17 GOALS  
TO  
CHANGE  
THE  
WORLD



SUSTAINABLE  
DEVELOPMENT GOALS





## Model Hypothesis

- The more drivers and enablers of IFFs we have present within a particular stage of the Extractive Industries Value Chain...the higher the risks of IFFs.

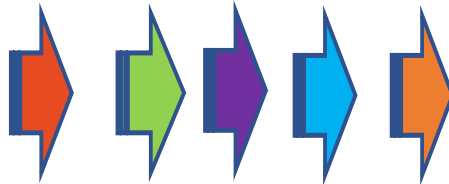
## Main limitation

- Drivers and enablers do not result in equal or similar levels of IFFs activities, some are just more potent than others.

# PROPOSED IFFS RISK ASSESSMENT MODEL

AFROSAI-E EXTRACTIVE INDUSTRIES VALUE CHAIN

STEP1: LEGAL  
FRAME WORK



STEP7:  
SUSTAINABLE  
POLICIES

ASSESS FOR EXISTENCE OF IFFs DRIVERS & ENABLERS ALONG THE  
E.I VALUE CHAIN ON A STAGE BY STAGE BASIS.

**CONSIDER**

CONCERNTRATING  
EFFORTS ON THE  
STAGES O THE VALUE  
CHAIN WITH MOST  
ENABLERS & DRIVERS.

**RESPOND** USING 3  
PRINCIPLES OF ISSAI 12  
ENSURING THAT  
RESPONSES ADRESS  
SDGs.

# GROUP EXERCISE

- In your country group, take one of the 3 pillars of ISSAI 12 and come up with initiatives and activities that your SAI can embark upon to address enablers of IFFs, link your initiatives to any of the 17 SDGs and explain the link.

(30 mins)

# THANK YOU

## CONTACT AFROSAI-E



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