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## Fight Africa's illicit financial flows with information



By RICK MCDONELL AND JEFFREY OWENS

**In May, UK prime minister David Cameron hosted a high level Anti-Corruption Summit to address all forms of corruption in the global economy.**

This meeting offered world leaders, including a number from Africa, an opportunity to assess the progress made by the G7 and G20 in countering all forms of illicit activities.

Much of the discussions focused on how globalisation and new technologies have facilitated cross border illicit financial flows, particularly money laundering and tax evasion.

Leaders recognised that increasingly, middlemen are using complex financial transactions to conceal their illicit activities from government authorities.

What we have learned from our years of experience is that these activities thrive in a climate of weak governance, lack of transparency, and poor cooperation between different agencies within and between countries. Every year an estimated \$50bn flows out of Africa through illicit channels, according to the UN Economic Commission for Africa.

The international community has seen significant progress in addressing these systemic weaknesses. Because of the work of the multilateral Financial Action Task Force and the OECD, our financial and tax systems have become more transparent globally.

In the vast majority of countries – Panama and the Philippines being notable exceptions – bank secrecy no longer acts as a barrier to law enforcement agencies and tax administrations getting access to information on the financial transactions of individuals and companies.

The G20 has led projects that improved transparency in the operation of multinational enterprises. Cross-border exchange of information between financial intelligence units (FIUs) and between tax administrations now has a stronger legal framework in the form of a network of bilateral and multilateral agreements.

The 2015 Addis Ababa Finance for Development Summit recognised that domestic resource mobilisation – especially by means of taxation – can increase the accountability of governments to citizens and thereby improve governance.

However, despite the progress made in London, two significant weaknesses still remain in the fight against illicit financial activities that must be addressed by governments. The first is that in many African economies, there are legal and cultural barriers to effective cooperation between FIUs, justice departments, law enforcement agencies and tax administrations.

Information that comes into a tax administration may, for example, suggest that an illegal activity is being undertaken. However the tax administration may not be able to legally share this information with the FIU or the justice department.

Countries need to follow the examples of Australia and Mexico, where there is seamless cooperation between agencies. Such cooperation will become even more important as we move into a world of virtual currencies such as bitcoin.

The second significant weakness is the difficult identifying individuals behind front companies, partnerships and trusts. This is a particularly difficult issue when trusts and foundations are used to conceal the true owner by spanning multiple jurisdictions and legal structures in order to stymie investigations. These vehicles facilitate the outflow of illicit funds from Africa.

Under the leadership of the G20 and the G7, the FATF has pushed for information about true beneficial owners be made available when needed.

The London Summit has proposed that one way to deal with this issue of beneficial ownership is to have a public registry of each company's ultimate owners. This is a significant step forward, but it will not address the issue of who lies behind such opaque vehicles as trusts, foundations and limited liability partnerships, leaving these vehicles open to abuse.

Our view is that any public registry needs to be backed up by a system of self-regulation for these non-corporate vehicles policed by professional bodies, who themselves would be subject to high ethical standards.

The policy issues raised above need to go hand in hand with practical implementation mechanisms. This is the goal of a Tax and Good Governance programme launched by the Institute for Austrian and International Tax Law (at the WU Vienna University of Economics and Business) and the African Tax Institute, in collaboration with African countries.

Much has been done at the global and regional policy level to identify the links between corruption, tax crimes and money laundering.

The next step, which we aim to promote, is to provide operational solutions. Institutionalising information exchanges and making the financial systems more transparent all work in the interests of African countries.

*Rick McDonell was until October 2015 head of the FATF Secretariat and Jeffrey Owens led the OECD work on tax for over 20 years. They are both now co-directors of the tax and good governance project at the Global Tax Policy Centre at WU Vienna University of Economics and Business*