Vulnerability and Exposure to Illicit Financial Flows risk in Africa

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Executive summary

It is well established that illicit financial flows affect the economies, societies, public finances and governance of African countries - as they do all other countries. Following the ground-breaking work of the African Union and UN Economic Commission for Africa High Level Panel on Illicit Financial Flows out of Africa (2015), a consortium of stakeholders in Africa is working together to stem illicit financial flows and follow-up recommendations of the report. The consortium's technical working group comprises the African Union Commission, the UN Economic Commission for Africa, the African Development Bank, the African Tax Administration Forum, Tax Justice Network Africa, and the African Capacity Building Foundation. A global target to reduce the volume of illicit flows was adopted in the UN Sustainable Development Goals. The UN process has struggled to reach consensus on indicators for the agreed target 16.4, since high-quality estimates of these deliberately hidden phenomena are inherently difficult to construct. And at the national level, even high-quality estimates of the total dollar value lost do not necessarily provide a full basis for policy decisions.

A particular issue is the difficulty of identifying the relative importance, in a given country context, of the many channels within which illicit financial flows may occur, and the multiple economic partner jurisdictions in each channel. We address this research gap by elaborating on an approach pioneered in the High Level Panel's report[3] which can be used to generate proxies for illicit financial flow risk by combining bilateral data on trade, investment and banking stocks and flows, with measures of financial secrecy in the partner jurisdiction.[4]

Here we present the resulting risk profiles for individual African countries, based on a range of relative and absolute proxy measures of illicit financial flow vulnerability. This allows granular comparison of illicit financial flow risks across countries and by channel, in turn highlighting the most dangerous partner jurisdictions. In this way, the bespoke national risk profiles provide clear signposts to guide individual countries' audit and monitoring activity, international tax and transparency policies and negotiation priorities. It also can assist regional and international organisations in directing their interventions and support in curbing the risks identified in this paper.

An important finding is that Africa is importing the overwhelming majority of its risks in illicit financial flows from outside the continent. This is hardly surprising given the relative importance of economic relationships African countries have with countries outside the African continent compared to intra-African intensity of

[3] United Nations Economic Commission for Africa and African Union, *Report of the High Level Panel on Illicit Financial Flows from Africa ('Mbeki Report')*, 2015, 106–17 <www.uneca.org/sites/default/files/PublicationFiles/iff_main_report_26feb_en.pdf> [accessed 21 July 2015].
[4] Alice Lépissier and Alex Cobham, 'Risk Measures for Illicit Financial Flows Dataset (Version 1) [Data Set]', 2019 <http://doi.org/10.5281/zenodo.3371739> [accessed 20 August 2019]; Alex Cobham and Alice Lépissier, *Risk Measures for Illicit Financial Flows: A New International Dataset*, Forthcoming.

economic relationships. Yet there are some noticeable differences in each of the economic channels. For example, the risks in trade appear to be concentrated with Europe and Asia, whereas the risks in direct investment are more concentrated in Asia. Portfolio investments stem largely from the Americas, while banking risks emanate mostly from the European Union. Across all the channels, the disproportionate role of the European Union dependent jurisdictions, and especially those of the United Kingdom, is striking. The insights from this analysis provide policymakers with guidance for their next steps in countering illicit financial flows: where and how to start tackling the issues.

I. Enhance data availability
Broadening the availability of statistical data on bilateral economic relationships is a first step for enabling both in depth and comprehensive analyses and meaningful regulation of economic actors engaged in cross-border transactions. In the process of collecting statistical data according to IMF standards, governments would need to build registration and monitoring capacity that likely helps improve overall economic governance.

II. Consider pan-African coordination on countering IFF risks
The bulk of IFF risks at the moment is imported into Africa from outside the continent. This finding could help foster joint negotiation positions at the level of the African Union Commission, the African Tax Administration Forum and others when engaging in multilateral negotiations around trade, investment or tax matters. Pan-African alternative minimum standards for trade, investment and financial services could be crafted in order to safeguard against illicit financial flows emanating from secrecy jurisdictions and corporate tax havens controlled by European and OECD countries. The proposal for a United Nations Convention on tax should be evaluated at the pan-African level for its value as an instrument to tackle illicit financial flows, based on an African common position. In the interim African countries, through their continental bodies, could further enhance regional cooperation for integrated financial policies and legislation in Africa.

III. Embed IFF risk analyses across administrative departments
A holistic approach to countering illicit financial flows requires capacity to identify and target the areas of the highest risks for illicit financial flows. IFF risk profiles can assist governments to prioritise the allocation of resources across administration departments and arms of government, including tax authorities and customs, the central bank, supreme audit institutions, financial supervisors, anti-corruption offices, financial intelligence units and the judiciary. Within these departments, the IFF risk profiles would support the targeting of audits and investigations at an operational level as well as the negotiation of bilateral and multilateral treaties on information exchange at a policymaking level. Whether on tax, data, trade or corruption related matters, capacity building strategies at a continental level should include IFF risk analysis.

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Abbreviations

ACP	African, Caribbean and Pacific
AEOI	Automatic Exchange of Information
BIS	Bank for International Settlements
CDIS	Coordinated Direct Investment Survey
CPIS	Coordinated Portfolio Investment Survey
CRS	Common Reporting Standard
CTHI	Corporate Tax Haven Index
DRC	Democratic Republic of the Congo
EU	European Union
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FSI	Financial Secrecy Index
GDP	Gross Domestic Product
IFF	Illicit financial flows
IMF	International Monetary Fund
KFSI	Key Financial Secrecy Indicator
OECD	Organisation for Economic Co-operation and Development's
UAE	United Arab Emirates
UN	United Nations
UNODC	United Nations Office on Drugs and Crime
US	United States of America
VAT	Value Added Tax

1. Introduction: financial secrecy and illicit financial flows in Africa

Following the ground-breaking report published by the High Level Panel on Illicit Financial Flows from Africa ("Mbeki Panel") in 2015,[5] the issue of illicit financial flows was firmly established on the African and global policy agenda.

The "Mbeki Panel" report pioneered, among others, the proposition that whereas illicit financial flows, by their very nature as hidden flows cannot be measured precisely, it is possible to be more precise in analysing a country's risk exposure to hidden elements in any given financial flow, whether these flows are through trade, investments or banking services. The more hidden, or secretive, the flows, the greater the risk of illicit financial flows. The report proposed a methodology for assessing these IFF risks at a macro level. This paper elaborates and applies this methodology to estimating IFF risk exposure of African countries and proposes areas of reforms.

Overall measures of financial secrecy indicate global priority jurisdictions for tackling illicit financial flows. For the nine African jurisdictions included in the Tax Justice Network's 2018 edition of the Financial Secrecy Index, the scoring against 20 key financial secrecy indicators also provide pointers for reform.[6] Yet these measures remain silent on individual countries' pattern of exposure to secrecy jurisdictions, and on the relative importance of specific channels of illicit financial flows. However, as anecdotal evidence and current research demonstrates[7], there are marked differences in the relevance of particular secrecy jurisdictions for different countries.

Given the different patterns of exposure and vulnerability to illicit financial flow risks for countries, policymakers may have difficulty identifying and targeting the channels and jurisdictions responsible for most of the risk. For African countries, the knowledge of full details about the (jurisdictional) origins of financial secrecy and the continent's collective and country-specific relative vulnerability to illicit financial flows is an important resource for policy-making and sound administrative practice.

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[5] United Nations Economic Commission for Africa and African Union, *Report of the High Level Panel on Illicit Financial Flows from Africa ('Mbeki Report')*.

[6] Alex Cobham, Petr Janský and Markus Meinzer, 'The Financial Secrecy Index: Shedding New Light on the Geography of Secrecy', *Economic Geography*, 91/3 (2015), 281–303.

[7] Petr Janský, Markus Meinzer and Miroslav Palanský, *Is Panama Really Your Tax Haven? Secrecy Jurisdictions and the Countries They Harm*, 2018 <http://www.taxjustice.net/wp-content/uploads/2018/09/Is-Panama-really-your-tax-haven-Secrecy-jurisdictions-and-the-countries-they-harm.pdf> [accessed 19 September 2018]; Petr Janský and others, *Financial Secrecy Affecting the European Union: Patterns across Member States, and What to Do about It*, 2018, 64 <https://www.taxjustice.net/wp-content/uploads/2018/09/Financial-Secrecy-affecting-the-European-Union-Policy-Paper-Tax-Justice-Network.pdf> [accessed 13 December 2018].

By understanding a country's risk profile to illicit financial flows, policies may be improved to increase domestic resource mobilisation and tackle grand corruption by focusing policy on the transactions with the jurisdictions and the economic channels that create the greatest risk. Brazilian authorities have taken a lead in this regard by applying the macro illicit financial flow risk approach pioneered in the Mbeki Panel (and as expanded in this paper) to micro-data to measure the risk exposure of import and export transactions recorded in Brazilian trade.[8] Trade and treaty negotiations will also benefit from country-level analysis as high levels of secrecy in potential trade and investment partners indicate a need for securing high levels of information exchange and other transparency requirements in order to mitigate against the associated risks for illicit financial flows.

If implemented, the recommendations made in this paper based on addressing specific risk profiles of illicit financial flows can increase tax revenues and reduce the reliance on borrowing or foreign aid and the resulting fair taxation will contribute to redressing income inequalities at national levels.

The paper hopes to contribute to the further implementation of the High Level Panel Report at the continental level by providing concrete information on the nature and channels of vulnerability and exposure that countries face that can aide the African Peer Review mechanism and the consortium responsible for implementing the report's recommendations, made up of the African Union Commission, the United Nations Economic Commission for Africa, the African Development Bank, the African Tax Administration Forum, Tax Justice Network Africa, and the African Capacity Building Foundation. It is also hoped that the evidence can bring caution to the ambition of a few countries to establish international financial centres, jeopardising the taxing rights and revenue of other countries. By shining a light on embedded secrecy in the channels of economic flows, we hope the paper can contribute to the continental effort to fight corruption and curb illicit financial flows.

[8] The Ad Hoc Working and Research Group on IFFs via Trade Mis-invoicing was set up at the Federal Revenue and Customs Services of Brazil in 2018 comprising specialists in customs, tax and intelligence under the Federal Revenue and Customs Services of Brazil. This group has developed an action plan based on assessing the risk exposure. This includes ensuring an integrated approach between customs and revenue authorities, developing a risk management tool to track exposure of transactions, improving the registration and control of international traded transactions, and making use of data exchanged under the Organisation for Economic Co-operation and Development's (OECD) Convention on Mutual Administrative Assistance in Tax Matters and to the Multilateral Competent Authority Agreement on the Exchange of Country by Country Reports. The working group also proposes a pilot project on the multilateral automatic exchange of transaction-level trade data with a trade partner; this would improve mirror data to identify gaps and anomalies in declared trade data.

2. Data and methodology

The central idea behind this approach, pioneered in the work for the High Level Panel on Illicit Financial Flows out of Africa[9] is this: since illicit financial flows are, by definition, hidden, the likelihood of an illicit component will increase with the degree of financial opacity in any given transaction.[10]

The assumption is that all else being equal, the easier it is to hide something, the more likely that something will be hidden. This means trading with Switzerland, or accepting investment from the British Virgin Islands, both highly secretive jurisdictions, exposes a country to a greater risk of illicit financial flows than trading with Denmark or accepting investment from France. This does not of course imply that all trade with Switzerland is illicit (or none with Denmark), nor that all multinationals with subsidiaries in the British Virgin Islands (or none with French ones) are committing tax abuses. However, the greater the transparency of a partner jurisdiction in a given bilateral transaction, then the lower the risk of something being hidden, all other things being equal. Not all transactions of a less transparent nature will be illicit, but the likelihood of illicit transactions within a less transparent flow will be higher. The greater the degree of opacity, in other words, the higher the risk of illicit financial flows.

2.1 Qualitative component: Financial Secrecy Index secrecy scores

The Financial Secrecy Index was first published in 2009. It was created in response to the consistent failure of attempts to create 'tax haven' blacklists by international organisations. These failures reflected two key issues. First, the absence of objectively verifiable criteria led inevitably to the politicisation of lists, and the inability of international organisations to list their own more politically powerful members – while smaller, less well-connected jurisdictions found themselves targeted. Second, the desire to separate 'tax havens' (bad actors) from all others (good actors, by implication) led to an unhelpful simplification of a complex issue.

Underpinning both issues is the long-recognised difficulty of reaching consensus on a measurable definition for 'tax haven', because of the vagueness and range of uses of the term – and the fact that tax is not always central to the role played by the jurisdiction. The Tax Justice Network argued instead that the main role played is the provision not of tax breaks but of financial secrecy: the ability to hide from publics and regulators elsewhere, including but not limited to tax authorities. Cobham, Jansky and Meinzer (2015)[11] extend this argument by providing a definition of the term 'secrecy jurisdiction' and show how the

[9] United Nations Economic Commission for Africa and African Union, *Report of the High Level Panel on Illicit Financial Flows from Africa ('Mbeki Report')*.
[10] Cobham and Lépissier, *Risk Measures for Illicit Financial Flows: A New International Dataset*.
[11] Cobham, Janský and Meinzer, 'The Financial Secrecy Index', 281–303.

Financial Secrecy Index operationalises this. Assessed on this basis, a secrecy spectrum emerges rather than a binary division of havens and non-havens.

The most recent edition of the index[12] ranks jurisdictions according to their scores on twenty Key Financial Secrecy Indicators (KFSIs, see Table 1), and combines this with a Global Scale Weight. This weighting is constructed to reflect the size of the role of each jurisdiction in the worldwide provision of financial services to non-residents. Transparency of construction is central to the Financial Secrecy Index. That is, all scores and rankings are objectively verifiable, and any researcher or policy analyst can choose their preferred secrecy indicators and the international sources to construct their own alternative measures.

Table 1. Overview of 20 key financial secrecy indicators (KFSIs)[13]

Ownership Registration	**Legal Entity Transparency**	**Integrity of tax and financial regulation**	**International Standards and Cooperation**
1 Banking secrecy	**6** Public company ownership	**11** Tax administration capacity	**17** Anti-money laundering
2 Trusts and foundations register	**7** Public company accounts	**12** Consistent personal income tax	**18** Automatic information exchange
3 Recorded company ownership	**8** Country-by-country reporting	**13** Avoids promoting tax evasion	**19** Bilateral treaties
4 Other wealth ownership	**9** Corporate tax disclosure	**14** Tax court secrecy	**20** International legal cooperation
5 Limited partnership transparency	**10** Legal entity identifier	**15** Harmful structures	
		16 Public statistics	

Overall, the Financial Secrecy Index provides both a ranking of the most important financial secrecy jurisdictions – that is, those that pose the greatest threat of illicit financial flows to others – and a consistent reporting of policy progress, aggregable from the jurisdiction to global level.

The theoretical range of the overall secrecy score is 0-100 in the Financial Secrecy Index. The individual key financial secrecy indicators range from 0 to 1, so they are multiplied by 100 before being used in the analysis. The results show

[12] Tax Justice Network, 'Financial Secrecy Index', 2018 <https://www.financialsecrecyindex.com/en/> [accessed 15 August 2019].
[13] Tax Justice Network, 'Financial Secrecy Index 2018: Methodology', 2018 <https://www.financialsecrecyindex.com/methodology> [accessed 28 February 2019].

the lowest overall secrecy score as 41.825 (Slovenia) and the highest overall secrecy score as 88.575 (Vanuatu).

Table 2. Top ten countries in the Financial Secrecy Index 2018[14]

Rank	Jurisdiction	FSI value[15]	FSI share[16]	Secrecy score	Global scale weight
1	Switzerland	1,589.57	5.01%	76	4.50%
2	USA	1,298.47	4.09%	60	22.30%
3	Cayman Islands	1,267.68	3.99%	72	3.78%
4	Hong Kong	1,243.67	3.92%	71	4.16%
5	Singapore	1,081.98	3.41%	67	4.57%
6	Luxembourg	975.91	3.07%	58	12.13%
7	Germany	768.95	2.42%	59	5.16%
8	Taiwan	743.37	2.34%	76	0.50%
9	UAE (Dubai)	661.14	2.08%	84	0.14%
10	Guernsey	658.91	2.07%	72	0.52%

For the purposes of this paper, the data allows for the evaluation of partner jurisdictions in bilateral economic and financial transactions according to the degree of financial secrecy – and therefore of illicit financial flow risk. Data are available for the overall secrecy score and each of the twenty Key Financial Secrecy Indicators for 112 jurisdictions in the 2018 index. The evolution of the index over time means that time series can only be constructed for some of the indicators at present, although future work may seek to expand coverage retrospectively. At present, we use data from the 2018 index for earlier years; it would clearly be preferable to use previous editions of the Financial Secrecy Index, or reconstructed indicators, for the earlier years in the panel.

2.2 Quantitative component: external economic relationship data

The data on external economic relationships is sourced from the UN, IMF and Bank for International Settlements (BIS) as detailed below.

Data on banking positions come from table A6.2 of the Locational Banking Statistics data-set of the Bank for International Settlements. Specifically, we obtain data on cross-border claims and liabilities of reporters resident in the partner country, measured as amounts outstanding or stocks, for all sectors and all instruments, in US dollars. There are 80,874 unique recorded positions between 2008-2018 for 31 reporting countries and 215 partner countries. The data coverage of liabilities is better than the coverage of claims.

[14] Tax Justice Network, 'Financial Secrecy Index 2018: Methodology'.
[15] The FSI (Financial Secrecy Index) Value is calculated by multiplying the cube of the Secrecy Score with the cube root of the Global Scale Weight. The final result is divided through by one hundred for presentational clarity.
[16] The FSI Share is calculated by summing up all FSI Values, and then dividing each countries FSI Value by the total sum, expressed in percentages.

Data on direct investment positions come from the IMF's Coordinated Direct Investment Survey (CDIS). These data represent direct investment positions, thus are stocks. We obtain data on inward direct investment positions into the reporting country, and outward direct investment abroad by the reporting country. Additionally, the CDIS provides data on derived inward positions and derived outward positions, which are calculated based on mirror data from the partner country. There are 97,432 unique recorded cross-border positions between 2008 and 2016 for 246 reporting jurisdictions and 246 partner jurisdictions. The data coverage for inward direct investment positions and derived outward direct investment positions is better than the coverage for derived inward and outward direct investment. Thus, we use the variables with the better coverage (inward and derived outward).

Data on portfolio investment holdings come from the IMF's Coordinated Portfolio Investment Survey (CPIS). We obtain data on holdings of portfolio assets (securities held) by the reporting economy, and holdings of portfolio investment liabilities (securities issued) by the reporting economy. The CPIS also provides data on derived portfolio investment liabilities (securities issued by the reporting economy), where the data is derived from the perspective of the partner country (the holder of the securities). There are 79,804 unique recorded transactions between 2008 and 2016 for 239 reporting economies and 240 partner economies. The data coverage is better for derived liabilities than liabilities. Thus, this analysis makes use of the data on portfolio investment assets and derived portfolio investment liabilities.

Data on trade comes from the UN Comtrade database. We obtain data on total exports, total imports, total re-exports, and total re-imports between 2009-2017, measured in the HS 2007 classification. There are 230,373 unique recorded cross-border flows between 175 reporting jurisdictions and 236 partner jurisdictions. The analysis uses data on total exports and total imports. The data coverage is better for imports than for exports.

Data on countries' GDP comes from the World Development Indicators of the World Bank, specifically indicator NY.GDP.MKTP.CD. Data is obtained on the GDP (in current US dollars) of 205 countries between 2008 and 2017.

2.3 Addressing data limitations in Africa

Data availability in the aforementioned key economic datasets is a fundamental challenge for Africa's fight against illicit financial flows. This can be illustrated by considering the availability of portfolio investment data (IMF's Coordinated Portfolio Investment Survey), where Africa has a comparatively limited data coverage.

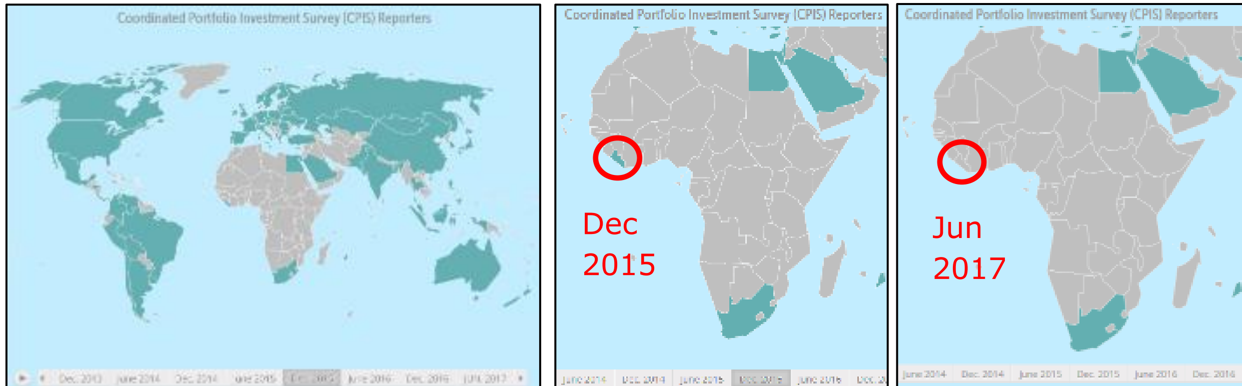

Figure 1. Data availability in the IMF's Coordinated Portfolio Investment Survey and for Africa over time (Dec 2015, Jun 2017)

Source: http://data.imf.org/?sk=B981B4E3-4E58-467E-9B90-9DE0C3367363&sId=1481580274211; 9.9.2018.

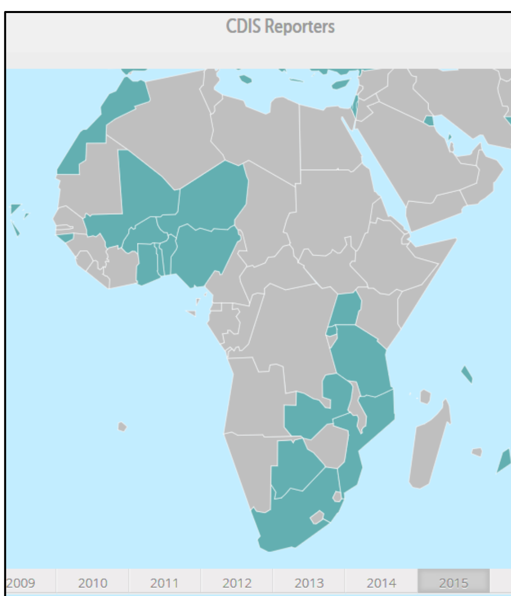

Figure 2. Data availability for Africa in the IMF's Coordinated Direct Investment Survey (2015)

Source: http://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5&sId=1482165089624; 31.10.2018.

Challenges are present not only with respect to geographical coverage in Africa, but also relating to data availability over time. Figure 1 illustrates that data coverage in June 2017 appears worse than in 2015, with no data captured for Liberia.

Furthermore, data availability challenges vary according to the type of economic data-set concerned. For example, data availability is better for bilateral direct investment (IMF's Coordinated Direct Investment Survey) than for portfolio investment (compare Figure 2 with Figure 1 above).

In Africa, bilateral data coverage is best for trade, second best for foreign direct investment (see Figure 2), where coverage of inward foreign direct investment is better than outward foreign direct investment. Third best coverage in Africa is for portfolio investment data (see Figure 1 above: max. 4 reporters, Egypt, Liberia, Mauritius and

South Africa), where coverage on assets is better than for liabilities. Data coverage is worst for banking data from the BIS; South Africa is the only reporter jurisdiction.

Finally, another rather mild data constraint for the purposes of the illicit financial flows risk analysis is that financial secrecy data is available currently for 112 jurisdictions worldwide. While this may appear a shortcoming, it is mitigated by the fact that these cover the largest financial centres responsible for over 99% of total global financial service exports.[17]

For the analysis, we have used various strategies to address gaps in data coverage. First, we created a panel data-set by extracting the economic data for multiple years beginning with 2008 up to 2018.[18] We can minimise the gaps per data source and jurisdiction by averaging the data across all years with observations. Second, we make live data analysis possible by publishing an online data portal with an API so that the analysis can be refreshed with instant data updates, filling gaps in the dataset as soon as additional data is made available. Third, and most importantly, we use mirror data in three of the eight channels in order to derive mirror data from reporters.

In the case of banking claims, we use the sums of bilateral liabilities reported by all other reporter jurisdictions (also referred to as "jurisdiction r") for any given partner jurisdiction to derive this jurisdiction's banking claims. In analogy to this process, we use derived values as provided by the IMF for outward Foreign Direct Investment (derived from directly reported inward investment positions) and for portfolio investment liabilities (derived from directly reported portfolio assets). Finally, transparency is crucial in addressing data gaps: we are explicit where a lack of data coverage constrains the analysis. Table 3 provides an overview of the data coverage for Africa in the final dataset and Annex B Annex B: Data includes a detailed country list.

[17] Tax Justice Network, *Financial Secrecy Index 2018 - Methodology* (London, 2018) <https://www.financialsecrecyindex.com/PDF/FSI-Methodology.pdf> [accessed 14 February 2018].
[18] Lépissier and Cobham, 'Risk Measures for Illicit Financial Flows Dataset (Version 1) [Data Set]'.

Table 3. Illicit financial flows risk analysis – final dataset, data coverage 2008-2018

IFF Channel / Dataset	Number of African reporter jurisdictions with data at least one observation 2008-2018 if secrecy scores of partner jurisdiction are also available	Coverage 2008 – 2018 (%, out of 60)	Number of African reporter jurisdictions with data at least one observation in 2016 if secrecy scores of partner jurisdiction are also available	Coverage 2016 (%, out of 60)[19]
Exports	42	70.0%	32	53.3%
Imports	42	70.0%	32	53.3%
FDI Inward	21	35.0%	17	28.3%
FDI Outward (derived)	60	100.0%	60	100.0%
Banking Claims (derived)	60	100%	60	100.0%
Banking Liabilities	1	1.7%	1	1.7%
Portfolio Assets	3	5.0%	3	5.0%
Portfolio Liabilities (derived)	59	98.3%	54	90.0%

2.4 Methodology used to construct illicit financial flows vulnerability and exposure

The methodology we apply here was originally published in the report of the High Level Panel on Illicit Financial Flows out of Africa[20] and subsequently updated and laid out in full by the original researchers.[21]

The methodology relies on three related but distinct concepts, which bear on the degree of risk that country faces of suffering illicit financial flows: 'Vulnerability', "Intensity' and 'Exposure'. Vulnerability here refers to the degree of risk faced in a given channel of cross-border economic or financial activity, as proxied by the average level of financial secrecy of the country's partner jurisdictions in that stock or flow relationship. This is the basic risk measure, reflecting the extent to which countries face the potential for hidden components in each stock or flow.

The importance of that risk depends on the size of the stock or flow in question. The size (say, the total value of commodity exports) is considered in relation to

[19] The total of 60 African states and dependencies for which data was found is listed in Annex A. Annex B lists the countries included in each economic channel across the data set and across the years.
[20] United Nations Economic Commission for Africa and African Union, *Report of the High Level Panel on Illicit Financial Flows from Africa ('Mbeki Report')*, 106–17.
[21] Lépissier and Cobham, 'Risk Measures for Illicit Financial Flows Dataset (Version 1) [Data Set]'.

the GDP of the country, and this ratio is considered as the 'Intensity' of the stock or flow.

High Vulnerability, but low Intensity, will make for low overall 'Exposure'. For example, if all foreign direct investment into a country is routed via the British Virgin Islands, the Vulnerability to illicit flows is high; but if there is only $1 of such investment in total, the country's overall Exposure is limited. On the other hand, high Vulnerability in a high Intensity channel implies that a country faces high Exposure to illicit flow risk in this channel.

If all possible partner jurisdictions were either completely transparent (zero secrecy), or perfectly secretive, the Exposure values would simply be the share of GDP involved in transactions with these latter, 'pure secrecy' jurisdictions. Exposure scores can therefore be interpreted as measures of the overall risk to an economy from financial secrecy, which is equivalent to the share of a country's which, in a given, cross-border, economic or financial stock or flow, can be considered as being conducted with pure secrecy jurisdictions.

For illustration purposes, consider the simple example of a world where there is only one reporting country, Zambia, that transacts with a single partner country, and let us focus on a single flow: commodity exports. Imagine that the country to which Zambia exports to has a Secrecy Score of 50. Thus, Zambia's Vulnerability to illicit financial flows in that particular flow is 50. Moreover, imagine that exports represent 10% of Zambia's GDP (its Intensity). Therefore, Zambia has an Exposure score of 5.

In other words, 5% of Zambia's GDP is exposed to illicit financial flows. This is equivalent to Zambia carrying out 5% of its exports with a pure secrecy jurisdiction (i.e. one scoring 100 out of 100), and all other exports with completely transparent trading partners: Zambia's Exposure, or pure secrecy-equivalent economic activity as a ratio to its GDP, is 5. Zambia might also face a Vulnerability of 50 in its commodity imports. But if these only make a 5% of its GDP (the Intensity), the Exposure or pure-secrecy equivalent activity will be just 2.5.

Formalisation

We define the following notation:

$i \in \{1,...,I\}$	reporting country
$j \in \{1,...,J\}$	partner country
$t \in \{2008,...,2018\}$	year
X_{ijt}	flow or stock value of cross-border transaction between reporter i and partner j at time t

tax justice network

Y_{it}	GDP of reporting country i at time t
SS_j	Secrecy Score (or individual KFSI) of partner country j

Then, for jurisdiction-level scores:

Vulnerability

$$V_{it} = \frac{\sum_{j=1}^{J} X_{ijt} \cdot SS_j}{\sum_{j=1}^{J} X_{ijt}}$$

Intensity

$$I_{it} = \frac{\sum_{j=1}^{J} X_{ijt}}{Y_{it}}$$

Exposure

$$\begin{aligned} E_{it} &= V_{it} \cdot I_{it} \\ &= \frac{\sum_{j=1}^{J} X_{ijt} \cdot SS_j}{\cancel{\sum_{j=1}^{J} X_{ijt}}} \cdot \frac{\cancel{\sum_{j=1}^{J} X_{ijt}}}{Y_{it}} \\ &= \frac{\sum_{j=1}^{J} X_{ijt} \cdot SS_j}{Y_{it}} \end{aligned}$$

2.5 Methodological limitations

Our approach to constructing vulnerability, which rests on a weighting of the economic transactions by secrecy scores of partner jurisdictions, has some limitations as a measure of the risk of illicit financial flows. Most importantly, the size or value of the economic transactions dominate the secrecy aspect of transactions in vulnerability. To avoid this dominance, a related approach, the Bilateral Financial Secrecy Index, applies a formula to increase the weight of the secrecy scores of partners in the final determination of risk for illicit financial flows.[22] In order to determine the most suitable formula for identifying illicit financial flows risks in the economic channels, panel micro data on tax audits, custom checks and suspicious transaction reports on money laundering could be used to calibrate the model further. An effort to establish joint research projects with administrations to calibrate the model by testing it with micro data is currently underway.

Furthermore, different channels and types of illicit financial flows are likely to be susceptible to different kinds of secrecy. For example, risks in banking positions

[22] Janský, Meinzer and Palanský, *Is Panama Really Your Tax Haven? Secrecy Jurisdictions and the Countries They Harm*; Janský and others, *Financial Secrecy Affecting the European Union: Patterns across Member States, and What to Do about It*, 64.

may be driven more by banking secrecy and tax information exchange than by tax court secrecy. Therefore, different components of financial secrecy could be used for identifying risks for illicit financial flows in specific economic channels.[23] Similarly, in order to identify corporate tax avoidance risks, a set of indicators focusing on issues broader than secrecy alone might be more suitable. For example, the haven scores of the Corporate Tax Haven Index[24] might add important aspects to analysing risks of illicit financial flows in the economic channels of foreign direct investment and trade.

[23] Cobham and Lépissier, *Risk Measures for Illicit Financial Flows: A New International Dataset*.
[24] Tax Justice Network, *Corporate Tax Haven Index (CTHI) 2019 Methodology*, 2019 <https://www.corporatetaxhavenindex.org/PDF/CTHI-Methodology.pdf> [accessed 4 June 2019].

3. Vulnerability and exposure to illicit financial flows

Each of the eight economic channels can result in vulnerabilities to different types of illicit financial flows.[25] Figure 3 (below) provides an overview, including the types of illicit financial flows involved. Figure 3 and 4 detail the vulnerability and the exposure of each African country between 2008 and 2018. While there are some differences in the levels and composition of vulnerability among African countries, most striking are the data gaps for the countries from Algeria onwards, mainly the lack of trade data.

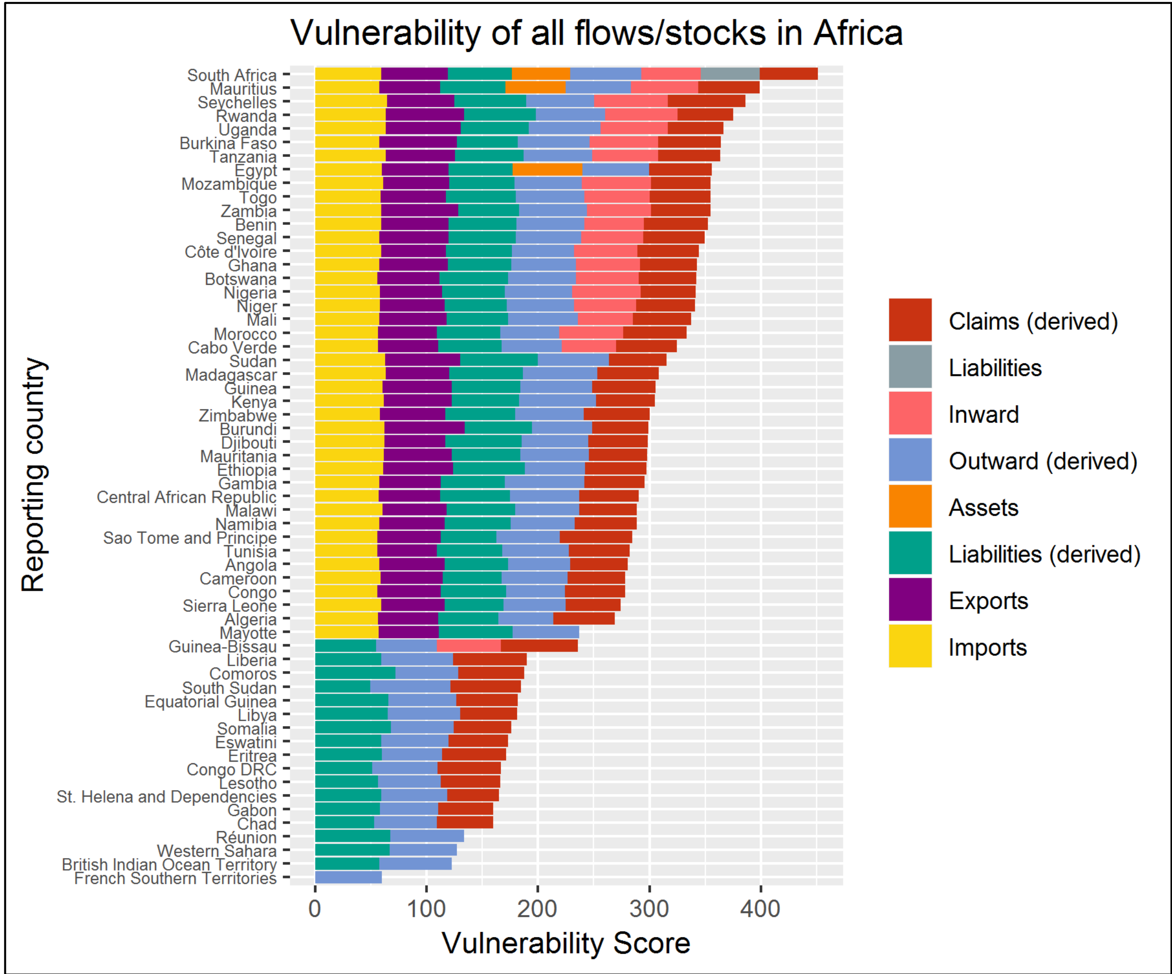

Figure 3. Africa's aggregate vulnerability to illicit financial flows in different channels, 2008-2018

While vulnerability scores empirically range between 0 and 100, the distribution of exposure scores is much larger, as shown in Figure 4. Due to the outsize role that banking and investment play in Liberia, Mauritius and Seychelles' economies, their exposure scores dominate those of the other African countries.

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[25] The availability of data for Africa jurisdictions is presented in Annex B.

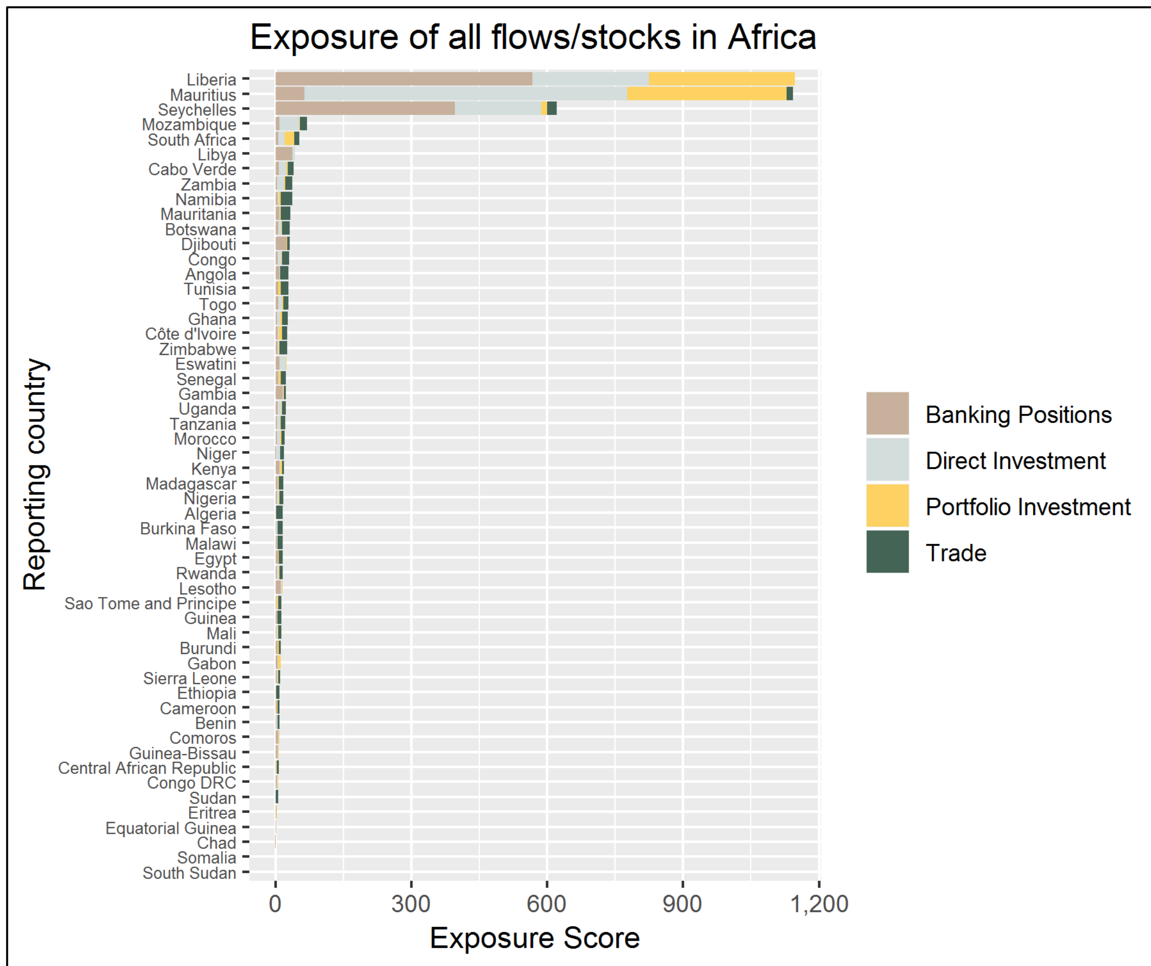

Figure 4. Africa's aggregate exposure to illicit financial flows in different channels, 2008-2018

Figure 5 provides overviews of Africa’s aggregate vulnerability and exposure to Illicit Financial Flows between 2008 and 2018. Exposure to illicit financial flows in Africa has been decreasing in trade and banking positions, but increasing in direct and portfolio investment.

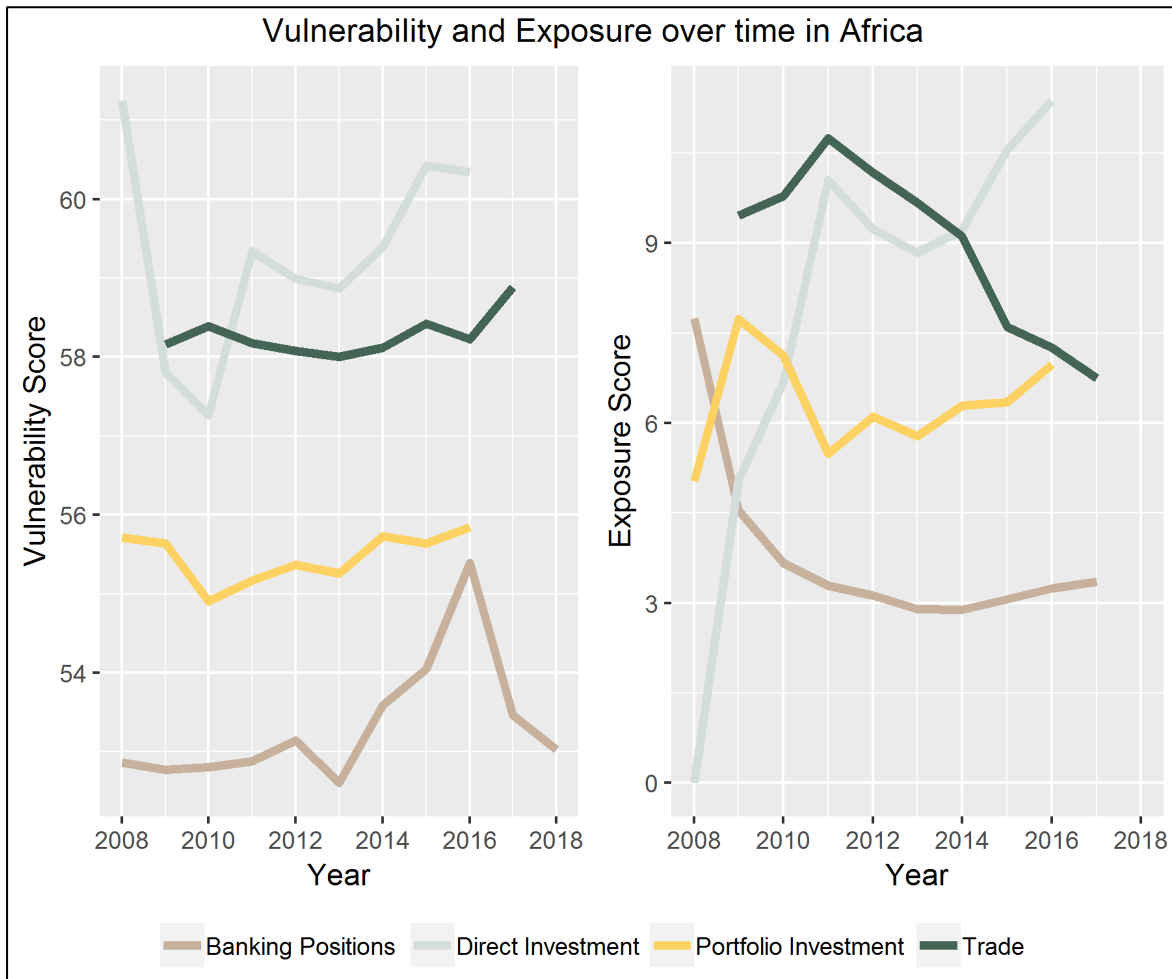

Figure 5. Africa's average vulnerability and exposure to illicit financial flows, 2008-2018

Country level reports are likely to be particularly useful for policymakers in focusing their attention and policies. Here the examples of Burkina Faso and South Africa are used to illustrate the approach, and to highlight some important aspects of the findings. Figure 6 shows a top-level comparison, across the eight channels, of IFF vulnerability (that is, the average secrecy of partner jurisdictions). The first key point for policymakers is that there can be no analysis without investment in quantification: data shortages in Burkina Faso limit the assessment to six out of the eight economic channels. Indicator 16 of the Financial Secrecy Index shows the range of public statistics that are necessary to provide full transparency of bilateral economic and financial positions.[26]

[26] Tax Justice Network, *Key Financial Secrecy Indicator 16: Public Statistics*, Key Financial Secrecy Indicators (2018) <https://www.financialsecrecyindex.com/PDF/16-Public-Statistics.pdf> [accessed 9 August 2019].

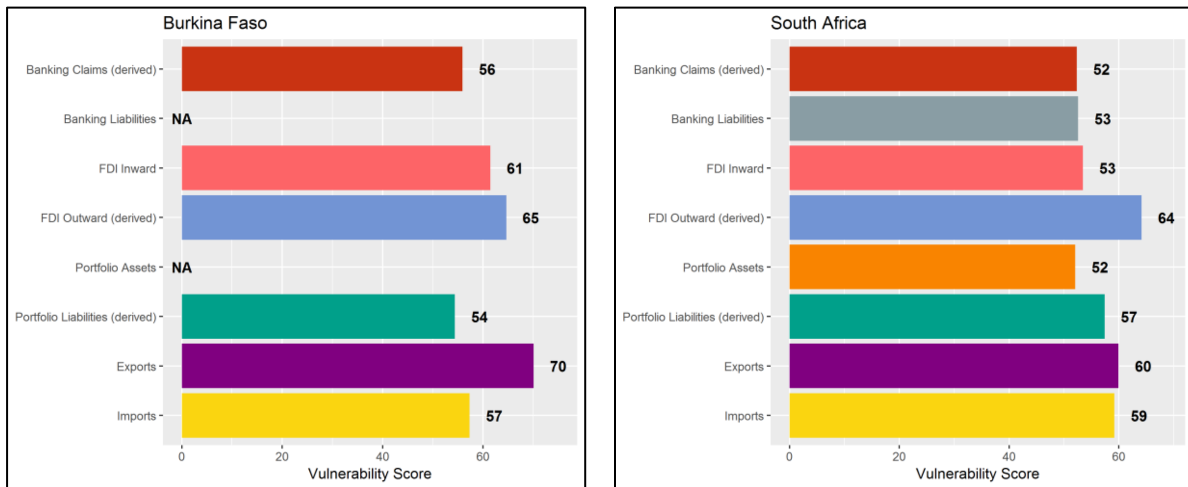

Figure 6. Burkina Faso and South Africa's average vulnerability to illicit financial flows across eight channels, 2008-2018

The comparison (using available data) shows that Burkina Faso faces the highest channel-specific level of vulnerability in its goods exports, while South Africa's peak vulnerability stems from outward foreign direct investment stocks. However, these average vulnerabilities alone do not provide policymakers with a clear steer to respond to IFF risk.

Figure 7 shows the intensity of each stock and flow: how big each is in relation to national GDP. Caution is required in comparing across stocks and flows (e.g. is an inward FDI stock of 10% of GDP more, or less, important than an annual export flow of 5% of GDP?). But the calculation of exposure to IFF risk, combining intensity and vulnerability, does provide a first level indicator of relative importance of the risks in each area.

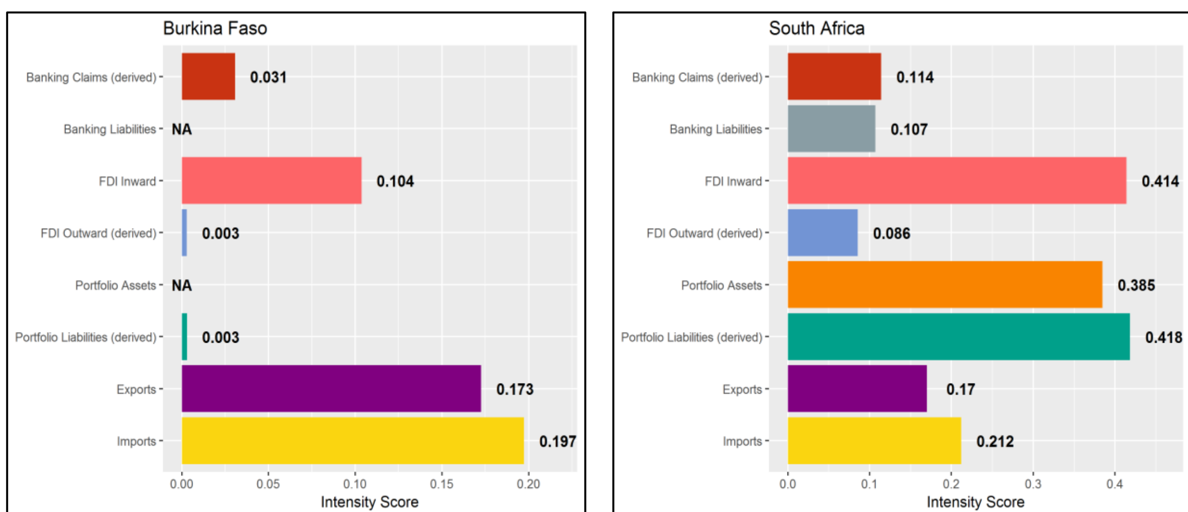

Figure 7. Average intensity of illicit financial flows across eight channels in Burkina Faso and South Africa, 2008-2018

Figure 8 shows these exposure values, for the two countries. It is immediately clear, comparing back to Figure 6, that vulnerability measures alone present a potentially misleading picture of where the greatest risks for a country lie. In the case of Burkina Faso, the high vulnerability of exports is compounded by their greater intensity, giving the equivalent of pure-secrecy transactions worth 12% of GDP. This compares to pure-secrecy equivalents of 9% of GDP for imports, and 6% for the stock of inward FDI.

In the case of South Africa, however, the higher vulnerability of outward direct investment is completely outweighed by the much greater intensity of inward direct investment and of portfolio investment in both directions. South Africa's trade exposure is of a similar level to that of Burkina Faso, although in contrast is somewhat higher for imports than for exports. But the exposure of investment stocks is far greater: 20% and 24% of GDP in portfolio assets and liabilities, respectively, and 22% in inward direct investment (compared to just 6% in the more vulnerable outward investment).

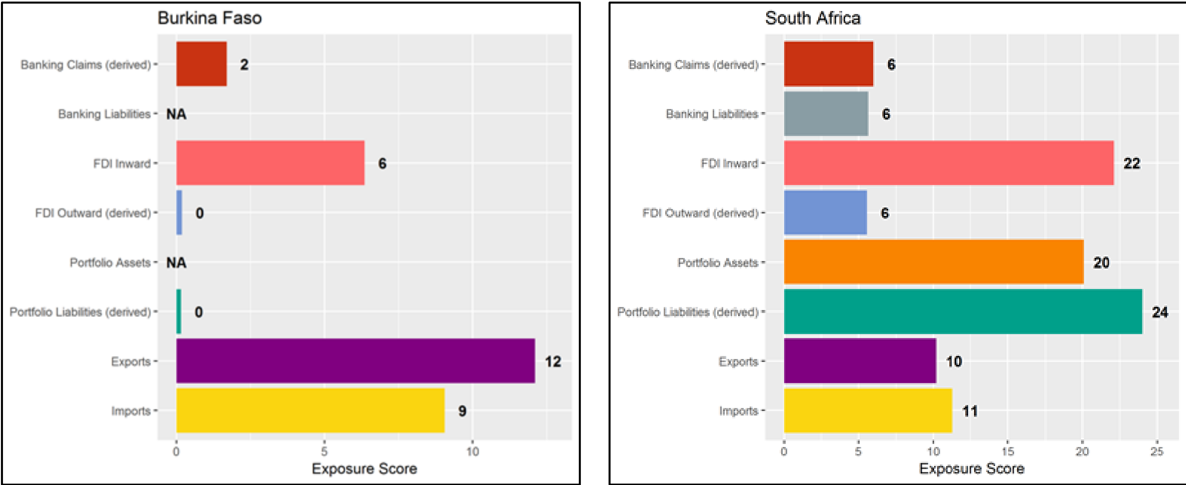

Figure 8. Average exposure of illicit financial flows across eight channels in Burkina Faso and South Africa, 2008-2018

In this way, the various aggregates provide initial guidance on where to prioritise capacity building and audit activity. This can support decisions about issues such as capacity strengthening in the customs department or in tax audit capacity; or whether tax audits should target entities in the financial or corporate sector, for example.

In the next stage, a detailed breakdown within each economic channel can help guide policy-making more effectively by revealing the partner jurisdictions which are responsible for the vulnerability. This can allow targeting of policies and operations to address particular vulnerabilities, such as (re)negotiating particular bilateral agreements, or auditing or investigating particular bilateral economic relationships.

In the subsequent chapters, each individual channel is analysed in more detail and combined with anecdotal evidence on the risk for illicit financial flows. Whenever we are analysing a country's specific partners responsible for providing vulnerability, we rely on data for 2016, the last year for which we have complete data.

Table 4. Types of illicit financial flows

Economic Channel / Dataset	Manipulation	Illicit motivation	IFF type[27]
Exports	Over-pricing	Exploit subsidy regime	2 – tax abuse
		(Re)patriate undeclared capital	1 – market/regulatory abuse
	Under-pricing	Shift undeclared (licit) income/profit	2 – tax abuse
		Shift criminal proceeds out	4 – proceeds of crime
		Evade capital controls (including on profit repatriation)	1 – market/regulatory abuse
Imports	Under-pricing	Evade tariffs	2 – tax abuse
		(Re)patriate undeclared capital	1 – market/regulatory abuse
	Over-pricing	Shift undeclared (licit) income/profit	2 – tax abuse
		Shift criminal proceeds out	4 – proceeds of crime
		Evade capital controls (including on profit repatriation)	1 – market/regulatory abuse
		Shift undeclared (licit) income/profit	2 – tax abuse
Foreign Direct Investment (inward)	Under-pricing	Shift undeclared (licit) income/profit	2 – tax abuse
		Shift criminal proceeds out	4 – proceeds of crime
		Evade capital controls (including on profit repatriation)	1 – market/regulatory abuse
	Over-pricing	(Re)patriate undeclared capital	1 – market/regulatory abuse
	Anonymity	Hide market dominance	1 – market/regulatory abuse
	Anonymity	Hide political involvement	3 – abuse of power
Foreign Direct Investment (outward)	Under-pricing	Evade capital controls (including on profit repatriation)	1 – market/regulatory abuse
	Over-pricing	Shift undeclared (licit) income/profit	2 – tax abuse
		Shift criminal proceeds out	4 – proceeds of crime
	Anonymity	Hide political involvement	3 – abuse of power
Portfolio Assets (outward)	Anonymity	Tax evasion	2 – tax abuse
	Anonymity	Shift criminal proceeds out, financing of terrorism	4 – proceeds of crime
	Anonymity	Paying kickbacks, corruption	3 – abuse of power
Portfolio Liabilities (inward)	Anonymity	Money Laundering	4 – proceeds of crime
	Anonymity	Round tripping	2 – tax abuse
Banking Claims (outward)	Anonymity	Tax evasion	2 – tax abuse
	Anonymity	Shift criminal proceeds out, financing of terrorism	4 – proceeds of crime
	Anonymity	Paying kickbacks, corruption	3 – abuse of power
Banking Liabilities (inward)	Anonymity	Money Laundering	4 – proceeds of crime
	Anonymity	Round tripping	2 – tax abuse

Source: Adjusted by authors, based on Cobham (2014). 'IFF type' is defined as follows: 1 – market/regulatory abuse, 2 - tax abuse, 3 – abuse of power, including theft of state funds, 4 – proceeds of crime.

[27] Alex Cobham, *The Impacts of Illicit Financial Flows on Peace and Security in Africa*, 1 April 2014 <https://www.africaportal.org/publications/the-impacts-of-illicit-financial-flows-on-peace-and-security-in-africa/> [accessed 9 August 2019].

4. Trade in goods

This section explores the vulnerability of Africa's trade to illicit financial flows. It includes country-level risk analysis and policy recommendations to tackle vulnerabilities to illicit financial flows through trade. The UN Comtrade database for imports and exports is used to examine vulnerability in trade. There is at least one data observation for 70% (42 countries) of all African countries between 2009 and 2017.[28] For 2016, there is data for just over half of the African countries (32 countries), as shown in Table 3 and Annex B.

Serious risks of illicit financial flows in trade arise through manipulations to the price, quantity and quality of traded goods declared at customs, as captured in Table 5. For example, a Korean semiconductor company set up a shell company in China and imported goods at overvalued prices. The company shifted US$16 million abroad, which was the difference between the inflated and genuine price.[29]

Elaborate money laundering schemes can also be trade-based. For example, a Brazilian company laundered the proceeds of crime through selling overpriced syrup to several shell companies. The Brazilian company was able to reintegrate the earnings from these sales into the legitimate economy through its Brazilian bank account that received payments from the shell companies.[30] Customs officials are inevitably at risk of bribery and extortion. In Germany, four custom officials received bribes for 10 years in exchange for stamping export papers without verifying goods. Some goods never left the country yet exporters were able to receive VAT reimbursements from the German government.[31]

The higher the secrecy of Africa's trading partners, the greater the risk for such documented abuses to occur.

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[28] The data set includes data from 2008-2018; however, in the trade data set for Africa (exports and imports), data is available only for 2009-2017.
[29] Chang-Ryung Han, 'Combating Illicit Financial Flows: Practice of Korea Customs Service', in *Illicit Financial Flows via Trade Mis-Invoicing. Study Report 2018*, ed. by Yeon Soon Choi and Rachel McGauran, World Customs Organization (Brussels, 2018), 142.
[30] Financial Action Task Force (FATF), *Trade Based Money Laundering* (Paris, 2006), 20 <http://www.fatf-gafi.org/media/fatf/documents/reports/Trade%20Based%20Money%20Laundering.pdf> [accessed 28 November 2018].
[31] Andreas Ulrich, 'Korruption: Kontrolleure Außer Kontrolle', *Spiegel Online*, 12 July 2008, section Panorama <http://www.spiegel.de/panorama/justiz/korruption-kontrolleure-ausser-kontrolle-a-565407.html> [accessed 10 January 2019].

Table 5. Illicit financial flows risk: trade

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
Independent Party Trade, Related Party Trade, Intra Group Trade.	Pricing, Quantity, Quality of traded goods in customs declaration forms.	Tax	Manipulations of price, quantity, quality can take the form of re-invoicing (routing trade on paper through third jurisdictions, resulting in two different invoices for one trade transaction), same invoice mispricing, fake transactions (extreme case of no trade taking place), and transfer mispricing (or abusive transfer pricing; intra-group trade).	A Korean semiconductor importer created a Chinese shell company from which he imported at higher prices, shifting US$16m abroad.[32]
		Money Laundering	Trade-based money laundering schemes.	A Brazilian company used offshore companies it controlled for purchasing syrup for soft drinks at highly inflated prices with cash that was smuggled out of Brazil previously.[33]
		Corruption	Corruption by or of (multinational) companies: by mispricing trade, staff of companies create and control slush funds for bribery and/or conspicuous consumption (embezzlement).	A Korean steel importer created a slush fund through a subsidiary shell company in Hong Kong and embezzled approx. US$6.6m.[34]
	Bribing or putting pressure on custom officials.	Corruption, Money Laundering	Bribery of custom officials or extortion, e.g. through drone surveillance in port areas by criminals to identify custom officials opening containers with illegal goods.	Four German custom officials received bribes for 10 years in exchange for lenient or no controls of exported goods, incl. fake transactions.[35]

4.1 Continental risk

Between 2009 and 2017, the vulnerability of imports (59) in Africa is on average very similar to the vulnerability of exports (60), while there are marked differences among countries. For example, vulnerability in imports is substantially higher than for exports in Madagascar and Djibouti, while the reverse applies in Burkina Faso, Burundi and Zambia. For all countries, the vulnerability in both imports and exports is over 50 (see Figure 9 below).

[32] Han, 'Combating Illicit Financial Flows: Practice of Korea Customs Service', 142.
[33] Financial Action Task Force (FATF), *Trade Based Money Laundering*.
[34] Han, 'Combating Illicit Financial Flows: Practice of Korea Customs Service', 143.
[35] Ulrich, 'Korruption'.

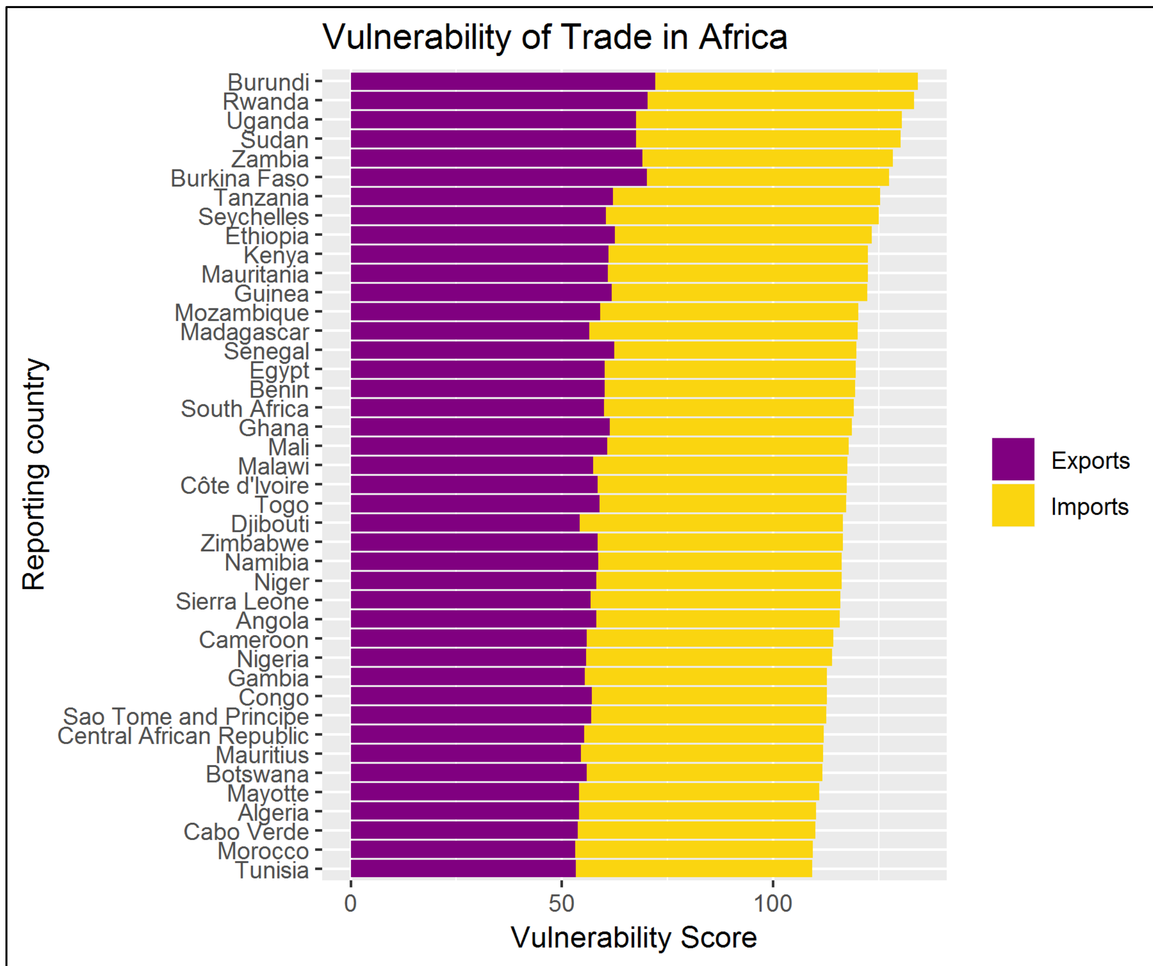

Figure 9. Overview of illicit financial flows vulnerability of trade in Africa (including conduits), 2009-2017

Trade in three East African nations (Burundi, Rwanda and Uganda) was most vulnerable to illicit financial flows between 2009 and 2017 (see Figure 9). The average vulnerability in imports in Burundi (62), Rwanda (63) and Uganda (63) is lower than vulnerability in exports (Burundi (72), Rwanda (70) and Uganda (68)).

The United Arab Emirates and Kenya are among the main providers of vulnerability in exports for these three African nations in 2016. Kenya, with its efforts to establish Nairobi International Financial Centre with heightened secrecy provisions and efforts to expand its treaty network[36], is a highly secretive trading partner. The United Arab Emirates also plays a significant role in Africa’s vulnerability in both exports and imports across all years. For Burundi, Rwanda and Uganda, over 20% of vulnerability results from exporting to highly secretive United Arab Emirates. To mention only two of the numerous special tax regimes in the United Arab Emirates–Dubai International Financial Centre and Ras Al

[36] Tax Justice Network and Tax Justice Network Africa, *Narrative Report on Kenya*, 2018 <https://www.financialsecrecyindex.com/PDF/Kenya.pdf> [accessed 6 December 2018].

Khaimah–provide a low or nil tax regime embedded in a free-trade zone environment combined with multiple secrecy facilities and an 'ask-no-questions, see-no-evil' approach to enforcement.[37] Both Kenya and the United Arab Emirates are also the most highly secretive trading partners in terms of imports, although China is the main import partner for all three countries, which closely mirrors China's share of imports across the continent.

When analysing the African continent collectively, the ranking of the most important secrecy suppliers of vulnerability in imports and exports is very similar to the ranking of major importing or exporting trading partners (see Table 6 and Table 8). This is because salient patterns in the secrecy risk profiles at the individual jurisdiction level are eclipsed by the concentration of trade volume with a few major trading nations.

4.1.1 Import analysis

Unsurprisingly then, Africa's imports are most vulnerable to secrecy risks from China because the size of Africa's imports from China is more than double the next importing partner, Germany, and reflects a total of 18% of all imports into Africa. As China's (60) and Germany's (59) secrecy scores are almost identical, the vulnerability share of imports from China (18%) is similarly more than double Germany's (7%).

South Africa (4%) is the only African country in the top 20 suppliers of secrecy risks for the continent, reflecting the size of South Africa's regional export market. Kenya comes in at rank thirty, representing just over 0.5%, but as explained earlier, it plays a significant role for specific countries, especially in East Africa.

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[37] Tax Justice Network, *Narrative Report of the United Arab Emirates (Dubai)* (2018) <https://www.financialsecrecyindex.com/PDF/UnitedArabEmirates_Dubai.pdf> [accessed 6 December 2018].

Table 6. Vulnerability in imports 2016 – Africa's top suppliers of secrecy risks

Rank	Country	Africa's Vulnerability Share	Secrecy Score	Value of Imports (billions) (USD)	Share of Imports
1	China	18.10%	60	59.8	18%
2	Germany	7.32%	59	24.6	7%
3	United States of America	6.46%	60	21.4	6%
4	France	6.02%	52	23.1	7%
5	India	4.27%	52	16.3	5%
6	South Africa	4.26%	56	15.1	4%
7	Italy	4.18%	49	16.8	5%
8	Spain	3.94%	48	16.4	5%
9	Netherlands	3.33%	66	10.0	3%
10	Turkey	3.30%	68	9.6	3%
11	United Arab Emirates	3.05%	84	7.2	2%
12	Saudi Arabia	2.97%	70	8.4	2%
13	Japan	2.52%	61	8.3	2%
14	Thailand	2.13%	80	5.3	2%
15	Belgium	2.12%	44	9.6	3%
16	Korea	2.03%	59	6.8	2%
17	Russia	1.97%	64	6.1	2%
18	United Kingdom	1.94%	42	9.1	3%
19	Brazil	1.80%	49	7.3	2%
20	Ukraine	1.26%	69	3.6	1%

Of the 20 exporter jurisdictions responsible for most vulnerability in Africa's imports, 10 of the top 20 are of specific concern because of their comparatively high secrecy score. United Arab Emirates and Thailand stand out as the only jurisdictions in the top 20 that have an extremely high secrecy score of 84 and 80, respectively, and eight jurisdictions have a high secrecy score (>60).

When focusing on the African import partners with the highest secrecy scores only (as opposed to the vulnerability share, which includes secrecy weighted by volume of trade; see Table 7), a different picture emerges. 4.6% of imports come from jurisdictions with very (>70) or extremely high secrecy scores (>80). The value of imports is comparatively small, making up generally less than 0.5% of continental imports. Yet imports from notorious (zero tax) tax havens and secrecy jurisdictions give rise to serious concerns. For example imports valued at over US$100mn and US$200mn in 2016 from Vanuatu and the Bahamas, respectively flag potential IFF.

Table 7. Vulnerability in imports 2016 – Africa's suppliers of secrecy risks ranked by highest secrecy score

Rank	Country	Africa's Vulnerability Share	Secrecy Score	Value of Imports (billions) (USD)	Share of Imports
1	Vanuatu	0.05%	89	.108	0.0%
2	Antigua & Barbuda	0.01%	87	.032	0.0%
3	Bahamas	0.09%	85	.218	0.1%
4	Paraguay	0.10%	84	.240	0.1%
5	Brunei Darussalam	0.00%	84	.001	0.0%
6	United Arab Emirates	3.05%	84	7.225	2.1%
7	Maldives	0.00%	81	.001	0.0%
8	Bolivia	0.00%	80	.007	0.0%
9	Kenya	0.55%	80	1.355	0.4%
10	Thailand	2.13%	80	5.289	1.6%
11	Liberia	0.05%	80	.122	0.0%
12	Saint Lucia	0.00%	78	.000	0.0%
13	Bahrain	0.39%	78	1.006	0.3%
14	Samoa	0.00%	78	.001	0.0%
15	Anguilla	0.00%	78	.000	0.0%
16	Montserrat	0.00%	78	.000	0.0%
17	Dominica	0.00%	77	.003	0.0%
18	Grenada	0.00%	77	.000	0.0%
19	Turks and Caicos Islands	0.00%	77	.012	0.0%
20	St. Kitts and Nevis	0.00%	77	.000	0.0%

4.1.2 Export analysis

The United States of America represents the greatest share of Africa's vulnerability in exports (8.65%) based on a share of exports at 8% (see Table 8). France follows closely after. Apart from Russia, all the other BRICS countries are in the top 20 suppliers of secrecy risks to Africa as export destinations.

Table 8. Vulnerability in exports 2016 – Africa's top suppliers of secrecy risks

Rank	Country	Africa's Vulnerability Share	Secrecy Score	Value of Exports (billions) (USD)	Share of Exports
1	United States of America	8.65%	60	17.2	8%
2	France	7.82%	52	18.0	9%
3	India	6.97%	52	15.9	8%
4	Spain	6.12%	48	15.2	7%
5	China	5.77%	60	11.4	6%
6	United Arab Emirates	5.71%	84	8.1	4%
7	Italy	5.45%	49	13.1	6%
8	Switzerland	5.32%	76	8.3	4%
9	Netherlands	5.10%	66	9.2	4%
10	Germany	4.71%	59	9.5	5%
11	South Africa	4.50%	56	9.5	5%
12	United Kingdom	2.93%	42	8.2	4%
13	Turkey	2.61%	68	4.6	2%
14	Japan	2.57%	61	5.1	2%
15	Botswana	2.57%	69	4.4	2%
16	Belgium	2.52%	44	6.8	3%
17	Canada	1.57%	55	3.4	2%
18	Singapore	1.56%	67	2.8	1%
19	Brazil	1.54%	49	3.7	2%
20	Saudi Arabia	1.44%	70	2.4	1%

Table 8 shows that Switzerland has a very high secrecy score of 76. This is of special interest because the country is a key hub for commodity trading and more than 70% of Africa's exports are from the extractives sector[38]. Swiss civil society group Public Eye (formerly Berne Declaration) has described commodity trading as 'Switzerland's most dangerous business'.[39] Switzerland's contribution to Africa's overall vulnerability to illicit financial flows in exports is 5% (with an export share of 4%).

The UN Economic Commission for Africa estimates that over half of the illicit financial flows from Africa between 2000 and 2010 came from the extractives sector.[40] Cross-border corporate practices are particularly problematic in the mining, oil and gas sectors in Africa. Illicit financial flow risks arise along the

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[38] United Nations. Economic Commission for Africa. Special Initiatives Division. African Minerals Development Centre; African Union Commission, *Impact of Illicit Financial Flows on Domestic Resource Mobilization: Optimizing Revenues from the Mineral Sector in Africa* (Addis Ababa, January 2017) <https://repository.uneca.org/handle/10855/23862> [accessed 5 December 2018].
[39] Thomas Braunschweig and Erklärung von Bern, eds., *Rohstoff: Das Gefährlichste Geschäft Der Schweiz*, 2. Aufl (Zürich, 2012).
[40] United Nations. Economic Commission for Africa. Special Initiatives Division. African Minerals Development Centre; African Union Commission, *Impact of Illicit Financial Flows on Domestic Resource Mobilization: Optimizing Revenues from the Mineral Sector in Africa*.

mineral value chain–from licencing to decommissioning[41]–especially where related parties (for example, subsidiaries of a company) are involved in transactions. Purchases and sales between affiliates may be over- or under-priced, and trade can also be routed through a third jurisdiction resulting in two different invoices and/or tax treaty shopping ("triangulation").[42] This transfer mispricing, trade mis-invoicing, or triangulation trade reduces the overall tax bill for a multinational. In turn, this erodes the tax base of countries where products are actually being mined, hindering their domestic revenue mobilisation.

Many commodities are traded through Switzerland on paper but typically do not physically cross the Swiss borders. Switzerland makes up over 60% of vulnerability for both Burkina Faso and Zambia since 2010. The data also gives grounds for concern for Namibia, Ghana, Tanzania, Senegal, and Mali where Switzerland contributed over 20% to the country's vulnerability to illicit financial flows in exports in 2016. This reflects the concentration of exports from these countries to Switzerland as a commodity trading hub and the significant operations in some of these countries by Swiss-headquartered commodity trading and mining company Glencore. Companies exploit Switzerland's low corporate tax regime and make the most of special cantonal rates for holding companies, the regime for transit trade, and other tax privileges.[43] In addition, although Switzerland has committed to country-by-country reporting through the OECD's Inclusive Framework on Base Erosion and Profit Shifting, its transparency value remains limited because full public reporting is not required, among other issues.[44]

A number of small, extremely secretive jurisdictions emerge when sorting the vulnerability of exports by highest secrecy score (see Table 9). However, most of these make up a very small share of continental exports. With a 4% share of Africa's exports, the United Arab Emirates is the only country in top 20 of countries supplying secrecy risks to the continent with an extremely high secrecy score. At the continental level, therefore, the United Arab Emirates should be a target for improving transparency. This should be complemented by country level risk assessment and analysis.

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[41] Philippe Le Billon, *Extractive Sectors and Illicit Financial Flows: What Role for Revenue Governance Initiatives?* (2011) <https://www.u4.no/publications/extractive-sectors-and-illicit-financial-flows-what-role-for-revenue-governance-initiatives/> [accessed 5 December 2018].
[42] Markus Meinzer, 'Towards a Common Yardstick to Identify Tax Havens and to Facilitate Reform', in *Global Tax Governance – What Is Wrong with It, and How to Fix It*, ed. by Thomas Rixen and Peter Dietsch (Colchester, 2016), 262–63.
[43] Natural Resource Governance Institute and others, *In Pursuit of Transparent Trading*, October 2015 <https://www.publiceye.ch/fileadmin/doc/Rohstoffe/2015_PublicEye_In_Pursuit_of_Transparent_Trading.pdf> [accessed 7 December 2018].
[44] Tax Justice Network, *Narrative Report on Switzerland*, 2018 <http://www.financialsecrecyindex.com/PDF/Switzerland.pdf> [accessed 17 December 2018].

Table 9. Vulnerability in exports 2016 – Africa's suppliers of secrecy risks ranked by highest secrecy score

Rank	Country	Africa's Vulnerability Share	Secrecy Score	Value of Exports (billions) (USD)	Share of Exports
1	Vanuatu	0.00%	89	.002	0.0%
2	Antigua & Barbuda	0.00%	87	.005	0.0%
3	Bahamas	0.04%	85	.056	0.0%
4	Paraguay	0.01%	84	.012	0.0%
5	Brunei Darussalam	0.00%	84	.003	0.0%
6	United Arab Emirates	5.71%	84	8.085	4.0%
7	Maldives	0.01%	81	.019	0.0%
8	Bolivia	0.00%	80	.003	0.0%
9	Kenya	1.21%	80	1.800	0.9%
10	Thailand	0.62%	80	.928	0.5%
11	Liberia	0.04%	80	.067	0.0%
12	Saint Lucia	0.00%	78	.000	0.0%
13	Bahrain	0.06%	78	.095	0.0%
14	Samoa	0.00%	78	.000	0.0%
15	Anguilla	0.00%	78	.000	0.0%
16	Montserrat	0.00%	78	.000	0.0%
17	Dominica	0.00%	77	.002	0.0%
18	Grenada	0.00%	77	.000	0.0%
19	Turks and Caicos Islands	0.00%	77	.000	0.0%
20	St. Kitts and Nevis	0.00%	77	.003	0.0%

4.1.3 The geopolitics of Africa's trade vulnerability

When aggregating the total origin of the import and export vulnerability in 2016 by region (see Figure 10), a total of 43% of secrecy risks to African imports originates from Asia, with Europe following close behind at 40%. Europe and Asia also dominate secrecy supply risks for exports, reflecting their position as Africa's main trading partners in terms of volume.

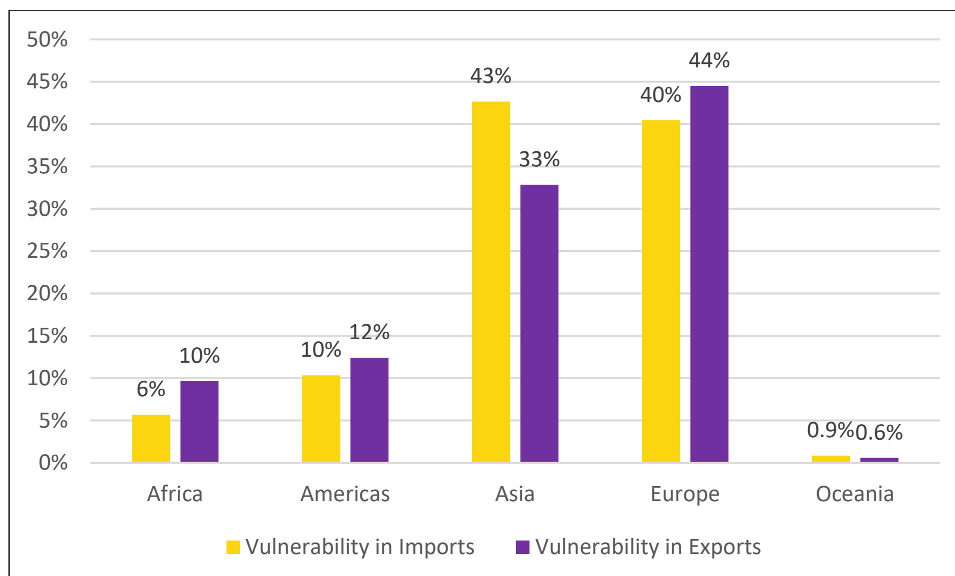

Figure 10. Vulnerability in imports and exports 2016 – Africa's top suppliers of secrecy risks by region

Over one-third of Africa's vulnerability to illicit financial flows in trade is through imports and exports with the European Union (see Table 10).

Table 10. Vulnerability in trade 2016 – European Union contribution to secrecy risks

Area	Africa's Vulnerability Share	Secrecy Score	Value of Trade (billions) (USD)	Share of Trade
European Union	36.5%	54	219.7	40.85%
European Union Dependency[45]	0.3%	74	1.3	0.25%
Non-European Union	63.2%	67	323.7	58.89%

Much trade between the European Union and African, Caribbean and Pacific (ACP) countries is guided by Economic Partnership Agreements. The European Union argues that these agreements go beyond traditional free trade agreements since they seek to ultimately contribute to sustainable development by "fostering the smooth and gradual integration of the ACP partners into the world economy".[46] The 29 ACP countries currently implementing Economic Partnership Agreements are assisted with "the exclusion of sensitive products from liberalisation, long liberalisation periods, flexible rules of origin, and special safeguards and measures for agriculture, food security and infant industry protection".[47]

[45] The following countries are categorised as European Union Dependencies: Anguilla, Aruba, Bermuda, British Virgin Islands, Cayman Islands, Curacao, Gibraltar, Guernsey, Isle of Man, Jersey, Montserrat, St Maarten, and Turks and Caicos. See Annex E for details.
[46] European Commission, *Economic Partnership Agreements (EPAs) Fact Sheet*, September 2018, 1 <http://trade.ec.europa.eu/doclib/docs/2017/february/tradoc_155300.pdf> [accessed 18 December 2018].
[47] European Commission, *Economic Partnership Agreements (EPAs) Fact Sheet*, September 2018, 1 <http://trade.ec.europa.eu/doclib/docs/2017/february/tradoc_155300.pdf> [accessed 18 December 2018].

Direct impacts of these agreements on reducing poverty and improving global market integration have been questioned with concerns raised about the impacts on Africa's regional integration, among others.[48] Including a risk analysis of illicit financial flows provides a new angle to this debate.

While some may portray the Economic Partnership Agreements as European Union member countries extending a hand to African nations in trade, trade with these same European Union countries increases Africa's vulnerability to illicit financial flows. More than one-third of secrecy risks to Africa are supplied by the European Union (see Table 10). If member states are in fact as committed to working together with ACP countries "towards the achievement of the objectives of poverty eradication, sustainable development and […] integration"[49] as they claim, then it is critical to address the ways in which doing trade with this regional block puts African nations at risk. Against the backdrop of these considerations, the European Union's approach of conditioning aid and trade agreements upon the implementation of OECD tax policies in Africa appears hypocritical.[50]

For example, the Netherlands is among the top 10 contributors to Africa's vulnerability to illicit financial flows in both imports and exports. The Netherlands' opacity regarding ownership information and the annual accounts of public companies and limited partnerships obstructs African nations' ability to audit corporate tax practices.[51] This is highly problematic since multinationals often structure their corporate network so as to include a Netherlands-based intermediate holding company (conduit) for then passing on income to (zero tax)

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[48] Stephen Karingi and others, *Economic and Welfare Impacts of the EU-Africa Economic Partnership Agreements* (2005) <https://www.researchgate.net/profile/Nassim_Oulmane/publication/23805192_Economic_and_Welfare_Impacts_of_the_EU-Africa_Economic_Partnership_Agreements/links/00463521e1c8f9dbe3000000.pdf> [accessed 18 December 2018]; Oxfam International, *Unequal Partners: How EU–ACP Economic Partnership Agreements (EPAs) Could Harm the Development Prospects of Many of the World's Poorest Countries*, September 2006 <https://oxfamilibrary.openrepository.com/bitstream/handle/10546/115057/bn-unequal-partners-epas-270906-en.pdf?sequence=1> [accessed 18 December 2018]; Matthias Busse and Harald Großmann, *Assessing the Impact of Acp/Eu Economic Partnership Agreement on West African Countries* (Rochester, NY, 1 August 2004) <https://papers.ssrn.com/abstract=601083> [accessed 18 December 2018]; Sir Ronald Sanders, 'The EU, Economic Partnership Agreements and Africa', *The Round Table*, 104/5 (2015), 563–71; Sean Woolfrey and San Bilal, *The Impact of Economic Partnership Agreements on the Development of African Value Chains: Case Studies of the Kenyan Dairy Value Chain and Namibian Fisheries and Horticulture Value Chains*, Discussion Paper (June 2017) <https://www.researchgate.net/profile/Sanoussi_Bilal/publication/317872781_The_impact_of_Economic_Partnership_Agreements_on_the_development_of_African_value_chains_Case_studies_of_the_Kenyan_dairy_value_chain_and_Namibian_fisheries_and_horticulture_value_chains/links/594fde5baca27248ae4386cc/The-impact-of-Economic-Partnership-Agreements-on-the-development-of-African-value-chains-Case-studies-of-the-Kenyan-dairy-value-chain-and-Namibian-fisheries-and-horticulture-value-chains.pdf> [accessed 18 December 2018]; Antoine Bouët, David Laborde and Fousseini Traoré, 'The European Union–West Africa Economic Partnership Agreement: Small Impact and New Questions', *The Journal of International Trade & Economic Development*, 27/1 (2018), 25–53.

[49] *The Cotonou Agreement*, 2000 <http://www.europarl.europa.eu/intcoop/acp/03_01/pdf/mn3012634_en.pdf> [accessed 18 December 2018].

[50] Irma Johanna Mosquera Valderrama, 'The EU Standard of Good Governance in Tax Matters for Third (Non-EU) Countries', *INTERTAX*, 47/5 (2019), 465–66.

[51] Tax Justice Network, *Narrative Report on the Netherlands*, Financial Secrecy Index 2018 (2018) <http://www.financialsecrecyindex.com/PDF/Netherlands.pdf> [accessed 16 January 2019].

tax havens or high secrecy jurisdictions or ultimate parent jurisdictions.[52] Details about intra-group trade with Dutch upstream holding companies thus can often remain hidden from public and tax authority scrutiny, enabling profit shifting to affiliate foreign companies.[53] Another example of the ambiguous role the European Union plays are the high secrecy scores emanating from EU-controlled territories, such as the British Virgin Islands, which are notoriously associated with grand corruption cases.[54] Substantial trading activities with the British Virgin Islands exists in a number of African countries in recent years (Malawi, Namibia, Rwanda, South Africa, Tanzania and Zambia). The important role the United Kingdom[55] in particular is playing with regard to secrecy policies in its vast network of dependent offshore secrecy jurisdictions highlights the European Union's ubiquitous role in enabling a corruption-prone business environment.[56]

The OECD has a particular political responsibility to address financial secrecy to reduce Africa's risk to vulnerability in illicit financial flows in trade.[57] Over half and almost two-thirds of Africa's vulnerability risk in imports and exports respectively is supplied by OECD countries and their dependencies (see Figure 11. Vulnerability in imports and exports 2016 – OECD contribution to secrecy risks and Annex E for details); this in turn reflects the contribution of these countries to the share of imports (55.6%) and exports (63.8%).

[52] Javier Garcia-Bernardo and others, 'Uncovering Offshore Financial Centers: Conduits and Sinks in the Global Corporate Ownership Network', *Scientific Reports*, 7/1 (2017), 6,8 <http://www.nature.com/articles/s41598-017-06322-9> [accessed 27 September 2017].
[53] Francis Weyzig, 'The Capital Structure of Large Firms and the Use of Dutch Financing Entities', *Fiscal Studies*, 35/2 (2014), 139–64.
[54] Tax Justice Network, *Narrative Report on the British Virgin Islands*, Financial Secrecy Index - Country Reports (2018) <http://www.financialsecrecyindex.com/PDF/BritishVirginIslands.pdf> [accessed 13 June 2019].
[55] *Narrative Report on the United Kingdom*, Key Financial Secrecy Indicators (2018) <https://www.financialsecrecyindex.com/PDF/UnitedKingdom.pdf> [accessed 13 June 2019].
[56] For an introduction to the role of the UK offshore empire, consider watching the documentary "The Spider's Web – Britain's Second Empire": https://www.youtube.com/watch?v=np_ylvc8Zj8; 25.1.2019.
[57] OECD Dependencies include UK Overseas Territories and Crown Dependencies and US and Dutch Overseas Territories: Anguilla, Aruba, Bermuda, British Virgin Islands, Cayman Islands, Curacao, Gibraltar, Guernsey, Isle of Man, Jersey, Montserrat, Puerto Rico, Sint Maarten, Turks and Caicos, and US Virgin Islands.

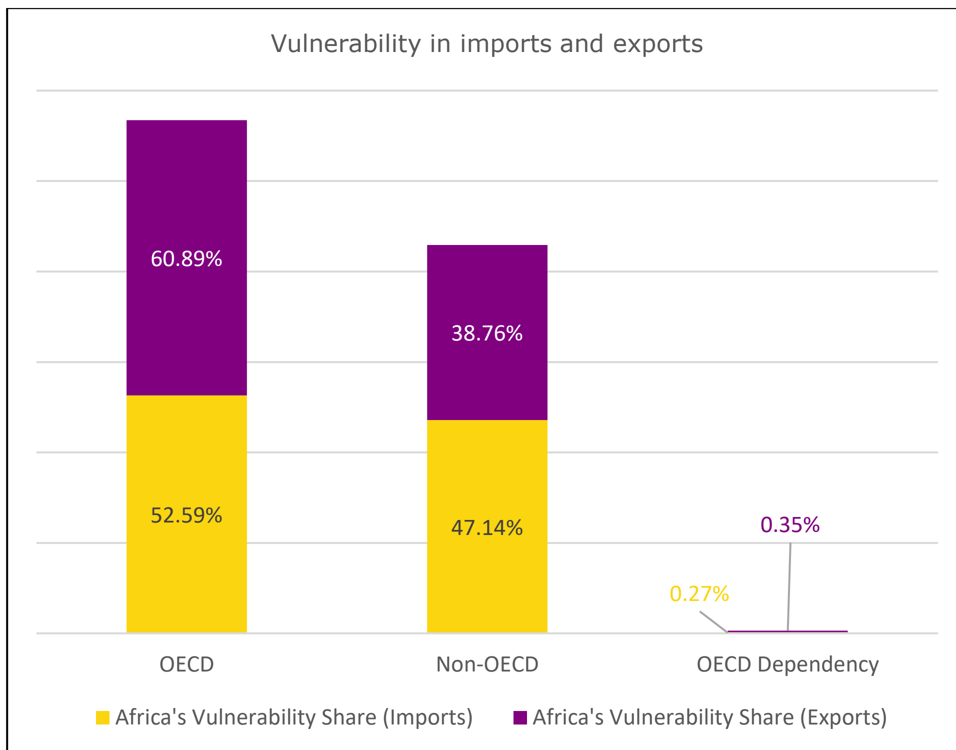

Figure 11. Vulnerability in imports and exports 2016 – OECD contribution to secrecy risks

The OECD has made some effort with the Base Erosion and Profit Shifting project (2013-2015) to address the risks countries face through trade-related illicit financial flows. However, continued use of the largely unworkable arm's length principle to assess the value of intra-group cross-border trade exposes countries to the risk that companies continue mispricing transactions to minimise their overall tax bill. In fact, the International Monetary Fund and the European Commission alluded to the needed for more fundamental reform to international tax rules, which would require replacing the arm's length principle with another way for attributing taxable profits.[58] The OECD has committed to publish aggregate and anonymised data from the country-by-country reporting of multinational companies. Even though it is anonymous, improving global corporate disclosure will in turn help improve our understanding of global profit misalignments, i.e. how far removed the share of declared profits and taxes paid is globally from measures of real economic activity, and at whose detriment.[59]

[58] This could happen for example through a unitary approach: recognising the profit of multinationals at the group level and taxing where value is created. Alex Cobham, 'Beginning of the End for the Arm's Length Principle?', 2017 <https://www.taxjustice.net/2017/09/22/beginning-of-the-end-for-the-arms-length-principle/> [accessed 16 January 2019]. Alex Cobham, 'The Bell Tolls for Arm's Length Pricing', *Tax Justice Network*, 2018 <https://www.taxjustice.net/2018/04/20/the-bell-tolls-for-arms-length-pricing/> [accessed 18 January 2019].
[59] Alex Cobham, 'Progress on Global Profit Shifting: No More Hiding for Jurisdictions That Sell Profit Shifting at the Expense of Others', *Tax Justice Network*, 2018 <https://www.taxjustice.net/2018/07/24/progress-global-profit-shifting/> [accessed 17 January 2019].

4.2 Country-risk profile

Important country-level nuances that are relevant to policymakers and government authorities are masked by the continental aggregates.

As discussed earlier, Burkina Faso's exports are highly vulnerable to Swiss secrecy. Table 11 shows that the vulnerability share is over 70%, while exports to Switzerland make up almost two-thirds of Burkinabe exports. A similar pattern can be observed from 2009 to 2016 in the data set. This high dependency on Switzerland is a result of the country's reliance on commodity exports and should signal to policy makers in Burkina Faso where to focus customs and other audits.

Table 11. Vulnerability of Burkina Faso's exports in 2016

Burkina Faso					
Rank	**Country**	**Secrecy Score**	**Vulnerability Share**	**Exports (m) (USD)**	**Share of Exports**
1	Switzerland	76	70.8%	1495.7	65.0%
2	Singapore	67	9.6%	230.1	10.0%
3	India	52	4.2%	130.0	5.6%
4	South Africa	56	3.2%	90.9	4.0%
5	Ghana	62	2.3%	59.0	2.6%
6	France	52	2.1%	65.9	2.9%
7	China	60	1.6%	41.9	1.8%
8	Greece	58	1.5%	43.1	1.9%
9	United Kingdom	42	1.0%	37.5	1.6%
10	Denmark	53	0.8%	25.8	1.1%
Overall vulnerability of exports 70					

With regards to imports, Mauritania's overall vulnerability to illicit financial flows through imports is particularly concentrated among highly secretive trading partners. With an overall import vulnerability of 62 (see Table 12), almost two-thirds of total vulnerability for imports emerges from importing from the top five countries only. The United Arab Emirates, as described earlier, with its very high secrecy score suggests customs and audit should focus attention here. Mauritanian policymakers should carefully examine the double taxation agreement signed with the nation to identify further risks and necessary mitigation.[60] In addition, Vanuatu's very high secrecy score combined with sizeable magnitudes in imports (over US$100m) should signal an urgent need for policymakers and auditors in Mauritania to review the nature of these imports.[61]

[60] UAE Ministry of Finance, 'List of Double Taxation Avoidance Agreements', 2019 <https://www.mof.gov.ae:443/en/StrategicPartnerships/DoubleTaxtionAgreements/Pages/DoubleTaxtion.aspx> [accessed 17 June 2019]. For further information about the risks of double tax treaties, see Tax Justice Network, *Haven Indicator 20: Double Tax Treaty Aggressiveness* (2019) <https://www.corporatetaxhavenindex.org/PDF/20-Double-Tax-Treaties.pdf> [accessed 6 June 2019].

[61] Anthony Van Fossen, *Narrative Report on Vanuatu*, Financial Secrecy Index 2018 (2018) <http://www.financialsecrecyindex.com/PDF/Vanuatu.pdf> [accessed 14 June 2019].

Table 12. Vulnerability of Mauritania's imports in 2016

Mauritania					
Rank	**Jurisdiction**	**Secrecy Score**	**Vulnerability Share**	**Imports (m) (USD)**	**Share of Imports**
1	United Arab Emirates	84	17.7%	258.4	13.1%
2	United States of America	60	14.3%	292.1	14.8%
3	China	60	9.5%	193.9	9.9%
4	Netherlands	66	8.3%	153.8	7.8%
5	Vanuatu	89	7.8%	108.1	5.5%
6	Belgium	44	7.2%	199.0	10.1%
7	France	52	6.1%	143.8	7.3%
8	Spain	48	3.2%	83.1	4.2%
9	Japan	61	3.2%	64.0	3.3%
10	Turkey	68	2.7%	49.3	2.5%
Overall vulnerability of exports 62					

4.3 Policy recommendations

As the African Union progresses with the implementation of the Continental Free Trade Agreement, it is important that it undertakes an assessment of the collective risk exposure to illicit financial flows arising from the economic relationships with is main trading partners and puts forward collective measures to mitigate them. This includes its trading relationship with the European Union and its dependencies through the Economic Partnership Agreements. In new negotiation directives, the European Council indicates that trade partners will have to commit to adopt OECD standards on tax including on tackling aggressive tax planning.[62] The African Union Commission should consider ensuring that effective tax policies are adopted not only in Africa, but also in the European Union and the OECD. The merits and efficacy of so-called OECD BEPS minimum standards, and their suitability for protecting African nations against illicit financial flow risks in trade, should be thoroughly evaluated. The African Union might consider crafting alternative tax minimum standards for trade negotiations in order to safeguard against illicit financial flows emanating from trade with European and OECD corporate tax havens.

Domestically, tax administrations should audit trade depending on the level of opacity of trading partners at the transactional level to detect and counter risks. Lessons may be learned from work in Brazil, where a large proportion of illicit financial flows from the country is prone to mis-invoicing, and in particular, the

[62] Irma Johanna Mosquera Valderrama, 'The EU Standard of Good Governance in Tax Matters for Third (Non-EU) Countries', *INTERTAX*, 47/5 (2019), 14.

under-invoicing of exports.[63] To tackle this problem, the Brazilian tax and customs departments collaborated to establish a system to measure the risk exposure of import and export transactions recorded in Brazilian trade.[64] The Brazilian authorities applied the macro illicit financial flow risk approach as pioneered in the Mbeki Report (and as expanded throughout this entire report) to micro-data at the transaction level by measuring risk through the level of financial opacity in a trading transaction partner jurisdiction.

In addition to this category of risk, the geographic pattern of trade transactions was compared against the pattern of financial transactions that paid for the traded goods. Transactions were classed as having low-risk exposure where export or import transactions were not multi-layered, i.e. the country of payment (acquisition or sale) was the same as the country of destination or origin of the goods, and the country of acquisition or sale was not a high secrecy jurisdiction. In contrast, transactions deemed to be exposed to high risk were those where there were triangular exports or imports, i.e. the country of acquisition or sale was not the same as the country of destination or origin of the goods, and the country of acquisition or sale is a high secrecy jurisdiction. As a result of the analysis, Brazilian authorities developed a risk management tool (Illicit Financial Flows Explorer) and are implementing a number of policies to counter illicit financial flows.

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[63] Fabiano Coelho, Lucas Rodrigues Amaral and Luciana Bacarolo, 'Fighting Illicit Financial Flows: Brazilian Customs´ Approach', *WCO News*, June 2019, 89 edition <https://mag.wcoomd.org/magazine/wco-news-89/fighting-illicit-financial-flows-brazilian-customs-approach/> [accessed 14 June 2019].

[64] The Ad Hoc Working and Research Group on IFFs via Trade Mis-invoicing was set up at the Federal Revenue and Customs Services of Brazil in 2018 comprising specialists in customs, tax and intelligence under the Federal Revenue and Customs Services of Brazil. This group has developed an action plan based on assessing the risk exposure. This includes ensuring an integrated approach between customs and revenue authorities, developing a risk management tool to track exposure of transactions, improving the registration and control of international traded transactions, and making use of data exchanged under the Organisation for Economic Co-operation and Development's (OECD) Convention on Mutual Administrative Assistance in Tax Matters and to the Multilateral Competent Authority Agreement on the Exchange of Country by Country Reports. The working group also proposes a pilot project on the multilateral automatic exchange of transaction-level trade data with a trade partner; this would improve mirror data to identify gaps and anomalies in declared trade data.

5. Foreign direct investment

Sought-after foreign direct investment exposes African countries to risk of illicit financial flows. This chapter examines how the continent and specific countries may be at risk and what possible strategies exist for policymakers to address the problem. For inward investment positions data, there is at least one data observation for 35% (21 countries) of all African countries between 2008 and 2018.[65] For 2016, there is data for 17 countries, as shown in Table 3 and Annex B. As for the derived outward direct investment data, all 60 African countries are covered.

Outward and inward direct investment flows may be manipulated in a number of ways as Table 13 illustrates. Multinational companies may employ a range of base erosion and profit shifting techniques to reduce their tax bill. This in turn increases the risk of illicit financial flows for host and home countries of multinationals and their subsidiaries. One frequently observed stratagem, such as applied by MTN[66], Amazon[67] or Apple[68], is for a subsidiary of a company to shift profits to low or zero-tax jurisdictions, such as an intermediate holding in Ireland, Mauritius, Luxembourg or the Netherlands, rather than directly making payments to the headquarters of a company. These phenomena can be detected in both inward and outward direct investment.

As for inward direct investment reported by an African country, Paladin Energy, an Australian multinational mining house, thinly capitalised (capitalising a company with debt rather than equity) its uranium mining subsidiary in Malawi by using intermediate legal entities in the Netherlands. Since there was a double tax treaty agreed between Malawi and the Netherlands, between 2009 and 2014, the company avoided paying withholding tax worth US$7.3m on interest payments compared to a direct investment from Australia.[69]

[65] The data set includes data from 2008-2018; however, in the direct investment data set for Africa, data is available for inward direct investment for 2009-2016 only and for outward direct investment (derived) for 2008-2016 only, where Cyprus is the only reporter with data points for 2008.
[66] George Turner, *Finance Uncovered Investigation: MTN's Mauritian Billions*, 9 October 2015 <https://www.financeuncovered.org/investigations/finance-uncovered-investigation-mtns-mauritian-billions/> [accessed 25 June 2019].
[67] Sol Picciotto, 'Why Is Amazon Still Paying Little Tax in the UK?', *Tax Justice Network*, 10 August 2018 <https://www.taxjustice.net/2018/08/10/why-is-amazon-still-paying-little-tax-in-the-uk/> [accessed 17 June 2019].
[68] Jean-François Rougé, 'The Globar War: The EU's Apple Tax Case', *ECONOMICS*, 5/1 (2017), 14–35 <https://content.sciendo.com/view/journals/eoik/5/1/article-p14.xml> [accessed 23 May 2019]; Martin Brehm Christensen and Emma Clancy, *Exposed: Apple's Golden Delicious Tax Deals. Is Ireland Helping Apple Pay Less than 1% Tax in the EU?* (Brussels, 21 June 2018) <https://www.guengl.eu/content/uploads/2018/06/Apple_report_final.pdf>; Permanent Subcommittee on Investigations of the Committee on Homeland Security and Governmental Affairs, United States Senate, *Offshore Profit Shifting and the U.S. Tax Code - Part 2 (Apple Inc.)*, 2013 <https://www.govinfo.gov/content/pkg/CHRG-113shrg81657/pdf/CHRG-113shrg81657.pdf> [accessed 17 June 2019].
[69] ActionAid International, *An Extractive Affair: How One Australian Mining Company's Tax Dealings Are Costing the World's Poorest Country Millions | ActionAid* (2015), 8–10 <http://www.actionaid.org/publications/extractive-affair-how-one-australian-mining-companys-tax-dealings-are-costing-worlds-po> [accessed 28 February 2018].

Both outward and inward investment can be used to launder the proceeds of crime. Global Witness reported in 2017 on how funds were laundered by Colombian David Helmut Murcia Guzmán, who ran a profitable pyramid scheme and has connections with armed groups and drug trafficking, through investing in real estate in Panama, in units at the Trump Ocean Club.[70] Similarly, the family of Azerbaijan president Ilham Aliyev has invested more than US$140m in luxury properties around the globe, often through shell companies in secrecy jurisdictions with ongoing investigations into money laundering related offences of a lawyer who helped set up a shell company for the president's daughters.[71]

In outward direct investments, there is also the risk that domestic companies and individuals make false statement about the relationship, owners and accounts of their foreign businesses or activities in tax returns. This may be done for round-tripping purposes, that is to nominally invest abroad with the ultimate destination being the domestic economy, to exploit tax treaties or other provisions only available to foreign investors, or to pay kickbacks for securing contracts abroad. German multinational company Siemens is an example of this risk. The company maintained an elaborate slush fund for more than a decade with a total of €1.3bn made in dubious payments to government officials on all continents to get contracts.[72] Foreign companies investing in a country may also keep the identities of investors concealed for nefarious reasons. For example, US asset and hedge fund manager Och-Ziff (Delaware LLC) conspired to pay over US$100m in bribes between 2005 and 2015 to officials in the Democratic Republic of Congo in order to buy copper mine assets in the Democratic Republic of the Congo at very low, preferential prices.[73]

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[70] Global Witness, *Narco-a-Lago: Money Laundering at the Trump Ocean Club, Panama*, 2017 <https://www.globalwitness.org/en/campaigns/corruption-and-money-laundering/narco-a-lago-panama/> [accessed 17 June 2019].

[71] Juliette Garside, 'The Azerbaijani President's Children and the Dubai Property Empire', *The Guardian*, 23 April 2018, section World news <https://www.theguardian.com/world/2018/apr/23/azerbaijan-children-of-president-linked-to-dubai-property-empire> [accessed 17 June 2019]; Juliette Garside and others, 'London Law Firm Helped Azerbaijan's First Family Set up Secret Offshore Firm', *The Guardian*, 5 April 2016, section News <https://www.theguardian.com/news/2016/apr/05/panama-papers-london-law-firm-helped-azerbaijan-first-family-set-up-secret-offshore-firm> [accessed 17 June 2019]; Miranda Patrucic and others, *Azerbaijan First Family's London Private Enclave - The Panama Papers* (10 May 2016) <https://www.occrp.org/en/panamapapers/azerbaijan-first-familys-london-private-enclave/> [accessed 17 June 2019]; Rodrigo Fernandez, Annelore Hofman and Manuel B Aalbers, 'London and New York as a Safe Deposit Box for the Transnational Wealth Elite', *Environment and Planning A: Economy and Space*, 48/12 (2016), 2443–61 <https://doi.org/10.1177/0308518X16659479> [accessed 17 June 2019]; KYC360, 'London Lawyer Faces Money Laundering, PEP Charges Linked to Super-Rich Sisters', *KYC360*, 23 May 2018, 360 <https://www.riskscreen.com/kyc360/news/london-lawyer-faces-money-laundering-pep-charges-helping-wealthy-sisters/> [accessed 17 June 2019].

[72] Siri Schubert and T. Christian Miller, 'At Siemens, Bribery Was Just a Line Item', *The New York Times*, 20 December 2008, section Business Day <https://www.nytimes.com/2008/12/21/business/worldbusiness/21siemens.html> [accessed 17 June 2019].

[73] *United States of America v. Och-Ziff Capital Management Group LLC, Deferred Prosecution Agreement*, 29 September 2016, 39, para. 51 <https://www.justice.gov/criminal-fraud/file/900261/download> [accessed 17 June 2019].

Table 13. Illicit financial flows risk: inward and outward direct investment

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
INWARD DIRECT INVESTMENT				
Foreign investor owns or controls at least 10% of domestic business, including through debt instruments.	Diverse and complex intra-group profit shifting and base erosion techniques, filing of questionable positions in tax returns.	Tax	OECD's Base Erosion and Profit Shifting project provides an overview of various BEPS techniques, including thin capitalisation, transfer mispricing, inflated royalty, insurance and service payments, avoidance of permanent establishments, treaty shopping, etc. Many of these are routinely combined in complex tax avoidance schemes.	Australian extractive multinational company Paladin Energy thinly capitalised a subsidiary in Malawi for uranium extraction by using intermediate legal entities in the Netherlands. Between 2009-2014, the resulting interest payments avoided incurring US$7.3m of Malawian withholding tax compared to a direct investment from Australia because of the treaty shopping via the Netherlands.[74]
	Hiding origin of proceeds of crime and/or identities of investors.	Money Laundering	Organised crime groups (domestic and/or foreign) use their proceeds of crime to invest in the domestic economy to launder proceeds of crime.	The family of Azerbaijan president Ilham Aliyev has invested more than US$140m in luxury properties around the globe, often through shell companies in secrecy jurisdictions. In London alone, the family owns real estate at least worth US$59m through shell companies incorporated in the Isle of Man and the British Virgin Islands. While money laundering charges have not as of yet been proven at court, a London City lawyer is being investigated for money laundering related offences when helping to set up a shell company for the president's daughters.[75]
	Omission of identities behind foreign investor.	Corruption	Fraudulent public procurement processes, including in extractive exploitation or mineral licencing and contracting, whereby public officials hide their control of foreign investors who are granted public contracts, resulting in embezzlement of state funds and/or highly unfavourable contracts.	US asset and hedge fund manager Och-Ziff (Delaware LLC) conspired to pay over US$100m in bribes between 2005 and 2015 to officials in the Democratic Republic of Congo in order to buy copper mine assets in the DRC at very low, preferential prices.[76]

[74] ActionAid International, *An Extractive Affair: How One Australian Mining Company's Tax Dealings Are Costing the World's Poorest Country Millions | ActionAid*, 8–10.
[75] Garside, 'The Azerbaijani President's Children and the Dubai Property Empire'; Garside and others, 'London Law Firm Helped Azerbaijan's First Family Set up Secret Offshore Firm'; Patrucic and others, *Azerbaijan First Family's London Private Enclave - The Panama Papers*; Fernandez, Hofman and Aalbers, 'London and New York as a Safe Deposit Box for the Transnational Wealth Elite', 2443–61; KYC360, 'London Lawyer Faces Money Laundering, PEP Charges Linked to Super-Rich Sisters', 360.
[76] *United States of America v. Och-Ziff Capital Management Group LLC, Deferred Prosecution Agreement*, 39, para. 51.

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
OUTWARD DIRECT INVESTMENT				
Domestic investor owns or controls at least 10% of foreign business, including through debt instruments.	Diverse and complex intra-group profit shifting and base erosion techniques, filing of questionable positions in tax returns.	Tax	OECD's Base Erosion and Profit Shifting (BEPS) project provides an overview of various BEPS techniques, including harmful tax regimes (headquarters, etc), thin capitalisation, transfer mispricing to low/no taxed controlled foreign companies (CFC) and/or to Special Economic Zones, inflated royalty, insurance and service payments, avoidance of permanent establishments, treaty shopping, etc.	US or South African headquartered corporations such as MTN[77], Amazon[78] or Apple[79] create intermediate holdings (subsidiaries) in Ireland and other corporate tax havens (e.g. Mauritius, Netherlands, Luxembourg) which then collect the (largely tax free) profits of operating companies in European or African countries by avoiding a permanent establishment (Apple in Italy & in African countries) or through commodity transfer mispricing (Starbucks coffee beans) or interest, royalty or management fee payments (MTN Mauritius and Nigeria, Ghana, Uganda).
	Hiding origin of proceeds of crime, incl. by false statements about the nature of relationship with, identities behind, and/or annual accounts of foreign businesses, incl. in tax returns.	Money Laundering	Organised crime groups use their proceeds of crime to invest abroad to launder proceeds of crime.	A Colombian fraudster and drug dealer laundered millions of dollars of illicit funds including from drug trafficking by investing in real estate in Panama.[80]
	False statements about the nature of relationship with, identities behind, and/or annual accounts of foreign businesses, incl. in tax returns.	Corruption	Corrupt operators and/or their network invest in businesses abroad, possibly for round-tripping purposes, i.e. only nominally investing abroad with ultimate destination in the domestic economy, or for paying kickbacks for securing contracts.	German multinational Siemens maintained an elaborate bribery and slush fund system over more than a decade with a total of €1.3bn of dubious payments. The corruption implicated officials in, and involved a network of offshore companies and branches and subsidiaries in, for example, Mexico, Indonesia, China, Vietnam, Hungary, Greece and Italy.[81]

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[77] *Turner, Finance Uncovered Investigation.*

[78] Picciotto, 'Why Is Amazon Still Paying Little Tax in the UK?'; Markus Meinzer, *Steueroase Deutschland. Warum Bei Uns Viele Reiche Keine Steuern Zahlen* (München, 2015).

[79] Permanent Subcommittee on Investigations of the Committee on Homeland Security and Governmental Affairs, United States Senate, *Offshore Profit Shifting and the U.S. Tax Code - Part 2 (Apple Inc.)*; Rougé, 'The Globar War', 14–35; Brehm Christensen and Clancy, *Exposed: Apple's Golden Delicious Tax Deals. Is Ireland Helping Apple Pay Less than 1% Tax in the EU?*

[80] Global Witness, *Narco-a-Lago*.

[81] Siemens, *Rechtsstreitigkeiten - Geschaeftsjahr 2007* (Munich, 8 November 2007) <https://www.siemens.com/press/pool/de/events/jahrespk2007/legal-proceedings-q4-2007-d.pdf> [accessed 17 June 2019]; *US Securities and Exchange Commission v. Siemens Aktiengesellschaft, Complaint*, 12 December 2008 <https://www.sec.gov/litigation/complaints/2008/comp20829.pdf> [accessed 17 June 2019]; Schubert and Miller, 'At Siemens, Bribery Was Just a Line Item'; Jörg Schmitt, 'Complicit in Corruption: How German Companies Bribed Their Way to Greek Deals', *Spiegel Online*, 11 May 2010, section International <https://www.spiegel.de/international/europe/complicit-in-corruption-how-german-companies-bribed-their-way-to-greek-deals-a-693973.html> [accessed 17 June 2019]; 'Doch Keine Veröffentlichung: Siemens Hält Schmiergeldstudie Unter Verschluss', *Spiegel Online*, 17 March 2017, section Wirtschaft

5.1 Continental risk

Africa's average vulnerability to illicit financial flows in inward and derived outward direct investment is 58 and 60 respectively.[82] Among the 17 countries with data on inward direct investment, the range of vulnerability varies from 49 (Cabo Verde) to 66 (Seychelles), while the range for outward direct investment is from 50 (Algeria) to 74 (South Sudan).

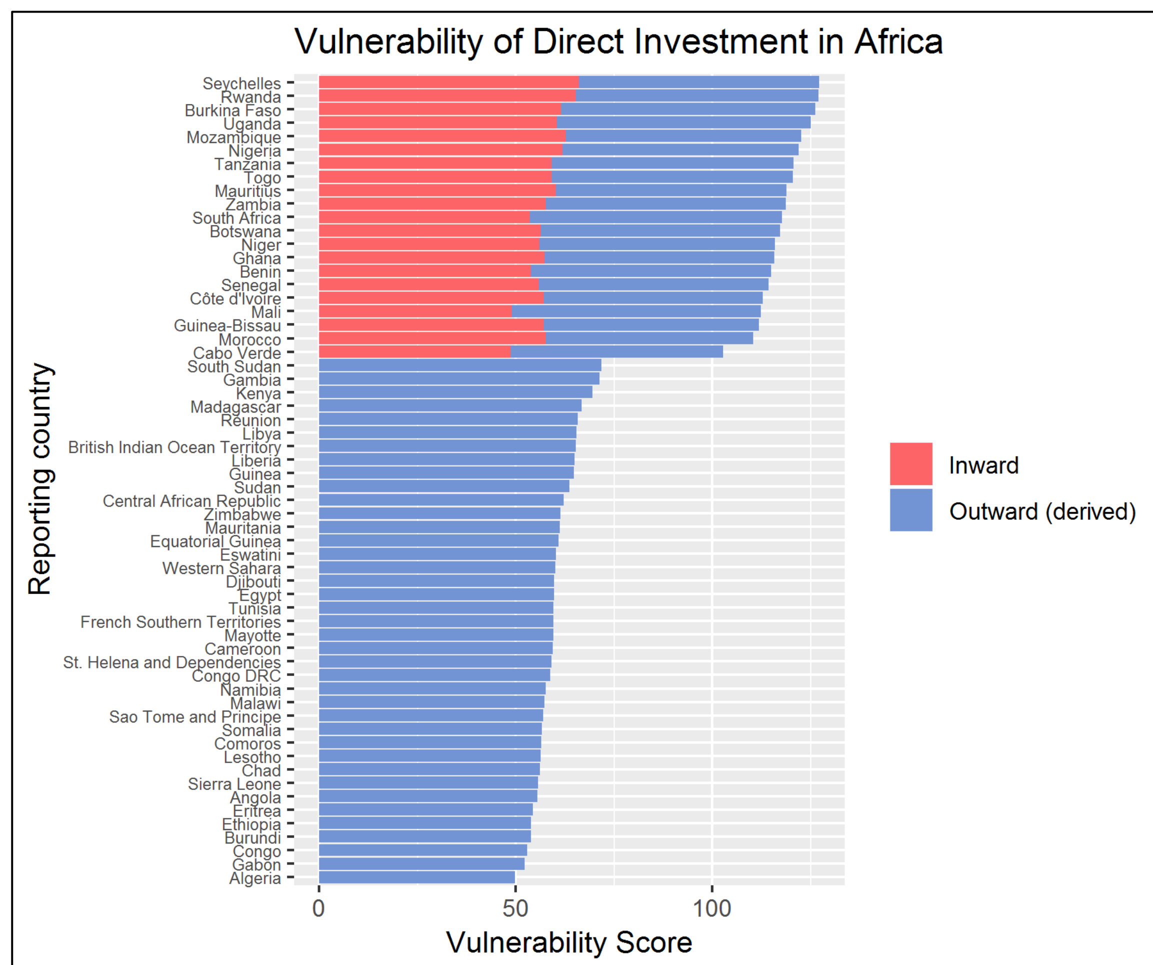

Figure 12. Overview of illicit financial flows vulnerability of investment in Africa (including conduits), 2008-2016

As Figure 12 shows, overall, inward and outward investment was most vulnerable to illicit financial flows between 2009 and 2017 in Rwanda, Burkina Faso and Uganda (excluding Seychelles for its role as a secrecy jurisdiction and corporate tax haven). Inward direct investment is more vulnerable than derived outward investment in Rwanda (65 and 62), while derived outward investment is

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<https://www.spiegel.de/wirtschaft/unternehmen/siemens-haelt-schmiergeld-studie-unter-verschluss-a-1139211.html> [accessed 17 June 2019]; Financial Action Task Force (FATF), *Money Laundering and Terrorist Financing Vulnerabilities of Legal Professionals*, 2013, 63 <http://www.fatf-gafi.org/media/fatf/documents/reports/ML%20and%20TF%20vulnerabilities%20legal%20professionals.pdf> [accessed 11 December 2018].

[82] Inward direct investment data is the direct investment into the reporting country, while outward direct investment is direct investment abroad by the reporting country. Here we used *derived* outward direct investment data which is based on mirror data from partner countries.

more vulnerable to illicit financial flows than inward direct investment in Burkina Faso (65 and 61) and Uganda (65 and 60).

5.1.1 Direct inward investment analysis

Six of the top ten suppliers of secrecy risks in direct inward investment vulnerability in 2016 have high to extremely high secrecy scores and half are among the most corrosive corporate tax havens.[83] Over one-quarter (26.6%) of secrecy is supplied by the United Kingdom and its overseas territories and crown dependencies. This is particularly problematic given that beneficial owners of companies do not need to be publicly registered in the overseas territories and crown dependencies.

The Netherlands, which makes up the single largest share of Africa's vulnerability to illicit financial flows in direct inward investment, may be used to set up holding companies or a conduit for investment from one country to an African nation in order to exploit double taxation agreements that have been signed with at least ten African nations or secretive tax rulings available in the Netherlands.[84]

[83] Tax Justice Network, *Corporate Tax Haven Index - 2019 Results*, Corporate Tax Haven Index 2019 (2019) <https://www.corporatetaxhavenindex.org/introduction/cthi-2019-results> [accessed 18 June 2019].

[84] 'Overview of Treaty Countries', *Belastingdienst*, 2019 <https://www.belastingdienst.nl/wps/wcm/connect/bldcontenten/belastingdienst/individuals/tax_arrangements/tax_treaties/overview_of_treaty_countries/> [accessed 18 June 2019]; Tax Justice Network, *Haven Indicator 1: Lowest Available Corporate Income Tax Rate (LACIT)*, Corporate Tax Haven Index 2019 (2019) <https://www.corporatetaxhavenindex.org/PDF/1-Corporate-Income-Tax-LACIT.pdf> [accessed 5 June 2019].

Table 14. Vulnerability in direct inward investment 2016 – Africa's top suppliers of secrecy risks

Rank	Country	Africa's Vulnerability Share	Secrecy Score	Value of Direct Inward Investment (billions) (USD)	Share of Direct Inward Investment
1	Netherlands	13.03%	66	69.4	12%
2	United States of America	12.32%	60	72.4	13%
3	United Kingdom	10.11%	42	83.9	15%
4	Cayman Islands	9.19%	72	44.7	8%
5	United Arab Emirates	6.18%	84	25.9	5%
6	Singapore	4.58%	67	24.0	4%
7	South Africa	3.98%	56	25.0	4%
8	Bermuda	3.96%	73	19.1	3%
9	India	3.72%	52	25.2	4%
10	France	3.67%	52	25.0	4%
11	Hong Kong	2.41%	71	11.9	2%
12	China	2.33%	60	13.6	2%
13	Luxembourg	2.12%	58	12.2	2%
14	British Virgin Islands	2.07%	69	10.5	2%
15	Mauritius	2.05%	72	10.0	2%
16	Malaysia	1.74%	72	8.5	1%
17	Switzerland	1.69%	76	7.8	1%
18	Germany	1.52%	59	9.0	2%
19	Canada	1.29%	55	8.3	1%
20	Jersey	1.27%	65	6.8	1%

Africa's partners in direct inward investment with the highest secrecy scores (>70) account for 9.85% of the continent's vulnerability and 7.4% of direct inward investment in 2016 (see Table 15). Almost two-thirds of this is supplied by the United Arab Emirates. Double tax treaties signed between African countries and the United Arab Emirates are the most aggressive in terms withholding rates applicable to investment income (dividends, interests and royalties), so treaties should be re-examined with cost-benefit analysis at the least.[85]

[85] Lucas Millan-Narotzky, Maïmouna Diakité and Markus Meinzer, *Double Tax Treaty Aggressiveness: Who Is Bringing down Withholding Taxes in Africa?* (2019).

Table 15. Vulnerability in direct inward investment 2016 – Africa's suppliers of secrecy risks ranked by highest secrecy score

Rank	Country	Africa's Vulnerability Share	Secrecy Score	Value of Direct Inward Investment (billions) (USD)	Share of Direct Inward Investment
1	Bahamas	0.16%	85	.629	0.1%
2	United Arab Emirates	6.18%	84	25.916	4.5%
3	Maldives	0.00%	81	.017	0.0%
4	Kenya	0.42%	80	1.601	0.3%
5	Thailand	0.97%	80	4.279	0.7%
6	Liberia	0.06%	80	.262	0.0%
7	Saint Lucia	0.00%	78	.003	0.0%
8	Liechtenstein	0.06%	78	.280	0.0%
9	Bahrain	0.05%	78	.239	0.0%
10	Samoa	0.01%	78	.044	0.0%
11	Monaco	0.01%	78	.047	0.0%
12	Puerto Rico	0.00%	77	.004	0.0%
13	Turks and Caicos Islands	0.01%	77	.030	0.0%
14	St. Kitts and Nevis	0.00%	77	.006	0.0%
15	Panama	0.08%	77	.347	0.1%
16	Gambia	0.00%	77	.000	0.0%
17	Switzerland	1.69%	76	7.764	1.4%
18	Taiwan	0.02%	76	.102	0.0%
19	Seychelles	0.12%	75	.542	0.1%
20	Belize	0.02%	75	.085	0.0%

5.1.2 Direct outward investment (derived) analysis

India represents the greatest share of Africa' vulnerability in direct outward investment (derived) with 26.34% (see Table 16). Over 70% of the vulnerability share emanates from Asian countries. Mauritius, Singapore and Hong Kong, which are international financial centres known for providing secrecy and corporate tax havens, are among the top ten jurisdictions making direct outward investment vulnerable to illicit financial flows.

Mauritius with its very high secrecy score and USD 26bn of African outward direct investment is playing a far more important role for IFF risks than in African inward investment. The high level of treaty aggressiveness exerted by Mauritian double tax treaties[86], and the lenient corporate tax regime of the island, are reasons to scrutinise treaties and any FDI positions with Mauritius for the risk of aggressive tax avoidance and other IFF risks. The crucial role played by Mauritius

[86] Rachel Etter-Phoya, 'How Can Africa Take Action against Corporate Tax Havenry? Solutions from the Corporate Tax Haven Index 2019', *Tax Justice Network*, 2019 <https://www.taxjustice.net/2019/06/18/%ef%bb%bfhow-can-africa-take-action-against-corporate-tax-havenry-solutions-from-the-corporate-tax-haven-index-2019/> [accessed 21 June 2019]; Millan-Narotzky, Diakité and Meinzer, *Double Tax Treaty Aggressiveness: Who Is Bringing down Withholding Taxes in Africa?*

in outward FDI data is exemplified below (Chapter 5.2) in a country risk profile of the Democratic Republic of Congo.

Table 16. Vulnerability in direct outward investment (derived) 2016 – Africa's top suppliers of secrecy risks

Rank	Country	Africa's Vulnerability Share	Secrecy Score	Value of Direct Outward Investment (derived) (billions) (USD)	Share of Direct Outward Investment (derived)
1	India	26.34%	52	73.9	33%
2	China	13.77%	60	33.4	15%
3	Mauritius	13.10%	72	26.1	12%
4	Singapore	10.17%	67	22.0	10%
5	Indonesia	9.38%	61	22.2	10%
6	Hong Kong	9.00%	71	18.4	8%
7	Thailand	2.39%	80	4.4	2%
8	Belgium	1.82%	44	-5.9	-3%[87]
9	United States of America	1.80%	60	4.0	2%
10	Luxembourg	1.71%	58	-1.0	0%
11	South Africa	1.54%	56	4.0	2%
12	Austria	1.48%	56	3.8	2%
13	Australia	0.90%	51	2.6	1%
14	Botswana	0.78%	69	1.7	1%
15	France	0.74%	52	2.1	1%
16	United Kingdom	0.67%	42	2.3	1%
17	Canada	0.66%	55	.7	0%
18	Hungary	0.58%	55	1.5	1%
19	Portugal	0.55%	55	1.5	1%
20	Spain	0.44%	48	1.3	1%

5.1.3 The geopolitics of Africa's direct investment vulnerability

When aggregating the total origin of direct investment vulnerability in 2016 by region (see Figure 13), a total of 38% of secrecy risks to African direct inward investment originates from Europe, with the Americas following close behind at

[87] Our CDIS sample of derived outward direct investment contains positive, bilateral positions of around $200 trillion, in 35,000 observations. The sample also contains some 5,000 observations of negative positions, totalling around $1.3 trillion (roughly 0.7 per cent of the positive total). While these positions are marginal overall, they are relatively concentrated by partner jurisdiction. This means that some jurisdictions, e.g. Belgium, can exhibit negative positions in respect to the aggregate reporting for the African continent.

The IMF notes to the CDIS explain the phenomenon as follows: "Direct investment positions are negative when a direct investor's claims (equity and/or debt) on its direct investment enterprise are less than the direct investment enterprise's claims (equity and/or debt) on its direct investor. Direct investment positions also could be negative due to net negative positions with fellows. Direct investment equity positions also could be negative due to negative retained earnings (which may result from the accumulation of negative reinvested earnings)." (See International Monetary Fund, *CDIS Frequently Asked Questions*, 2019, 3 <https://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5&sId=1390288795525> [accessed 25 June 2019].).

Consistent negative positions may reflect the patterns of FDI relationship, for example the presence of multinationals' treasury operations in a particular partner jurisdiction; and may also reflect tax motivations. We do not explore this issue further here, but recommend it for further research and that it be a point of particular scrutiny when observed by national authorities evaluating their IFF exposure.

30%. In great contrast, Asia dominates secrecy supply risks for direct outward investment (derived).

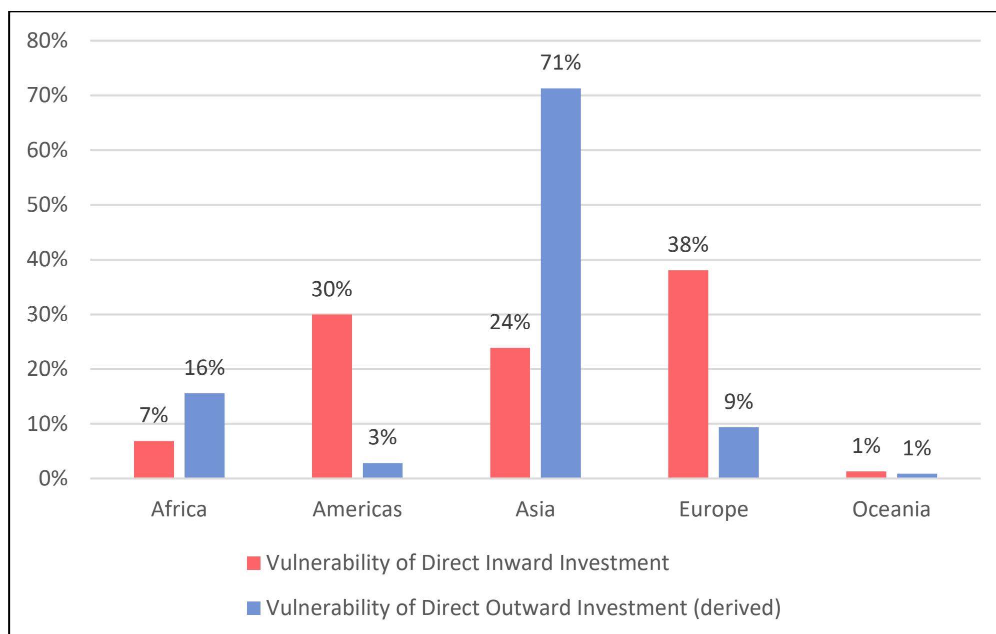

Figure 13. Vulnerability in direct investment (inward and outward (derived)) 2016 – Africa's top suppliers of secrecy risks by region

The OECD with its dependencies has a particular political responsibility to address financial secrecy to reduce Africa's risk to vulnerability in illicit financial flows in direct inward investment.[88] Over two-thirds (68.53%) of Africa's vulnerability risk in direct inward investment is supplied by OECD countries and their dependencies (see Figure 14); this in turn reflects the contribution of these countries to the share of direct inward investment (71.07%). A very different picture emerges for direct outward investment (derived).[89] Most of secrecy risks supplied in direct outward investment (derived) are from non-OECD countries. Non-OECD countries make up the majority of risks to African in direct outward investment (derived) because of the role played by Asia as illustrated in Figure 13. On closer examination, the top five Asian countries are India, China, Singapore, Indonesia and Hong Kong (see Table 17).

[88] OECD Dependencies include UK Overseas Territories and Crown Dependencies and US and Dutch Overseas Territories. See Annex D: Dependencies of countries in the European Union and OECD for further information.
[89] The data set for direct outward investment has been derived for African countries by taking the available direct inward investment data reported from African countries. This means no OECD dependencies are included in the derived data set as partner countries because they do not report direct inward investment data.

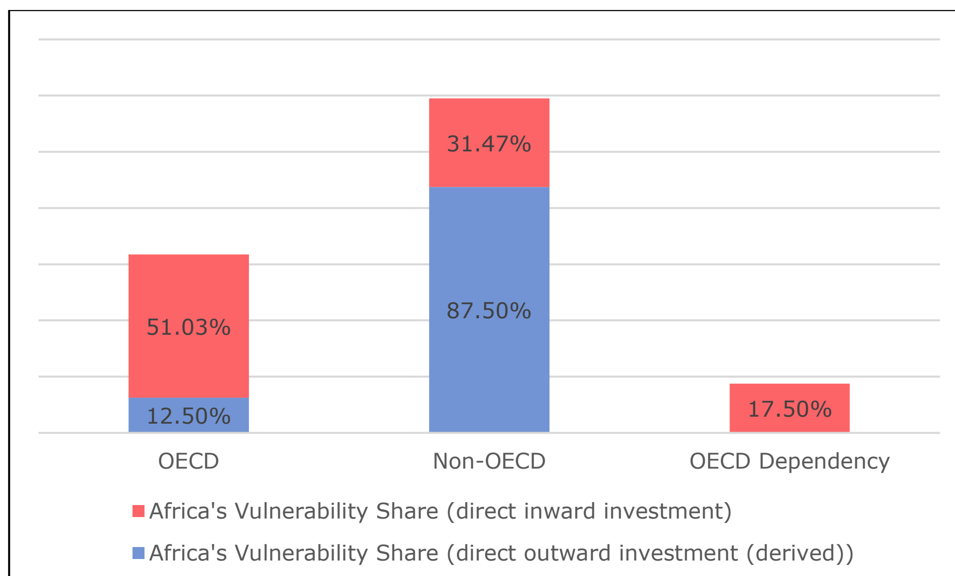

Figure 14. Vulnerability in direct inward and outward (derived) investment in 2016 – OECD contribution to secrecy risks[89]

Table 17. Vulnerability in direct outward investment (derived) 2016 – Africa's top suppliers of secrecy risks in Asia

Rank	Country	Africa's Vulnerability Share	Secrecy Score	Value of Direct Outward Investment (Derived) (billions) (USD)	Share of Direct Outward Investment (derived)
1	India	26.34%	52	73.921	33.07%
2	China	13.77%	60	33.381	14.93%
3	Singapore	10.17%	67	22.026	9.85%
4	Indonesia	9.38%	61	22.233	9.95%
5	Hong Kong	9.00%	71	18.449	8.25%
6	Thailand	2.39%	80	4.355	1.95%
7	Cyprus	0.11%	61	.270	0.12%
8	Turkey	0.06%	68	.134	0.06%
9	Korea	0.06%	59	.140	0.06%
10	Philippines	0.02%	65	.024	0.01%
11	Macao	0.00%	68	.001	0.00%
12	Japan	0.00%	61	.001	0.00%
	Asia	**71.31%**	**65**	**174.935**	**78.27%**

5.2 Country-risk profile

A striking example of highly concentrated IFF risks in derived outward FDI positions in Africa is the Democratic Republic of the Congo. While the DRC does not report inward direct investment, its derived outward position should raise red flags. Mauritius dominates (over 97%) all vulnerability in the DRC's outward FDI with over US$3bn of investment held in Mauritius. Given the well-known risks for IFFs posed by the DRC's mining sector, further analyses of the economic sectors involved and auditing of these FDI positions appears to be advisable. Hypotheses explaining the high direct investment stakes in Mauritius include the

roundtripping of FDI from DRC's mining sector, possibly in order to avoid taxation of capital gains arising from the sale of mining assets, or to hide ownership links in public procurement or in extractive exploitation or mineral licencing and contracting. The tax treaty between DRC and Mauritius should be subject to a cost-benefit analysis, and its cancellation should considered.

Table 18. Vulnerability of the Democratic Republic of the Congo's outward direct investment (derived) stock in 2016

Democratic Republic of the Congo					
Rank	**Country**	**Secrecy Score**	**Vulnerability Share**	**Direct Investment Outward (derived) (m) (USD)**	**Share of Direct Investment Outward (derived)**
1	Mauritius	72	97.5%	3430.8	97.2%
2	South Africa	56	2.1%	94.4	2.7%
3	Italy	49	0.2%	7.9	0.2%
4	Belgium	44	0.1%	-5.7	-0.2%[87]
5	Luxembourg	58	0.1%	-2.2	-0.1%[87]
6	Norway	52	0.0%	2.3	0.1%
7	Germany	59	0.0%	1.0	0.0%
8	Poland	57	0.0%	-.3	0.0%
9	China	60	0.0%	-.2	0.0%
10	Korea	59	0.0%	.1	0.0%
Overall vulnerability of investment outward (derived) 72					

While less concentrated, similarly suspicious FDI positions can be observed in the case of Burkina Faso's directly reported inward direct investment position. With a very high secrecy score of 74 and a small island territory, the inward FDI position with Barbados of over US$500m gives sufficient cause for further analyses and targeted audits. Furthermore, the well documented traditional tax avoidance collaboration between Canada and Barbados[90] should be further analysed as a potential explanation for why Burkina Faso's inward FDI is second most vulnerable to Canada. Similarly, Bermuda's US$233m FDI origin should ring alarm bells, given Bermuda's high level of secrecy and documented role in aggressive corporate tax avoidance.[91]

[90] https://www.financialsecrecyindex.com/PDF/Canada.pdf; 25.6.2019.
[91] Garcia-Bernardo and others, 'Uncovering Offshore Financial Centers', 2, 6.

Table 19. Vulnerability of Burkina Faso's inward foreign direct investment stock in 2016

Burkina Faso					
Rank	**Country**	**Secrecy Score**	**Vulnerability Share**	**Direct Investment Inward (m) (USD)**	**Share of Direct Investment Inward**
1	Barbados	74	37%	573.5	34%
2	Canada	55	29%	600.5	36%
3	Bermuda	73	15%	234.0	14%
4	France	52	8%	177.3	11%
5	Isle of Man	64	4%	68.7	4%
6	United Kingdom	42	3%	-71.0	-4%[87]
7	India	52	2%	40.6	2%
8	Mauritius	72	1%	11.3	1%
9	Ghana	62	1%	10.5	1%
10	Luxembourg	58	0%	8.9	1%
Overall vulnerability of investment inward 63					

5.3 Policy recommendations

Anti-avoidance measures may be taken to address the risks of illicit financial flows in direct investment. The Corporate Tax Haven Index (CTHI) indicates that the nine African nations assessed (out of a total of 64 jurisdictions covered by the CTHI) could put in place more defensive measures to curb profit shifting.[92] These include limiting deductions on intragroup payments, including royalty, interest and some service payments, applying a withholding tax on dividend payments abroad and enforcing transaction controlled foreign company rules to ensure that African nations can tax the passive income in foreign-controlled foreign companies unless it carries out genuine economic activity. In addition to countermeasures, the CTHI suggests steps African countries can take to close loopholes and gaps in its corporate income tax system as well as increasing transparency in its corporate governance framework which could help addressing Africa's IFF risks stemming from FDI.

A more immediate policy reform option to address tax related IFFs through FDI is for tax administrations and Ministries of Finance to subject double tax treaties to a rigorous cost-benefit analysis, and to consider cancelling particularly harmful and aggressive treaties. Recent analysis suggests that the treaties African nations have entered into with United Arab Emirates, Mauritius and France are the most aggressive treaties in constraining taxing rights of African nations.[93]

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[92] Rachel Etter-Phoya, 'How Can Africa Take Action against Corporate Tax Havenry? Solutions from the Corporate Tax Haven Index 2019', *Tax Justice Network*, 2019 <https://www.taxjustice.net/2019/06/18/%ef%bb%bfhow-can-africa-take-action-against-corporate-tax-havenry-solutions-from-the-corporate-tax-haven-index-2019/ [accessed 21 June 2019]; Rachel Etter-Phoya, Shanna Lima and Markus Meinzer, *Corporate Income Taxation in the Digital Age: Africa in the Corporate Tax Haven Index 2019* (June 2019).

[93] Millan-Narotzky, Diakité and Meinzer, *Double Tax Treaty Aggressiveness: Who Is Bringing down Withholding Taxes in Africa?*

6. Financial portfolio assets

Financial assets held in African countries or held abroad, but that originate in African economies, are another avenue for illicit financial flows. In this chapter, the risk posed by financial assets is examined at the continental- and country-level alongside strategies to counter illicit financial flow risks. For portfolio assets, there is at least one data observation for only 3 countries (representing 5% of the continent) of all African countries between 2008 and 2018.[94] For 2016, there is also data for just 3 countries, as shown in Table 3 and Annex B. As for the derived portfolio liabilities, 59 countries are covered across the data-set, while 54 African countries are covered in 2016.

Countries are exposed to illicit financial flows through the manipulation of assets in multiple ways as shown in Table 20. Assets may be shifted abroad to evade taxes and to launder the proceeds of crime and corruption. This includes investing in foreign financial securities for tax purposes as resident investors seek to evade income taxes on assets and resultant income by making false declarations in their tax returns. For example, one US resident held bank accounts it did not declare of assets worth US$3m including stocks in German companies at Swiss banks Credit Suisse and UBS.[95] Organised crime groups, like the South African "Mountain Boys",[96] may shift proceeds of crime abroad by investing in foreign securities. Residents who have wrongfully acquire wealth such as through embezzling state funds, fraud and kickbacks may invest in foreign-issued securities and not just convert stolen assets to cash. For example, two US residents used Liechtenstein LGT bank accounts and investment funds to hide at least US$4.5m gained by defrauding customers in Puerto Rico.[97]

Portfolio liabilities (and likewise portfolio assets) can also be manipulated to exploit tax regimes and hide ill-gotten wealth. Residents may falsely claim to be non-residents in order to access tax exemptions that are targeted at foreign investors only. Through round tripping, invested domestic financial assets and income are omitted from the resident investor's tax return because a foreign shell company or similar vehicle is used to disguise the investment as foreign. Similarly, non-resident investors can collude with domestic actors to access tax privileges, which is what happened in a recently uncovered complex offshore

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[94] The data set includes data from 2008-2018; however, in the portfolio investment (assets and liabilities (derived) data set for Africa, data is available for 2008-2016 only.

[95] United States Senate - Permanent Subcommittee on Investigations, *Offshore Tax Evasion: The Efforts to Collect Unpaid Taxes on Billions in Hidden Offshore Accounts* (Washington, DC, 26 February 2014), 89 <https://www.hsgac.senate.gov/imo/media/doc/REPORT%20-%20OFFSHORE%20TAX%20EVASION%20(Feb%2026%202014,%208-20-14%20FINAL).pdf> [accessed 21 June 2019].

[96] UNODC, *Project Yield - South Africa*, Case Law Database, 2011 <https://sherloc.unodc.org/cld/case-law-doc/corruptioncrimetype/zaf/project_yield.html?lng=en&tmpl=sherloc> [accessed 21 June 2019].

[97] United States Senate - Permanent Subcommittee on Investigations 2008, *Tax Haven Banks and U.S. Tax Compliance*, 17 July 2008, 59–64 <https://www.hsgac.senate.gov/imo/media/doc/REPORTTaxHavenBanksJuly1708FINALwPatEliseChgs92608.pdf> [accessed 21 June 2019]; 'LGT STRATEGY 5 YEARS (USD) B. Fonds | Aktueller Kurs | 11227396', *Finanzen.Ch* <https://www.finanzen.ch/fonds/lgt-strategy-5-years-usd-b-> [accessed 21 June 2019].

stock trading scheme, the so-called 'cum-ex and cum-cum' tax evasion cases. Non-resident investors, fund and banks colluded with resident banks to reap undue tax refunds and exemptions. This deprived 11 European countries of at least €55bn in tax revenue.[98]

To hide the origin of proceeds of crime and corruption or the identities of investors, domestic and foreign operators may invest in the domestic financial markets and securitised real estate with the collusion of resident wealth and investment managers. For example, a US investment firm assisted a foreign politically-exposed person to set up brokerage accounts in the name of foreign shell companies to launder bribes received from drug traffickers.[99] Non-resident investors may collude with resident wealth and investment managers to report false identity and/or residency information under the automatic exchange of information mechanisms of the Common Reporting Standard in order to engage in tax evasion.[100]

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[98] *The CumEx-Files – How Europe's Taxpayers Have Been Swindled of €55 Billion. A Cross-Border Investigation | CORRECTIV* (18 October 2018) <https://cumex-files.com/en/> [accessed 21 June 2019]; Michelle Hanlon, Edward L. Maydew and Jacob R. Thornock, *Taking the Long Way Home: U.S. Tax Evasion and Offshore Investments in U.S. Equity and Debt Markets* (Rochester, NY, 29 March 2013) <https://papers.ssrn.com/abstract=1915429> [accessed 21 June 2019].

[99] Financial Action Task Force (FATF), *Money Laundering and Terrorist Financing in the Securities Sector*, 2009, 45–46 <http://www.fatf-gafi.org/media/fatf/documents/reports/ML%20and%20TF%20in%20the%20Securities%20Sector.pdf> [accessed 12 November 2018].

[100] Andres Knobel, 'Statistics on Automatic Exchange of Banking Information and the Right to Hold Authorities (and Banks) to Account', 2019 <https://www.taxjustice.net/2019/06/21/statistics-on-automatic-exchange-of-banking-information-and-the-right-to-hold-authorities-and-banks-to-account/, https://www.taxjustice.net/2019/06/21/statistics-on-automatic-exchange-of-banking-information-and-the-right-to-hold-authorities-and-banks-to-account/> [accessed 26 June 2019].

Table 20. Illicit financial flows risk in portfolio investment: outward assets and inward liabilities

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
End investors (households, banks, investment funds, insurance companies, etc.) are usually legally unrelated to entities issuing securities, but might be legally related (or congruent) to custodian entities.	**OUTWARD PORTFOLIO ASSETS**			
	Omission of transfers and/or foreign assets and/or income in tax returns.	Tax	Resident investors in foreign financial securities evade income taxes on these assets and/or resulting income (incl. capital gains) by not or falsely declaring them in their tax returns ("offshore tax evasion"). Resident brokers can assist in transferring funds abroad.	A US resident held undisclosed bank accounts including stock in German companies at Swiss banks Credit Suisse and UBS, totalling undisclosed assets worth US$3m.[101]
		Money Laundering	Organised crime groups shift their proceeds of crime abroad by investing in foreign securities.	South African organised crime group the "Mountain Boys" invested their proceeds of crimes in UK assets, possibly including in portfolio assets.[102]
		Corruption	Grand corruption including embezzled state funds, fraud, kickbacks for illegal contracts or manipulation of public procurement result in ill-gotten wealth invested not only as cash, but also in foreign issued securities ("Stolen Assets").	Two US residents were convicted under US RICO Act (Racketeer Influenced and Corrupt Organizations Act) for defrauding customers in Puerto Rico through a car dealing business and used Liechtenstein LGT bank accounts and LGT investment funds that invested in (foreign) stock (among others), totalling at least US$4.5m.[103]
	INWARD PORTFOLIO LIABILITIES			
	Falsely claiming non-residency investor status and omitting domestic assets from tax return.	Tax	Residents engage in round tripping to access tax exemptions targeted at foreign investors, but not available for domestic investors. The invested domestic financial assets and income are omitted from the resident investor's tax return, and are booked in the statistics as a cross-border liability because a foreign shell company or similar is used to disguise the investment. Alternatively, non-resident investors collude with residents to access tax privileges.	In the so-called cum-ex and cum-cum tax evasion cases, non-resident investors, funds and banks colluded with resident banks in reaping undue tax benefits (refunds or exemptions) by engaging in complex offshore trading schemes of equity securities, depriving at least 11 European jurisdictions of at least €55bn in tax revenue.[104]
	Hiding origin of proceeds of crime and/or identities of investors.	Money Laundering	Organised crime groups (domestic and/or foreign) use their proceeds of crime to invest in the domestic financial market, incl. the securitised real estate sector ("REITs"), to launder the proceeds of crime. Resident wealth or investment managers collude in tax evasion by non-residents by wilfully misreporting under automatic exchange of tax information mechanisms ("Common Reporting Standard" - "tax driven money laundering").	An Australian resident company purchased shares in a UK company via a secrecy jurisdiction shell company and failed to declare the capital gains in the tax return, repatriating some of the profits through false invoices issued by the Australian company.[105]
	Hiding origin of proceeds of corruption.	Corruption	Corrupt operators and/or their network (domestic and/or foreign) invest in securities issued domestically.	A US investment firm assisted a foreign politically-exposed person in establishing brokerage accounts in the name of foreign shell companies to launder the bribes obtained by the politically-exposed person from drug traffickers.[106]

[101] United States Senate - Permanent Subcommittee on Investigations, *Offshore Tax Evasion: The Efforts to Collect Unpaid Taxes on Billions in Hidden Offshore Accounts*, 89.
[102] UNODC, *Project Yield - South Africa*.
[103] United States Senate - Permanent Subcommittee on Investigations 2008, *Tax Haven Banks and U.S. Tax Compliance*, 59–64; 'LGT STRATEGY 5 YEARS (USD) B. Fonds | Aktueller Kurs | 11227396'.
[104] *The CumEx-Files – How Europe's Taxpayers Have Been Swindled of €55 Billion. A Cross-Border Investigation | CORRECTIV*; Hanlon, Maydew and Thornock, *Taking the Long Way Home*.
[105] Financial Action Task Force (FATF), *Money Laundering and Terrorist Financing in the Securities Sector*.
[106] Financial Action Task Force (FATF), *Money Laundering and Terrorist Financing in the Securities Sector*, 45–46.

6.1 Continental risk

Since there are only three African reporters of cross-border portfolio investment assets with African origin, one of which is an established corporate tax haven and secrecy jurisdiction (Egypt, Mauritius and South Africa), the analysis here is focused on the derived liabilities, for which the data is complete. Africa's average vulnerability to illicit financial flows in portfolio investment liabilities between 2008 and 2016 is 59. The vulnerability ranges from 49 (South Sudan) to 72 (Comoros).

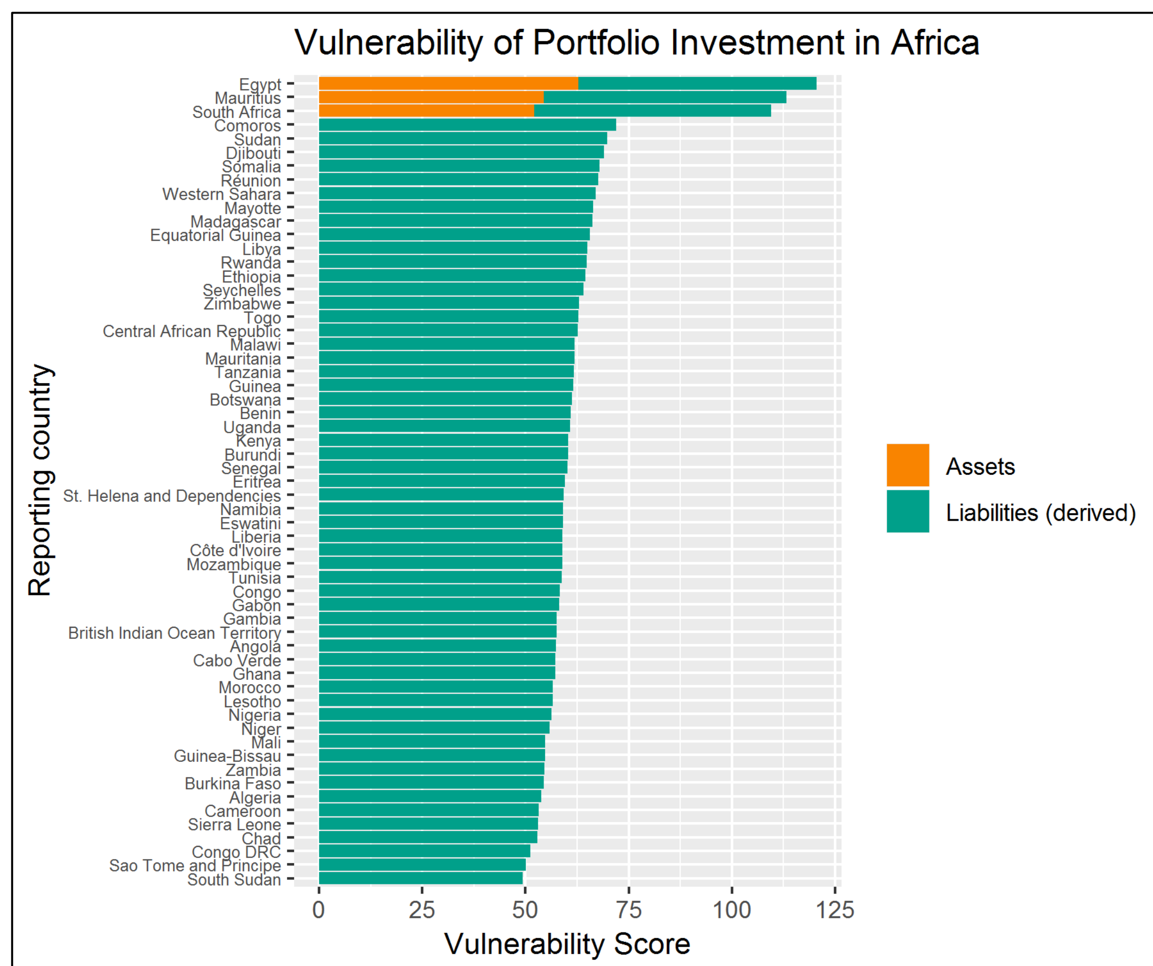

Figure 15. Overview of illicit financial flows vulnerability of portfolio investment in Africa (including conduits), 2008-2016

6.1.1 Portfolio investment liabilities analysis

In 2016, the United States of America accounts for nearly half of Africa's vulnerability to illicit financial flows in derived portfolio investment liabilities (43.35%), with nearly US$120bn invested in African portfolio assets (see Table 21). At a third of the USA's share, the next greatest supplier of vulnerability is Luxembourg (13.09%). Of the top twenty countries, which together make up 96.95% of the total vulnerability, 14 are OECD countries, three are OECD (UK) dependencies, and only three are not part of the OECD (Mauritius, Saudi Arabia and South Africa).

Table 21. Vulnerability in portfolio investment liabilities (derived) 2016 – Africa's top suppliers of secrecy risks

Rank	Country	Africa's Vulnerability Share	Secrecy Score	Value of Portfolio Investment Liabilities (derived) (billion) (USD)	Share of Portfolio Investment Liabilities (derived)
1	United States of America	43.35%	60	119.4	42%
2	Luxembourg	13.09%	58	37.1	13%
3	United Kingdom	7.25%	42	28.2	10%
4	Ireland	4.56%	51	14.8	5%
5	Netherlands	4.53%	66	11.3	4%
6	Japan	3.94%	61	10.7	4%
7	Germany	2.66%	59	7.4	3%
8	Saudi Arabia	2.03%	70	4.8	2%
9	Norway	1.94%	52	6.2	2%
10	Cayman Islands	1.75%	72	4.0	1%
11	Switzerland	1.69%	76	3.7	1%
12	Canada	1.62%	55	4.9	2%
13	Mauritius	1.49%	72	3.4	1%
14	Bermuda	1.46%	73	3.3	1%
15	Denmark	1.16%	53	3.6	1%
16	South Africa	1.14%	56	3.3	1%
17	France	1.10%	52	3.5	1%
18	Australia	0.87%	51	2.8	1%
19	Guernsey	0.74%	72	1.7	1%
20	Sweden	0.55%	45	2.0	1%

The contribution of OECD countries and dependencies, and particularly countries in the Americas and Europe, to Africa's vulnerability in portfolio investment liabilities (derived) in 2016, is hardly surprising given the dominance of OECD countries' dominance in global financial markets[107] (see Figure 16). African nations might consider devising a strategy against the risks for illicit financial flows associated with these investments.

[107] Jan Fichtner, 'Perpetual Decline or Persistent Dominance? Uncovering Anglo-America's True Structural Power in Global Finance', *Review of International Studies*, 43/1 (2017), 3–28 <https://www.cambridge.org/core/journals/review-of-international-studies/article/perpetual-decline-or-persistent-dominance-uncovering-angloamericas-true-structural-power-in-global-finance/75536FC7435F72FC9AB4968D0509F019> [accessed 26 June 2019]; Jan Fichtner, Eelke M. Heemskerk and Javier Garcia-Bernardo, 'Hidden Power of the Big Three? Passive Index Funds, Re-Concentration of Corporate Ownership, and New Financial Risk', *Business and Politics*, 19/02 (2017), 298–326 <https://www.cambridge.org/core/product/identifier/S1469356917000064/type/journal_article> [accessed 15 June 2017]; Janský and others, *Financial Secrecy Affecting the European Union: Patterns across Member States, and What to Do about It*, 64.

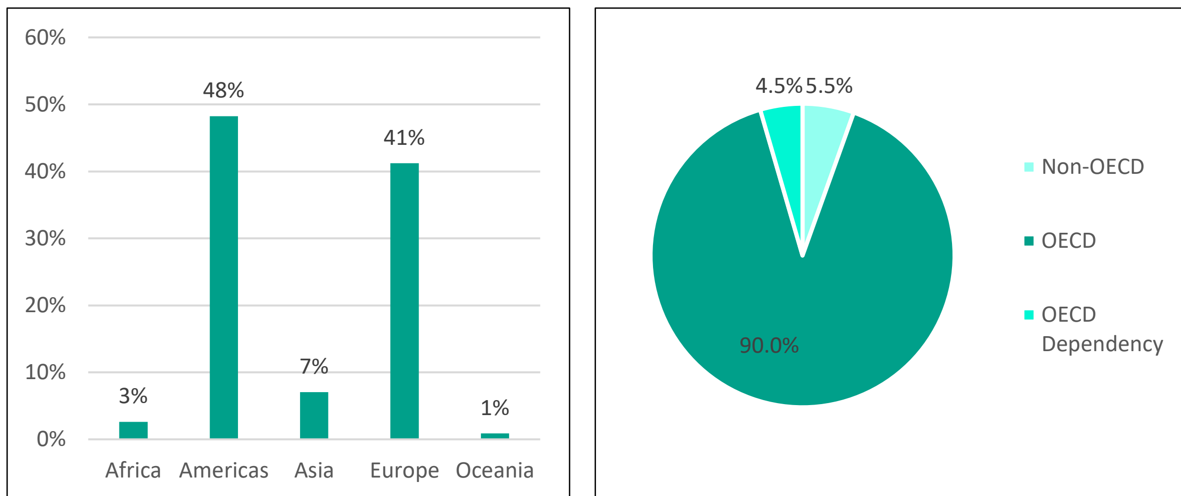

Figure 16. Vulnerability in portfolio investment liabilities (derived) 2016 – Africa's top suppliers of secrecy risks by region and area

When sorting for the top suppliers of secrecy risks to Africa by highest secrecy score, one country, Thailand, has an extremely high secrecy score (>80) and 12 have very high secrecy scores (>70) as Table 22 shows. Of the countries with very high secrecy scores, five countries all contribute more than 1% to Africa's vulnerability share: Saudi Arabia (2.03%), Cayman Islands (1.75%), Switzerland (1.69%), Mauritius (1.49%) and Bermuda (1.46%).

Table 22. Vulnerability in portfolio investment liabilities (derived) 2016 – Africa's top suppliers of secrecy risks ranked by highest secrecy score

Rank	Country	Africa's Vulnerability Share	Secrecy Score	Value of Portfolio Investment Liabilities (derived) (billion) (USD)	Share of Portfolio Investment Liabilities (derived)
1	Thailand	0.04%	80	.089	0.0%
2	Panama	0.01%	77	.015	0.0%
3	Switzerland	1.69%	76	3.651	1.3%
4	Aruba	0.00%	76	.003	0.0%
5	Bermuda	1.46%	73	3.282	1.2%
6	Guernsey	0.74%	72	1.684	0.6%
7	Mauritius	1.49%	72	3.399	1.2%
8	Cayman Islands	1.75%	72	3.998	1.4%
9	Lebanon	0.02%	72	.039	0.0%
10	Malaysia	0.05%	72	.120	0.0%
11	Hong Kong	0.36%	71	.836	0.3%
12	Gibraltar	0.05%	71	.116	0.0%
13	Saudi Arabia	2.03%	70	4.796	1.7%
14	Costa Rica	0.00%	69	.000	0.0%
15	Macao	0.01%	68	.022	0.0%
16	Turkey	0.00%	68	.001	0.0%
17	Netherlands	4.53%	66	11.296	4.0%
18	Jersey	0.34%	65	.854	0.3%
19	Philippines	0.00%	65	.002	0.0%
20	Russia	0.01%	64	.014	0.0%

6.2 Country-risk profile

Angola's vulnerability to illicit financial flows in portfolio investment liabilities (derived) is high (at 60) (see Table 23). In Angola, the contribution of Mauritius, Portugal, the United States of America and Luxembourg to vulnerability in 2016 are all over 15%. Angola does not have any automatic exchange of information (AEOI) relationships under the multilateral Convention on Mutual Administrative Assistance in Tax Matters[108] or the Common Reporting Standard (CRS) Multilateral Competent Authority Agreement,[109] Angola authorities and indeed the authorities in partner countries are unlikely to have sufficient information on the investments, which would be required for investigation and audit of these liabilities.

Table 23. Vulnerability of Angola's portfolio investment liabilities (derived) in 2016

Angola						
Rank	**Jurisdiction**	**Secrecy Score**	**Vulnerability Share**	**Value of Portfolio Investment Liabilities (derived) (millions) (USD)**	**Share of Portfolio Investment Liabilities (derived)**	**Activated AEOI Relationship?** [110]
1	Mauritius	72	20.8%	381.3	17.3%	N
2	Portugal	55	18.4%	446.1	20.2%	N
3	United States of America	60	15.8%	349.0	15.8%	N
4	Luxembourg	58	15.3%	348.3	15.8%	N
5	Ireland	51	4.5%	118.1	5.3%	N
6	Saudi Arabia	70	4.0%	75.9	3.4%	N
7	Germany	59	3.7%	83.3	3.8%	N
8	Netherlands	66	3.5%	69.6	3.1%	N
9	Austria	56	2.9%	68.5	3.1%	N
10	United Kingdom	42	2.8%	86.4	3.9%	N
Overall vulnerability of portfolio investment liabilities 60						

6.3 Policy recommendations

African nations should consider devising a joint strategy on how to tackle the risks of highly concentrated illicit financial flows in portfolio investments in their economies. Given the volatile nature of portfolio assets and their role in major financial crises in Latin America and Asia in the 1990s and 2000s, the risks of illicit financial flows should also be analysed in the context of considerations for financial stability. The expected steep increase in portfolio capital inflows in Africa in coming decades, which usually accompanies further economic

[108] https://www.oecd.org/tax/exchange-of-tax-information/Status_of_convention.pdf; 26.06.2019.
[109] https://www.oecd.org/tax/exchange-of-tax-information/MCAA-Signatories.pdf; 26.06.2019.
[110] http://www.oecd.org/tax/automatic-exchange/international-framework-for-the-crs/exchange-relationships; 26.06.2019.

development, suggests this matter is one of growing relevance in African economies.

An immediate minimum policy response to some investors from countries with particularly high levels of secrecy would consist in ensuring a broad range of information exchange and administration cooperation agreements covering not only tax matters, but also judicial, police and financial intelligence channels of cooperation. Also, given the limited nature of reported data on portfolio investments in spite of the risks of the IFF risks associated with these flows, the African Union and related inter-governmental organisations should promote better reporting of these flows at a continental level.

7. Banking deposits

The risks for illicit financial flows emanating from the banking system are consequential, given the central role the system plays in most cross-border financial transactions. This includes payments related to economic activity captured in any of the previous economic channels (trade, direct investment, and portfolio investment). For example, a payment for any specific export transaction of goods which is captured by the customs department should in theory be matched by a financial transaction that is reflected in the banking payment system. Evidence suggests that the number of cross-border banking payments (proxied by number of SWIFT messages) is correlated with the volume of trade in the same jurisdiction,[111] and mismatches between the jurisdiction of shipping and payment are used as proxies for IFF risk by some administrations[112].

Yet the Bank for International Settlements' (BIS) locational banking statistics used for the analyses here do not capture these flows[113] (or "movies"), but only the cross-border stocks (or "snapshots") of claims and liabilities of reporting banks. Only very few jurisdictions participate in these statistics. As of December 2018, there are a total of 47 reporting jurisdictions for the BIS.[114] Yet only 31 jurisdictions of these make available their locational banking statistics in bilateral country breakdown by location of counterparties, and are thus included as reporting jurisdictions in our analyses. In Africa, the only jurisdiction reporting locational banking statistics is South Africa.

Nonetheless, it is possible to derive valuable information relevant for Africa from the reporting jurisdictions and banks. Reporting jurisdictions and banks report on liabilities and claims for each partner jurisdiction, and this inevitably extends to jurisdictions that currently do not provide locational banking statistics to the BIS. For example, the data reveals that in 2016, French banks reported a liability towards Kenya of US$444m and German banks reported US$494m of banking liabilities towards Liberia. We are thus able to use the reported liabilities of BIS reporting countries to derive outward banking assets ("derived claims") of all jurisdictions. Hence, Kenyan residents (including banks) invested US$444m worth of assets with banks in France, and Liberian residents owned US$494m of assets at banks in Germany in 2016.

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[111] When conducting bilateral analyses, there is only a weak correlation between bilateral SWIFT messages and trade flows between the same country pairs. See Matthew Collin, Samantha Cook and Kimmo Soramaki, 'The Impact of Anti-Money Laundering Regulation on Payment Flows: Evidence from SWIFT Data', *SSRN Electronic Journal*, 2016, 11 <http://www.ssrn.com/abstract=2893790> [accessed 17 December 2018].

[112] Coelho, Rodrigues Amaral and Bacarolo, 'Fighting Illicit Financial Flows: Brazilian Customs´ Approach'.

[113] Cross-border banking system flows are captured centrally only by SWIFT, an international banking messaging system. Beyond that, banks are obliged under anti-money laundering rules to keep records of their financial transactions themselves under applicable money laundering and similar regulations, including on the ultimate beneficial owners (originators/recipients) of financial transactions.

[114] See https://www.bis.org/statistics/rep_countries.htm; 17.12.2018

It is important to bear in mind that the locational banking data only captures the immediate legal owner of banking assets, but not the ultimate legal or beneficial owner.[115] For example, banking assets controlled by a resident in Africa in a US bank would not be captured by the liabilities data reported by the US if the bank account is in the name of a company registered in the British Virgin Island. Instead, the US would report this deposit as a liability vis-à-vis the British Virgin Islands.

At the same time, if banks resident in Africa offer foreign currency accounts to African clients (e.g. in US dollars or Euros), the resident banks need to hold the equivalent sums in correspondent accounts at foreign banks, mostly within the currency area matching the currency in which the account is held (for Euro, for example in Frankfurt, Germany). Consequently, the jurisdiction where the African client account holders reside would not be captured in German BIS statistics, but only the jurisdiction of residency of the bank offering the accounts would be recorded in the country where the correspondent account is held by a foreign bank.

The ways in which this channel enables illicit financial flows are diverse and broad because of the vast sums transacted and the pervasiveness of financial transactions in any white collar crimes (see Table 24 for an overview). For example, Eurozone banks alone transacted in 2014 on average €966tn per day through loro or vostro accounts (correspondent banking accounts held for other banks).[116] As for BIS outward derived asset data, residents may directly control accounts at foreign banks and fail to disclose the assets and/or related income in their tax returns. This risk is compounded when banking groups (domestic banks colluding with foreign related parties, such as subsidiaries, branches, or holdings) engage in covert transfers on behalf of domestic clients, shifting assets abroad.

Table 24 exemplifies the massive risks emanating from such transfers. In the 1990s, banks in Germany engaged in fraudulent banking transfers with branches or subsidiaries in Luxembourg, Switzerland and Gibraltar in order to shift abroad billions on behalf of their clients, who sought to evade newly introduced withholding taxes on banking deposit interest. To do this, banks established specific transfer, pipeline or tunnel accounts between domestic banking offices and related party banking offices abroad. Routinely, the bank would officially record a cash withdrawal of huge amounts to mislead regulators. The bank would then credit those sums covertly (anonymously or in the name of fictional account holders, such as "Helmut Kohl") in the transfer account, where client's assets

[115] Lukas Menkhoff and Jakob Miethe, *Dirty Money Coming Home: Capital Flows into and out of Tax Havens* (2017), 11 <https://www.diw.de/documents/publikationen/73/diw_01.c.574066.de/dp1711.pdf> [accessed 7 April 2018].

[116] European Central Bank, *Ninth Survey on Correspondent Banking in Euro 2014 February 2015.* (Frankfurt am Main, 2015), 12 <https://www.ecb.europa.eu/pub/pdf/other/surveycorrespondentbankingineuro201502.en.pdf> [accessed 18 December 2018].

were aggregated and then transferred *en bloc* abroad. Identifying the real beneficiaries of the transfers was only possible through codewords and bank internal software. In 1999, after three years of criminal investigations, only DM13.6bn of the total of DM19.4bn (approx. €10bn) of covert transfers by Commerzbank alone had been successfully attributed to clients.[117]

Money launderers can rely on similar services if they are successfully co-opting banks. For example, Tanzanian bank FBME's branch in Cyprus used correspondent banking services of Austrian and two German banks for international banking transfers and foreign currency accounts. As of 1 July 2016, FBME's correspondent accounts at these three banks had assets totalling more than €580m. With those three banks, FBME colluded to withhold information on the senders and receivers of banking transfers in breach of applicable anti-money laundering regulations. This resulted in money laundering and terrorist financing charges and ultimately led to the bank's liquidation both in Tanzania and Cyprus.[118]

The BIS data only partially reveals the risks inherent in these transactions. While Cyprus is a reporting jurisdiction for the BIS locational banking statistics, it opts not to bilaterally disaggregate its data. Since Tanzania does not report locational banking data to the BIS, the extent and nature of exposure of FBME's headquarter in Tanzania to Cyprus remain unknown. Yet the derived BIS asset data shows for German domestic banks a total of US$1.3bn of banking liabilities towards Cyprus in 2016, down from slightly over US$2bn in 2015 and US$2.3bn in 2014 and over €3bn in 2010. The extent to which this fall has been driven by a reduction of German bank's exposure towards FBME's correspondent banking business, remains ultimately unknown, but a relationship is probable.

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[117] Meinzer, *Steueroase Deutschland. Warum Bei Uns Viele Reiche Keine Steuern Zahlen*, 222–25.
[118] UNODC, *JN Alias GU*, Case Law Database <https://sherloc.unodc.org/cld/case-law-doc/drugcrimetype/nga/2009/jn_alias_gu.html?lng=en&tmpl=sherloc> [accessed 21 June 2019]; 'Tanzania Revokes FBME Bank's Licence over Money-Laundering Probe', *Reuters*, 8 May 2017 <https://www.reuters.com/article/tanzania-banks-idUSL8N1IA1A8> [accessed 26 June 2019]; Matei Rosca, 'Deutsche Made "oral" Deal with Rogue Bank as 2 Rivals Also Skirted Rules: Files', *S&P Global: Market Intelligience*, 9 August 2018 <https://platform.mi.spglobal.com/web/client?auth=inherit#news/article?id=45796435&cdid=A-45796435-11049> [accessed 26 June 2019]; Jennifer Shasky Calvery, *Notice of Finding That FBME Bank Ltd., Formerly Known as Federal Bank of the Middle East, Ltd., Is a Financial Institution of Primary Money Laundering Concern*, Federal Register (22 July 2014) <https://www.fincen.gov/sites/default/files/special_measure/FBME_NOF.pdf> [accessed 26 June 2019].

Table 24. Illicit financial flows risk: outward banking assets (derived claims) and inward banking liabilities

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
(Derived) Assets held in foreign banks by resident banks comprise intra-group claims. Otherwise legally unrelated.	**BANKING CLAIMS (DERIVED)**			
	Omission of transfers and/or foreign assets and/or income in tax returns.	Tax	Resident banks or lawyers can assist in covertly transferring assets abroad via "tunnel" or "tube" or "escrow" accounts through correspondent banking relationships.	German prosecutors documented illegal transfers on behalf of clients through pipeline accounts from resident banks to related non-resident banks in Luxembourg, Switzerland and Gibraltar. The value documented until 1999 amounted to DM19.4bn (approx. €10bn) with just one German bank (Commerzbank), and most of the transfers were undertaken for tax evasion purposes.[119]
		Money Laundering	Organised crime groups shift their proceeds of crime abroad by investing in foreign bank accounts either directly, or through domestic banks via correspondent banking.	An international cocaine trafficking network was headed by a Nigerian resident and had assets of over €7.5m of financial assets confiscated, presumably including in bank accounts in Belgium. In another case, Tanzanian bank FBME had 90% of activities in one branch in Cyprus, and used correspondent banking services of Austrian and two German banks for international banking transfers and foreign currency accounts (assets totalling more than €580m as of 1 July 2016 in FBME's correspondent accounts at these three banks) with whom the bank colluded to withhold information on the senders and receivers of transfers in breach of applicable anti-money laundering regulations, resulting in money laundering and terrorist financing, leading ultimately to the bank's liquidation.[120]
		Corruption	Grand corruption relies on banking systems to funnel monies from corruption abroad by investing in foreign bank accounts directly, or through domestic banks via correspondent banking.	Nigeria's former president and dictator Sani Abacha used Swiss bank accounts with at least 19 different Swiss banks to hide at least US$750bn of embezzled funds.[121]

[119] Meinzer, *Steueroase Deutschland. Warum Bei Uns Viele Reiche Keine Steuern Zahlen*, 222–25.
[120] UNODC, *JN Alias GU*; 'Tanzania Revokes FBME Bank's Licence over Money-Laundering Probe'; Rosca, 'Deutsche Made "oral" Deal with Rogue Bank as 2 Rivals Also Skirted Rules: Files'; Shasky Calvery, *Notice of Finding That FBME Bank Ltd., Formerly Known as Federal Bank of the Middle East, Ltd., Is a Financial Institution of Primary Money Laundering Concern*.
[121] David U. Enweremadu, 'Nigeria's Quest to Recover Looted Assets: The Abacha Affair', *Africa Spectrum*, 48/2 (2013), 51–70 <https://www.jstor.org/stable/24589096, https://d-nb.info/1038738512/34> [accessed 26 June 2019].

Relationship of transaction partners	Manipulation	Illicit motivation	Details / Scheme for possible illicit activities (non-exhaustive)	Cases and Evidence
Liabilities of resident banks to non-resident non-banks are legally unrelated. Liabilities to non-resident banks comprise intra-group liabilities.	**BANKING LIABILITIES**			
	Thin capitalisation through intra-group banking loans, or back-to-back loans.	Tax	Loans from foreign banking affiliates can be used to reduce taxable profits of domestic banks. Domestic bank accounts allegedly controlled by non-resident entities are in reality owned and controlled by domestic tax evaders. Back-to-back loans enable a tax evasion scheme whereby hidden, tax evading deposits abroad are used as collateral for handing out loans to domestic privately held commercial companies or individuals, which may then deduct the interest.	An Australian resident hid his control over a Hong Kong resident company with an Australian bank account. This HK company issued false invoices to the Australian's other companies, resulting in tax evasion totalling over A$2m.[122]
	Hiding the origin of proceeds of crime.	Money Laundering	Foreign organised crime groups deposit their proceeds of crime either directly with domestic banks, or through foreign banks via correspondent banking, to launder the proceeds of crime. Resident bankers collude in tax evasion by non-residents by wilfully misreporting under automatic exchange of tax information mechanisms ("Common Reporting Standard" - "tax driven money laundering").	Commissions totalling US$16m for granting oil licenses in Nigeria were invested by a Nigerian resident in bank accounts in banks in Switzerland, Gibraltar and French territory, where the individual was sentenced in France for money laundering to three years imprisonment and a fine of €300,000.[123]
	Hiding the origin of proceeds of corruption.	Corruption	Foreign corrupt operators and/or their network deposit ill-gotten gains either directly with domestic banks, or through foreign banks via correspondent banking.	A Chinese company corruptly won tenders in China and transferred the proceeds to Hong Kong bank accounts, from where they were transferred back later to China using underground banking.[124]

7.1 Continental risk

Since there is only one African reporter of bilateral banking statistics, the analysis here is focused on the derived claims, for which the data is complete. Africa's average vulnerability to illicit financial flows in derived claims is 54.7 between 2008 and 2018. The vulnerability ranges from 46 (St. Helena) and 49

[122] Financial Action Task Force (FATF), *Concealment of Beneficial Ownership*, 2018, 44 <http://www.fatf-gafi.org/media/fatf/documents/reports/FATF-Egmont-Concealment-beneficial-ownership.pdf> [accessed 11 December 2018]; A back-to-back loan is explained on page 82 of Financial Action Task Force, *Money Laundering & Terrorist Financing Typologies 2004-2005*, 10 June 2005 <http://www.fatf-gafi.org/media/fatf/documents/reports/2004_2005_ML_Typologies_ENG.pdf> [accessed 26 June 2019].
[123] UNODC, *Nigerian Ministry of Oil and Gas*, Case Law Database, 2009 <https://sherloc.unodc.org/cld/case-law-doc/moneylaunderingcrimetype/xxx/2010/nigerian_ministry_of_oil_and_gas_.html?lng=en&tmpl=sherloc> [accessed 21 June 2019].
[124] Financial Action Task Force (FATF), *Concealment of Beneficial Ownership*, 120.

(Nigeria) to 69 (Guinea-Bissau) and 66 (Liberia; excluding Seychelles as an established secrecy jurisdiction; see Figure 17 below).

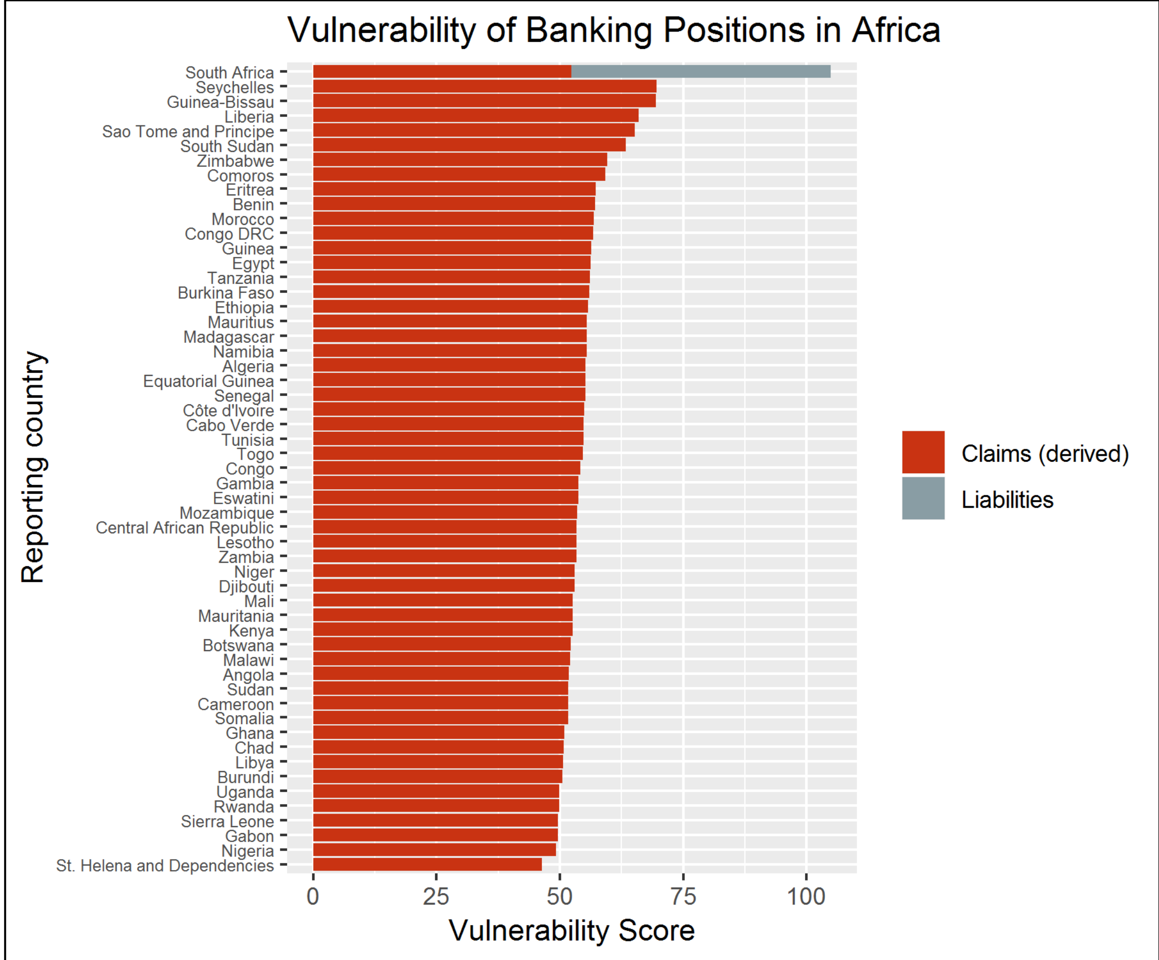

Figure 17. Overview of illicit financial flows vulnerability of banking positions in Africa (including conduits), 2008-2018

7.1.1 Banking claims (derived) analysis

In 2016, the United Kingdom combined with its network of satellite jurisdictions is responsible for a third of Africa's vulnerability to illicit financial flows in derived banking claims (32.33%), with US$86bn invested in four UK controlled territories (UK, Isle of Man, Guernsey and Jersey; see Table 25).

Switzerland and US follow as second and third largest suppliers of vulnerability to the African continent (13% and 12% respectively). Of the top twenty countries, which together make up 99% of the total vulnerability, 14 are OECD countries, three are OECD (UK) dependencies, and only three are not part of the OECD (Hong Kong, Taiwan and South Africa).

Table 25. Vulnerability in banking claims (derived) 2016 – Africa's top suppliers of secrecy risks

Rank	Country	Africa's Vulnerability Share	Secrecy Score	Value of Claims (billions) (USD)	Share of Claims
1	United Kingdom	25.22%	42	73.4	33%
2	Switzerland	12.96%	76	20.9	9%
3	United States of America	11.99%	60	24.7	11%
4	Hong Kong	8.16%	71	14.2	6%
5	France	7.95%	52	19.0	9%
6	Germany	5.11%	59	10.7	5%
7	Isle of Man	4.71%	64	9.1	4%
8	Taiwan	3.94%	76	6.4	3%
9	Netherlands	2.83%	66	5.3	2%
10	Belgium	2.44%	44	6.8	3%
11	South Africa	2.27%	56	5.0	2%
12	Jersey	1.98%	65	3.7	2%
13	Japan	1.89%	61	3.9	2%
14	Italy	1.57%	49	3.9	2%
15	Austria	1.57%	56	3.5	2%
16	Luxembourg	1.47%	58	3.1	1%
17	Spain	1.37%	48	3.5	2%
18	Sweden	0.93%	45	2.5	1%
19	Denmark	0.47%	53	1.1	0%
20	Guernsey	0.42%	72	.7	0%

When sorting the jurisdictions providing secrecy risks to Africa in banking claims by highest secrecy score, the role of Switzerland, Taiwan, Guernsey and Hong Kong with very high secrecy scores is cause for concern (see Table 26 below). These four jurisdictions alone are responsible for over 25% of the continent's vulnerability, hosting a combined US$42bn of African banking assets.

Table 26. Vulnerability in banking claims (derived) 2016 – Africa's top suppliers of secrecy risks ranked by highest secrecy score

Rank	Country	Africa's Vulnerability Share	Secrecy Score	Value of Claims (billions) (USD)	Share of Claims
1	Switzerland	12.96%	76	20.9	9%
2	Taiwan	3.94%	76	6.4	3%
3	Guernsey	0.42%	72	.7	0%
4	Hong Kong	8.16%	71	14.2	6%
5	Macao	0.16%	68	.3	0%
6	Netherlands	2.83%	66	5.3	2%
7	Jersey	1.98%	65	3.7	2%
8	Philippines	0.00%	65	.0	0%
9	Isle of Man	4.71%	64	9.1	4%
10	Chile	0.00%	62	.0	0%
11	Japan	1.89%	61	3.9	2%
12	United States of America	11.99%	60	24.7	11%
13	Germany	5.11%	59	10.7	5%
14	Korea	0.03%	59	.1	0%
15	Luxembourg	1.47%	58	3.1	1%
16	South Africa	2.27%	56	5.0	2%
17	Austria	1.57%	56	3.5	2%
18	Canada	0.18%	55	.4	0%
19	Mexico	0.00%	54	.0	0%
20	Finland	0.00%	53	.0	0%

7.1.2 The geopolitics of Africa's vulnerability in banking claims (derived)

European OECD countries account for the vast majority of Africa's vulnerability to illicit financial flows in banking claims. Beyond the European jurisdictions already mentioned above, only the Netherlands falls in the category of a European OECD country with a high secrecy score. Yet, lower secrecy scores (below 60) should not be taken as an indication of the absence of risk for illicit financial flows in banking assets invested in these jurisdictions. For example, a study by the German Civil Forum for Asset Recovery in June 2019 identified 16 cases of potentially illicit assets in Germany from developing countries, which remain largely unresolved to date. These cases include bank accounts in German banks from residents of three African countries (Kenya, Libya and Nigeria).[125]

[125] Christoph Trautvetter, *Stolen Asset Recovery between Germany and Developing Countries.* (Berlin, 2019), 10 <https://cifar.eu/wp-content/uploads/2019/06/1.-English-Report-2019-Asset-recovery-Germany.pdf> [accessed 12 July 2019]; Christoph Trautvetter, 'Ein effektiver Kampf gegen Geldwäsche in Deutschland – genauso wichtig wie Entwicklungshilfe?! – Blog Netzwerk Steuergerechtigkeit', *Blog Steuergerechtigkeit*, 2019 <https://www.blog-steuergerechtigkeit.de/2019/06/ein-effektiver-kampf-gegen-geldwaesche-in-deutschland-genauso-wichtig-wie-entwicklungshilfe/> [accessed 27 June 2019].

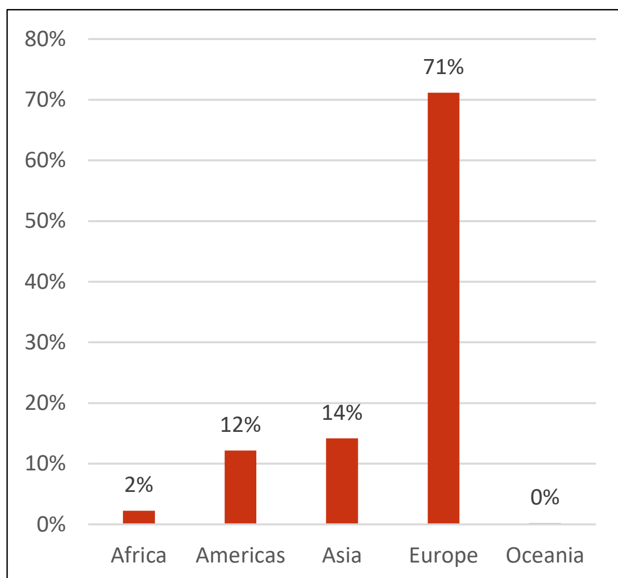

Figure 19. Vulnerability in banking claims (derived) 2016 – Africa's top suppliers of secrecy risks by region

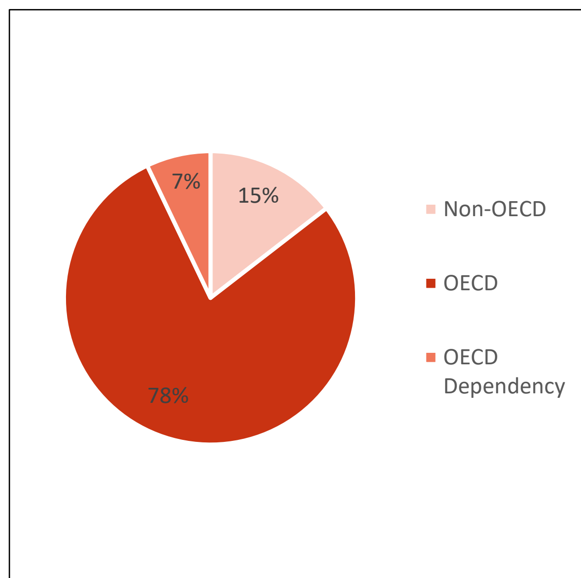

Figure 18. Vulnerability in banking claims (derived) 2016 – OECD contribution to secrecy risks

7.2 Country-risk profile

While the risk spectrum of African countries in banking claims is similar to that in other economic channels, an additional dimension of analysis on automatic exchange of information relationships reveals important differences. The successful enacting of automatic exchange of information agreements for tax purposes through bilateral agreements with destination jurisdictions of African assets should help mitigate against the risk of illicit financial flows. While the system for automatic banking data exchange devised by the OECD (under the Common Reporting Standard) has important shortcomings and did not take into consideration the concerns of developing countries in the design stage, it can provide relevant information about bank accounts held abroad by residents.[126]

Liberia, for example, does not currently engage in automatic information exchange on banking data at all. This implies an unmitigated risk for a broad range of illicit financial flows, including, but not limited to tax matters. If Liberia entered into automatic information exchange tax treaties with Switzerland, United Kingdom and Luxembourg, the revenue implications could be substantial. Assuming that the assets in these three countries (US$7.2bn) are yielding a 5% return, that these returns would be all taxable in Liberia at the top marginal

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[126] Markus Meinzer, 'Automatic Exchange of Information as the New Global Standard: The End of (Offshore Tax Evasion) History?', *SSRN Electronic Journal*, 2017 <http://www.ssrn.com/abstract=2924650> [accessed 21 July 2017]; Ralph Cunningham, 'Developing Countries Want Automatic Information Exchange, Tax Justice Network Research Reveals | International Tax Review', *International Tax Review*, 24 June 2014 <https://www.internationaltaxreview.com/Article/3354926/Corporate-Tax/Developing-countries-want-automatic-information-exchange-Tax-Justice-Network-reveals.html?ArticleId=3354926> [accessed 1 May 2019].

personal income tax rate of 25%,[127] and that they are currently unreported and untaxed, an additional annual tax revenue of US$90mn could be collected. Even if only half of this sum was collected, not implementing automatic information exchange still implies that substantial tax revenues are foregone.

Table 27. Vulnerability of Liberia's banking claims (derived) in 2016

Liberia						
Rank	**Jurisdiction**	**Secrecy Score**	**Vulnerability Share**	**Value of Banking Claims (derived) (millions) (USD)**	**Share of Banking Claims (derived)**	**Activated AEOI Relationship?[128]**
1	Switzerland	76	59.6%	4977.3	51.1%	N
2	United Kingdom	42	10.4%	1560.0	16.0%	N
3	Luxembourg	58	6.3%	695.3	7.1%	N
4	Hong Kong	71	4.8%	428.8	4.4%	N
5	Germany	59	4.6%	494.0	5.1%	N
6	Japan	61	3.2%	340.5	3.5%	N
7	France	52	2.3%	285.0	2.9%	N
8	United States of America	60	2.3%	245.0	2.5%	N
9	Jersey	65	2.3%	223.0	2.3%	N
10	Belgium	44	1.7%	252.2	2.6%	N
Overall vulnerability of derived banking claims 66						

South Africa, in contrast, is the country in Africa most actively engaged in the automatic exchange of information system. As can be seen from the last column of Table 28, it has activated exchange relationships with 9 out of the top 10 countries contributing to South Africa's vulnerability. The only exception is the United States, which so far has refused to engage in reciprocal information exchange under the Common Reporting Standard, including with European and other OECD member states.[129]

However, the existence of exchange relationships is in itself no guarantee that IFFs related to the foreign held banking assets are curtailed. Numerous loopholes, constraints on data usage, and low sanctions even in cases of wilful misreporting, for example, in case of Germany and Switzerland,[130] require that

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[127] Currently, Liberia only taxes foreign investment income if remitted to Liberia. See Liberia - Key Features, Country Key Features IBFD; https://research.ibfd.org/#/doc?url=/document/kf_lr (27.6.2019).
[128] http://www.oecd.org/tax/automatic-exchange/international-framework-for-the-crs/exchange-relationships; 26.06.2019.
[129] Janský and others, *Financial Secrecy Affecting the European Union: Patterns across Member States, and What to Do about It*, 64.
[130] Knobel, 'Statistics on Automatic Exchange of Banking Information and the Right to Hold Authorities (and Banks) to Account'; Meinzer, 'Automatic Exchange of Information as the New Global Standard'; Andres Knobel, 'The Use of Banking Information to Tackle Corruption and Money Laundering: A Low-Hanging Fruit the OECD Refuses to Harvest', *Tax Justice Network*, 2019 <https://www.taxjustice.net/2019/04/30/the-use-of-banking-

further steps are taken to mitigate IFF risks from banking claims, including activating automatic exchange of information relationships, public statistics about reporting practices and severe sanctions in case of wilful misreporting in reporting countries.

Table 28. Vulnerability of South Africa's banking claims (derived) in 2016

South Africa						
Rank	**Jurisdiction**	**Secrecy Score**	**Vulnerability Share**	**Value of Banking Claims (derived) (millions) (USD)**	**Share of Banking Claims (derived)**	**Activated AEOI Relationship?[131]**
1	United Kingdom	42	31.1%	15651.0	39.7%	Y
2	Isle of Man	64	20.5%	6867.2	17.4%	Y
3	United States of America	60	11.0%	3914.0	9.9%	N
4	Switzerland	76	7.2%	2003.5	5.1%	Y
5	Germany	59	5.4%	1962.0	5.0%	Y
6	Jersey	65	4.6%	1488.0	3.8%	Y
7	Netherlands	66	3.9%	1248.1	3.2%	Y
8	France	52	3.7%	1532.0	3.9%	Y
9	Belgium	44	3.5%	1702.2	4.3%	Y
10	Hong Kong	71	3.3%	990.3	2.5%	Y
Overall vulnerability of derived banking claims 52						

7.3 Policy recommendations

African countries that are not yet participating in the automatic information exchange framework should carry out cost-benefit analyses to determine the potential additional tax revenues from engaging in the Common Reporting Standard. This might involve revisiting the scope of the personal income tax system, including considering the removal of remittance qualifications to worldwide income taxation as well as to consider applying the top marginal rates. The IFF risk analysis presented above can guide policymakers in prioritising negotiations for information exchange relationships with jurisdictions that are responsible for the greatest IFF risks in their economies.

African countries already participating in the exchange system might consider working towards a joint position for tweaking the parameters of the system to their needs. For example, requiring public statistics[132] could be an effective

information-to-tackle-corruption-and-money-laundering-a-low-hanging-fruit-the-oecd-refuses-to-harvest/, https://www.taxjustice.net/2019/04/30/the-use-of-banking-information-to-tackle-corruption-and-money-laundering-a-low-hanging-fruit-the-oecd-refuses-to-harvest/> [accessed 27 June 2019].

[131] http://www.oecd.org/tax/automatic-exchange/international-framework-for-the-crs/exchange-relationships; 26.06.2019.

[132] Knobel, 'Statistics on Automatic Exchange of Banking Information and the Right to Hold Authorities (and Banks) to Account'.

means to increase compliance of reporting obligations in major OECD controlled financial centres. In addition, the artificial legal constraints the OECD places on the use of data for criminal corruption and money laundering investigations could be revisited.[133] The Punta del Este declaration, “a call to strengthen action against tax evasion and corruption”,[134] signed by participating ministers from Latin America in 2018, could provide a useful starting point for political international coordination towards a more efficient and ambitious data usage.

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[133] Knobel, ‘The Use of Banking Information to Tackle Corruption and Money Laundering’.
[134] ‘Punta Del Este Declaration: A Call to Strengthen Action against Tax Evasion and Corruption’, 2018 <https://www.oecd.org/tax/transparency/Latin-American-Ministerial-Declaration.pdf> [accessed 14 August 2019].

7. Conclusions and policy recommendations

This report has presented an analytical framework that could inform a holistic, whole-of-government approach in countering illicit financial flows. These illicit financial flows undermine domestic resource mobilisation, deepen poverty, distort the economy, let organised crime thrive and enable grand corruption on the continent. The common denominator is that these illicit financial flows rely on secrecy in counterpart countries of cross-border economic transactions into and out of African countries.

Across trade, foreign direct investment, portfolio investment and banking, high levels of financial secrecy in cross-border transactions create a criminogenic environment. This demands a response by authorities. In order for countries to determine where to prioritise their efforts, this analysis suggests a review of the exposure and vulnerability of a country's entire economy to illicit financial flow risks is required. This would take into account the relative importance of international trade, direct or portfolio investment and banking in a given country. Once the economic channels posing the highest risk are identified, a more granular analysis of the vulnerabilities would ensure to understand where these risks originate. In turn, this would provide concrete leads for follow up for policymakers and operational staff in government.

An important finding is that Africa is importing the overwhelming majority of its risks in illicit financial flows from outside the continent. This is hardly surprising given the relative importance of economic relationships African countries have with countries outside the African continent compared to intra-African intensity of economic relationships. Yet there are some noticeable differences in each of the economic channels. For example, the risks in trade appear to be concentrated with Europe and Asia, whereas the risks in direct investment are more concentrated in Asia. Portfolio investments stem largely from the Americas, while banking risks emanate mostly from the European Union. Across all the channels, the role of the European Union dependent jurisdictions, and especially the UK's crown dependencies and overseas territories, is striking: they provide a disproportional share of risks. The insights from this analysis provide policymakers with guidance for their next steps in countering illicit financial flows: where and how to start tackling the issues.

Policy Recommendations

I. Enhance data availability

Broadening the availability of statistical data on bilateral economic relationships is a first step for enabling both in depth and comprehensive analyses and meaningful regulation of economic actors engaged in cross-border transactions. In the process of collecting statistical data according to IMF standards, governments would need to build registration and monitoring capacity that likely

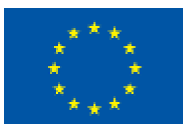
helps improve overall economic governance. The IFF risk analysis can help in the prioritisation of filling in data gaps with the highest (derived) exposure to IFF risks.

II. Consider pan-African coordination on countering IFF risks

The bulk of IFF risks at the moment is imported into Africa from outside the continent. This finding could help foster joint negotiation positions at the level of the African Union Commission, the African Tax Administration Forum and others when engaging in multilateral negotiations around trade, investment or tax matters. Pan-African alternative minimum standards for trade, investment and financial services could be crafted in order to safeguard against illicit financial flows emanating from secrecy jurisdictions and corporate tax havens controlled by European and OECD countries. The proposal for a United Nations Convention on tax should be evaluated at the pan-African level for its value as an instrument to tackle illicit financial flows, based on an African common position. In the interim African countries, through their continental bodies, could further enhance regional cooperation for integrated financial policies and legislation in Africa.

III. Embed IFF risk analyses across administrative departments

A holistic approach to countering illicit financial flows requires capacity to identify and target the areas of the highest risks for illicit financial flows. IFF risk profiles can assist governments to prioritise the allocation of resources across administration departments and arms of government, including tax authorities and customs, the central bank, supreme audit institutions, financial supervisors, anti-corruption offices, financial intelligence units and the judiciary. Within these departments, the IFF risk profiles would support the targeting of audits and investigations at an operational level as well as the negotiation of bilateral and multilateral treaties on information exchange at a policymaking level. Whether on tax, data, trade or corruption related matters, capacity building strategies at a continental level should include IFF risk analysis.



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Annex A: African states and dependencies in the data set

The dataset includes the following African states based on UN regional groupings sorted in alphabetical order by the 3-letter code for country names (ISO3166-3). It includes all African states and dependencies for which data was found.

No.	ISO3 166-3	ISO 316 6-2	Country	No.	ISO3 166-3	ISO 316 6-2	Country
1	AGO	AO	Angola	31	MAR	MA	Morocco
2	ATF	TF	French Southern Territories	32	MDG	MG	Madagascar
3	BDI	BI	Burundi	33	MLI	ML	Mali
4	BEN	BJ	Benin	34	MOZ	MZ	Mozambique
5	BFA	BF	Burkina Faso	35	MRT	MR	Mauritania
6	BWA	BW	Botswana	36	MUS	MU	Mauritius
7	CAF	CF	Central African Republic	37	MWI	MW	Malawi
8	CIV	CI	Côte d'Ivoire	38	MYT	YT	Mayotte
9	CMR	CM	Cameroon	39	NAM	NA	Namibia
10	COD	CD	Congo DRC	40	NER	NE	Niger
11	COG	CG	Congo	41	NGA	NG	Nigeria
12	COM	KM	Comoros	42	REU	RE	Réunion
13	CPV	CV	Cabo Verde	43	RWA	RW	Rwanda
14	DJI	DJ	Djibouti	44	SDN	SD	Sudan
15	DZA	DZ	Algeria	45	SEN	SN	Senegal
16	EGY	EG	Egypt	46	SHN	SH	St. Helena and Dependencies
17	ERI	ER	Eritrea	47	SLE	SL	Sierra Leone
18	ESH	EH	Western Sahara	48	SOM	SO	Somalia
19	ETH	ET	Ethiopia	49	SSD	SS	South Sudan
20	GAB	GA	Gabon	50	STP	ST	Sao Tome and Principe
21	GHA	GH	Ghana	51	SWZ	SZ	Eswatini
22	GIN	GN	Guinea	52	SYC	SC	Seychelles
23	GMB	GM	Gambia	53	TCD	TD	Chad
24	GNB	GW	Guinea-Bissau	54	TGO	TG	Togo
25	GNQ	GQ	Equatorial Guinea	55	TUN	TN	Tunisia
26	IOT	IO	British Indian Ocean Territory	56	TZA	TZ	Tanzania
27	KEN	KE	Kenya	57	UGA	UG	Uganda
28	LBR	LR	Liberia	58	ZAF	ZA	South Africa
29	LBY	LY	Libya	59	ZMB	ZM	Zambia
30	LSO	LS	Lesotho	60	ZWE	ZW	Zimbabwe

Annex B: Data availability

The following table shows the African reporter jurisdictions (states and dependencies) with data for at least one observation between 2008 and 2018 and the African reporter jurisdictions with coverage for 2016.

No.	UN Comtrade – Imports & Exports[135]		CPIS - Portfolio Investment Assets[136]		CPIS – Portfolio Investment Liabilities (derived)[137]		CDIS – Foreign direct investment Inward[138]		CDIS – Foreign direct investment Outward (derived)[139]		BIS – Banking Claims (derived)[140]	
	African reporter jurisdictions with data for at least one observation 2008-2018	**Data coverage 2016**	**African reporter jurisdictions with data for at least one observation 2008-2018**	**Data coverage 2016**	**African reporter jurisdictions with data for at least one observation 2008-2018**	**Data coverage 2016**	**African reporter jurisdictions with data for at least one observation 2008-2018**	**Data coverage 2016**	**African reporter jurisdictions with data for at least one observation 2008-2018**	**Data coverage 2016**	**African reporter jurisdictions with data for at least one observation 2008-2018**	**Data coverage 2016**
1	Algeria	Algeria	Egypt	Egypt	Algeria	Algeria	Benin	Benin	Algeria	Algeria	Algeria	Algeria
2	Angola	Benin	Mauritius	Mauritius	Angola	Angola	Botswana	Botswana	Angola	Angola	Angola	Angola
3	Benin	Botswana	South Africa	South Africa	Benin	Benin	Burkina Faso	Burkina Faso	Benin	Benin	Benin	Benin
4	Botswana	Burkina Faso			Botswana	Botswana	Cabo Verde	Cabo Verde	Botswana	Botswana	Botswana	Botswana
5	Burkina Faso	Burundi			British Indian Ocean Territory	Burkina Faso	Côte d'Ivoire	Côte d'Ivoire	British Indian Ocean Territory	British Indian Ocean Territory	Burkina Faso	Burkina Faso
6	Burundi	Cabo Verde			Burkina Faso	Burundi	Ghana	Guinea-Bissau	Burkina Faso	Burkina Faso	Burundi	Burundi
7	Cabo Verde	Cameroon			Burundi	Cabo Verde	Guinea-Bissau	Mali	Burundi	Burundi	Cabo Verde	Cabo Verde
8	Cameroon	Central African Republic			Cabo Verde	Cameroon	Mali	Mauritius	Cabo Verde	Cabo Verde	Cameroon	Cameroon
9	Central African Republic	Egypt			Cameroon	Central African Republic	Mauritius	Morocco	Cameroon	Cameroon	Central African Republic	Central African Republic
10	Congo	Ethiopia			Central African Republic	Chad	Morocco	Mozambique	Central African Republic	Central African Republic	Chad	Chad
11	Côte d'Ivoire	Gambia			Chad	Congo	Mozambique	Niger	Chad	Chad	Comoros	Comoros

[135] In the trade data set for Africa (exports and imports), data is available for 2009-2017.
[136] In the portfolio assets data set for Africa, data is available for 2008-2016.
[137] In the portfolio liabilities (derived) data set for Africa, data is available for 2008-2016.
[138] In the direct investment inward data set for Africa, data is available for 2009-2016.
[139] In the direct investment outward (derived) data set for Africa, data is available for 2008-2016, where Cyprus is the only reporter with data points for 2008.
[140] In the banking claims (derived) data set for Africa, data is available for 2008-2018.

No.	UN Comtrade – Imports & Exports[135]		CPIS - Portfolio Investment Assets[136]		CPIS – Portfolio Investment Liabilities (derived)[137]		CDIS – Foreign direct investment Inward[138]		CDIS – Foreign direct investment Outward (derived)[139]		BIS – Banking Claims (derived)[140]	
12	Djibouti	Ghana			Comoros	Congo DRC	Niger	Nigeria	Comoros	Comoros	Congo	Congo
13	Egypt	Madagascar			Congo	Côte d'Ivoire	Nigeria	Seychelles	Congo	Congo	Congo DRC	Congo DRC
14	Ethiopia	Mali			Congo DRC	Djibouti	Rwanda	South Africa	Congo DRC	Congo DRC	Côte d'Ivoire	Côte d'Ivoire
15	Gambia	Mauritania			Côte d'Ivoire	Egypt	Senegal	Togo	Côte d'Ivoire	Côte d'Ivoire	Djibouti	Djibouti
16	Ghana	Mauritius			Djibouti	Eritrea	Seychelles	Uganda	Djibouti	Djibouti	Egypt	Egypt
17	Guinea	Morocco			Egypt	Eswatini	South Africa	Zambia	Egypt	Egypt	Equatorial Guinea	Equatorial Guinea
18	Kenya	Mozambique			Equatorial Guinea	Ethiopia	Tanzania		Equatorial Guinea	Equatorial Guinea	Eritrea	Eritrea
19	Madagascar	Namibia			Eritrea	Gabon	Togo		Eritrea	Eritrea	Eswatini	Eswatini
20	Malawi	Niger			Eswatini	Gambia	Uganda		Eswatini	Eswatini	Ethiopia	Ethiopia
21	Mali	Nigeria			Ethiopia	Ghana	Zambia		Ethiopia	Ethiopia	Gabon	Gabon
22	Mauritania	Rwanda			Gabon	Guinea			French Southern Territories	French Southern Territories	Gambia	Gambia
23	Mauritius	Sao Tome and Principe			Gambia	Kenya			Gabon	Gabon	Ghana	Ghana
24	Mayotte	Senegal			Ghana	Lesotho			Gambia	Gambia	Guinea	Guinea
25	Morocco	Seychelles			Guinea	Liberia			Ghana	Ghana	Guinea-Bissau	Guinea-Bissau
26	Mozambique	Sierra Leone			Guinea-Bissau	Libya			Guinea	Guinea	Kenya	Kenya
27	Namibia	South Africa			Kenya	Madagascar			Guinea-Bissau	Guinea-Bissau	Lesotho	Lesotho
28	Niger	Tanzania			Lesotho	Malawi			Kenya	Kenya	Liberia	Liberia
29	Nigeria	Togo			Liberia	Mali			Lesotho	Lesotho	Libya	Libya
30	Rwanda	Tunisia			Libya	Mauritania			Liberia	Liberia	Madagascar	Madagascar
31	Sao Tome and Principe	Uganda			Madagascar	Mauritius			Libya	Libya	Malawi	Malawi
32	Senegal	Zimbabwe			Malawi	Mayotte			Madagascar	Madagascar	Mali	Mali
33	Seychelles				Mali	Morocco			Malawi	Malawi	Mauritania	Mauritania
34	Sierra Leone				Mauritania	Mozambique			Mali	Mali	Mauritius	Mauritius
35	South Africa				Mauritius	Namibia			Mauritania	Mauritania	Morocco	Morocco
36	Sudan				Mayotte	Niger			Mauritius	Mauritius	Mozambique	Mozambique
37	Tanzania				Morocco	Nigeria			Mayotte	Mayotte	Namibia	Namibia
38	Togo				Mozambique	Réunion			Morocco	Morocco	Niger	Niger
39	Tunisia				Namibia	Rwanda			Mozambique	Mozambique	Nigeria	Nigeria
40	Uganda				Niger	Sao Tome and Principe			Namibia	Namibia	Rwanda	Rwanda

No.	UN Comtrade – Imports & Exports[135]		CPIS - Portfolio Investment Assets[136]		CPIS – Portfolio Investment Liabilities (derived)[137]		CDIS – Foreign direct investment Inward[138]		CDIS – Foreign direct investment Outward (derived)[139]		BIS – Banking Claims (derived)[140]	
41	Zambia				Nigeria	Senegal			Niger	Niger	Sao Tome and Principe	Sao Tome and Principe
42	Zimbabwe				Réunion	Seychelles			Nigeria	Nigeria	Senegal	Senegal
43					Rwanda	Sierra Leone			Réunion	Réunion	Seychelles	Seychelles
44					Sao Tome and Principe	South Africa			Rwanda	Rwanda	Sierra Leone	Sierra Leone
45					Senegal	South Sudan			Sao Tome and Principe	Sao Tome and Principe	Somalia	Somalia
46					Seychelles	St. Helena and Dependencies			Senegal	Senegal	South Africa	South Africa
47					Sierra Leone	Sudan			Seychelles	Seychelles	South Sudan	South Sudan
48					Somalia	Tanzania			Sierra Leone	Sierra Leone	St. Helena and Dependencies	St. Helena and Dependencies
49					South Africa	Togo			Somalia	Somalia	Sudan	Sudan
50					South Sudan	Tunisia			South Africa	South Africa	Tanzania	Tanzania
51					St. Helena and Dependencies	Uganda			South Sudan	South Sudan	Togo	Togo
52					Sudan	Western Sahara			St. Helena and Dependencies	St. Helena and Dependencies	Tunisia	Tunisia
53					Tanzania	Zambia			Sudan	Sudan	Uganda	Uganda
54					Togo	Zimbabwe			Tanzania	Tanzania	Zambia	Zambia
55					Tunisia				Togo	Togo	Zimbabwe	Zimbabwe
56					Uganda				Tunisia	Tunisia		
57					Western Sahara				Uganda	Uganda		
58					Zambia				Western Sahara	Western Sahara		
59					Zimbabwe				Zambia	Zambia		
60									Zimbabwe	Zimbabwe		

Annex C: Share of secrecy supplied per region and channel (2016)

Based on the data set, the secrecy supplied by regions (based on UN classifications) has been calculated as a sum of all the secrecy supplied by jurisdictions per region to all African countries in 2016.

Rank	UN Comtrade - Imports		UN Comtrade - Exports		CPIS - Portfolio Investment Assets		CPIS – Portfolio Investment Liabilities (derived)		CDIS – Foreign direct investment Inward		CDIS – Foreign direct investment Outward (derived)		BIS – Banking claims (derived)	
	Region	**Secrecy supplied**	**Region**	**Secrecy supplied**	**Region**	**Secrecy supplied**	**Region**	**Secrecy supplied**	**Region**	**Secrecy supplied**	**Region**	**Secrecy supplied**	**Region**	**Secrecy supplied**
1	Asia	42.67%	Europe	44.50%	Europe	42.93%	Americas	48.26%	Europe	38.05%	Asia	71.31%	Europe	71.16%
2	Europe	40.46%	Asia	32.85%	Asia	38.24%	Europe	41.21%	Americas	29.95%	Africa	15.59%	Asia	14.19%
3	Americas	10.33%	Americas	12.40%	Americas	16.72%	Asia	7.04%	Asia	23.87%	Europe	9.37%	Americas	12.18%
4	Africa	5.69%	Africa	9.66%	Africa	1.68%	Africa	2.63%	Africa	6.85%	Americas	2.83%	Africa	2.27%
5	Oceania	0.85%	Oceania	0.59%	Oceania	0.42%	Oceania	0.87%	Oceania	1.29%	Oceania	0.90%	Oceania	0.20%

Annex D: Dependencies of countries in the European Union and OECD

<table>
<tr><td rowspan="16">OECD</td><td rowspan="14">European Union</td><td>Country</td><td>Dependency</td></tr>
<tr><td rowspan="3">The Netherlands</td><td>Aruba</td></tr>
<tr><td>Curacao</td></tr>
<tr><td>St Maarten</td></tr>
<tr><td rowspan="10">United Kingdom</td><td>Anguilla</td></tr>
<tr><td>Bermuda</td></tr>
<tr><td>British Virgin Islands</td></tr>
<tr><td>Cayman Islands</td></tr>
<tr><td>Gibraltar</td></tr>
<tr><td>Guernsey</td></tr>
<tr><td>Isle of Man</td></tr>
<tr><td>Jersey</td></tr>
<tr><td>Montserrat</td></tr>
<tr><td>Turks and Caicos</td></tr>
<tr><td rowspan="2"></td><td rowspan="2">United States of America</td><td>Puerto Rico</td></tr>
<tr><td>US Virgin Islands</td></tr>
</table>

Annex E: Top 10 secrecy jurisdictions for African states in 2016 across all economic channels

This annex containing risk profiles for every African state can be downloaded here ‘Country Risk Profiles Illicit Financial Flows 2016 A-Z’. These show the vulnerability, intensity and exposure of each country to illicit financial flows between 2008 and 2018 for the economic channels where data is available.

The tables included show up to the top ten jurisdictions that cause a country to be vulnerable to illicit financial flows across the economic channels where data is available in 2016. The secrecy scores, share of vulnerability and volume of cross-border transactions are all presented.