REGIONAL COORDINATED AUDIT ON ILLICIT FINANCIAL FLOWS

APRIL 2025

This document compiles national experiences and lessons from the coordinated regional audit on illicit financial flows, focusing on the review of the legislative, regulatory and institutional frameworks for tax revenue mobilisation.

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OFFICE OF THE AUDITOR-GENERAL

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Foreword
By AFROSAI GS

The effective mobilization of tax collections and the fight against illicit financial flows (IFFs) are critical challenges for the sustainable development of African countries. These flows, estimated at billions of dollars annually, deprive our states of essential resources needed to fund key sectors such as education, health, and infrastructure. They also undermine public trust in our institutions and weaken efforts to promote good governance.

Aware of these challenges, the African Organization of Supreme Audit Institutions (AFROSAI) launched an ambitious and coordinated initiative aimed at reviewing the legislative, regulatory, and institutional frameworks for revenue mobilization and the fight against IFFs. This report is the second initiative of its kind, following the momentum initiated during the first audit conducted in 2017, which focused on combating corruption through the review of public procurement systems and asset declaration regimes.

This work is highly relevant as it aligns perfectly with the African Union's Agenda 2063 and the United Nations' Sustainable Development Goals, particularly Goal 16.4, which aims to significantly reduce IFFs by 2030.

Through a rigorous methodology, collaborative regional workshops, and in-depth national analysis, this regional report highlights the main weaknesses of existing national systems while proposing tangible and actionable recommendations to address these issues.

I commend the commitment and thoroughness of the participating SAIs, which, despite the challenges encountered, have demonstrated the vital role of public auditing in promoting transparency, accountability, and the mobilization of domestic resources. This report, reflecting the status of public institutions in addressing emerging challenges such as combating IFFs, serves as a decision-making tool and a roadmap to strengthen institutions responsible for revenue mobilization, harmonize legislative and institutional frameworks across African states, and enhance international cooperation.

As an African community of SAIs, we must continue to work collectively to ensure effective and equitable financial governance. I encourage all stakeholders, including policymakers, technical and financial partners, and international organizations, to leverage the findings of this report to strengthen actions against IFFs and promote inclusive and sustainable development across our continent.

The President of AFROSAI

Foreword

By AFROSAI/ITCBT

It is my honour to present the report of coordinated regional audit on Illicit Financial Flows (IFFs). This Report is as a result of a resolution by the 51st Governing Board Meeting of the African Organisation of Supreme Audit Institutions (AFROSAI), in July 2016 in Windhoek, Namibia.

At the meeting, the Governing Board agreed to conduct coordinated audits to actively fight against IFFs. This is the second coordinated audit by AFROSAI, following the Windhoek resolution. The first audit, focusing on the fight against corruption through the review of public procurement systems and the asset declaration regime, was conducted in 2017, with the participation of twelve African Supreme Audit Institutions (SAIs).

IFFs have a negative impact on a country's ability to mobilise its national resources for sustainable economic development. According to the United Nations Conference on Trade and Development (UNCTAD), "illicit financial flows and corruption hinder Africa's development by draining foreign exchange, reducing domestic resources, stifling trade and macroeconomic stability, and deepening poverty and inequality". Global Financial Integrity (GFI) has published several reports on IFFs. In its 2014 study entitled 'Illicit Financial Flows from Developing Countries: 2003-2012', the GFI revealed that Sub-Saharan Africa loses around $68.6 billion a year in IFFs.

The journey to this audit commenced in Nairobi, Kenya, on 24 April 2023, with the signing of a Memorandum of Understanding between AFROSAI's Institutional and Technical Capacity Building Committee (ITCBC) and 12-member SAIs. The MoU formalised cooperation between these institutions by establishing a structured framework for conducting the audit.
The focus of this coordinated audit was to verify whether the legislative, regulatory and institutional frameworks that govern the activities of national tax authorities give them sufficient powers and capacity to protect national revenues and prevent illicit financial flows in Africa. The audit feeds into African Union's Agenda 2063 and the United Nations' Sustainable Development Goal 16.4, which aims to significantly reduce IFFs.

The recommendations of this report aim to improve financial governance, reduce IFFs and strengthen public revenue mobilisation, thereby contributing to the sustainable development of African countries. It provides a comprehensive analysis of the legal and institutional arrangements for tax revenue mobilisation, focusing on IFFs in Africa.

It proposes measures to African governments that if implemented, will mitigate IFFs. Some of the recommendations include subscription by African governments to regional and global initiatives for cooperation in financial intelligence and mutual legal assistance, and the use of technology to ensure real-time management and monitoring of transactions by tax authorities.

SAIs have a huge role in giving advisories on combating IFF, and the report recommends that AFROSAI should advocate for similar audits in destination countries through the International Organisation of Supreme Audit Institutions (INTOSAI), and its organs. Additionally, it should build the capacity of SAIs intending to conduct IFF audits in the future, and encourage the conversation with like-minded partners to keep the momentum already established.
The report further recommends actions to be taken by the African Union in addressing IFFs. Some of these include continued advocacy for the signature, ratification and implementation of African instruments to combat corruption and related economic crimes, and engaging International Institutions such as the International Monetary Fund (IMF), the World Bank (WB) and European Union (EU) to address IFFs.

I acknowledge the German Development Agency -Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the European Union, the Finnish Government and the African Union for their support in this coordinated audit. I also appreciate the member SAIs for seamlessly working together to conduct this important audit.

FCPA Nancy Gathungu, CBS
Auditor-General of the Republic of Kenya
Chair, AFROSAI's Institutional and Technical Capacity Building Committee

Foreword

By Dr Christiane Schuppert

Africa's development aspirations hinge on the availability of adequate resources. Mobilising domestic revenues is crucial not only to accelerate economic and social development but also to ensure dignified lives for all citizens. Illicit financial flows (IFFs) and corruption further drain already depleted treasuries, thereby limiting the room for governments to address the most pressing challenges of today, including climate change and inequality. Therefore, addressing the challenge of IFFs, and in particular aggressive tax avoidance and evasion in critical sectors such as extractive industries, is paramount. Combating these practices holds the key to unlocking additional revenues needed to realise the continent's development goals.

Supreme audit institutions (SAIs) play a pivotal role as central oversight and accountability actors in a country's public finance systems. They are instrumental in safeguarding public expenditure, identifying gaps in existing frameworks, preventing IFF and strengthening revenue mobilisation. Launching this regional audit in Nairobi in April 2023, SAIs have conducted a remarkable effort in combating IFFs, including fostering interinstitutional collaboration within countries and across borders.

Under the leadership of the African Organisation of Supreme Audit Institutions (AFROSAI), SAIs from 12 African countries have come together to prioritise key issues and conduct a coordinated audit. This audit evaluated the legal, regulatory and institutional frameworks for mobilising tax revenue in several African nations. Supported by the Multi-Donor Action on Fighting Tax-Related Illicit Financial Flows, co-funded by the European Union, the Ministry of Foreign Affairs of Finland and the German Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by the GIZ Good Financial Governance (GFG) in Africa II project, this regional approach is well suited to address the cross-border nature of IFFs. Beyond producing meaningful audit results, the initiative strengthens regional cooperation, demonstrating the value of collective action in fighting tax related IFFs.

This combined report of the 12 countries' audit results highlights several critical challenges in addressing tax-related IFFs. For instance, multinational enterprises often exploit gaps and inconsistencies in tax systems to avoid or evade paying their fair share of taxes. Additionally, inadequate collaboration between tax authorities, customs agencies and law enforcement bodies exacerbates enforcement challenges, while the absence of integrated information systems limits data sharing and reduces the overall efficiency of detection and revenue mobilisation. Efforts to combat IFFs are further weakened by insufficient human resources, as the lack of skilled personnel hinders the detection of suspicious transactions. These findings emphasise the urgent need for coherent strategies to tackle the systemic issues enabling IFFs.

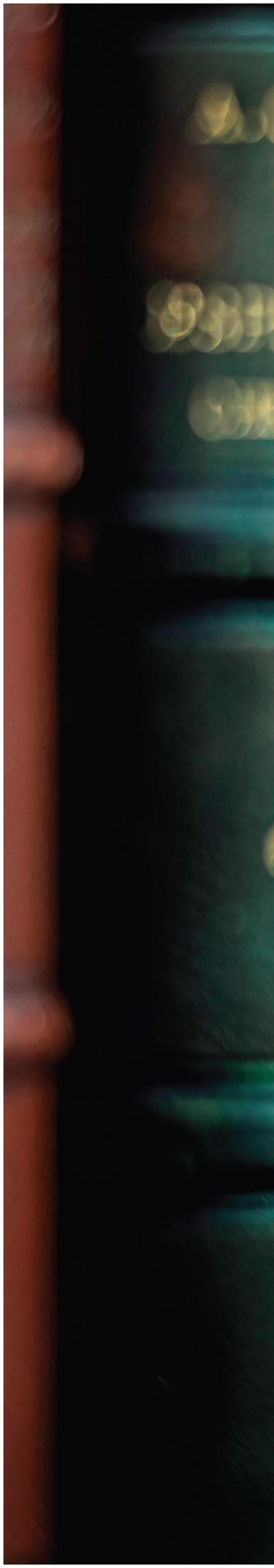
The results and conclusions of this audit are significant, providing governments with a solid foundation to strengthen their frameworks for combating IFFs and curbing the loss of public funds from Africa. However, it must be emphasised that the value of an audit report lies equally in the follow-up actions and engagement it inspires after publication. While SAIs are pivotal oversight and accountability actors, they cannot work in isolation. Allies are essential to amplify the audit's findings and facilitate the implementation of the recommendations. Effective communication of the audit results and targeted follow-up is crucial, not only at national levels but also across the continent, to ensure widespread awareness and action.

In conclusion, I commend the extraordinary efforts of AFROSAI, the participating SAIs and all other stakeholders who contributed to this cooperative audit. It stands as a shining example of what can be achieved through successful multistakeholder collaboration.

Dr Christiane Schuppert
Head of Programme
Good Financial Governance in Africa

Abbreviations and Acronyms

AFROSAI:	African Organisation of Supreme Audit Institutions
AfDB:	African Development Bank
AML and CFT:	Anti-money laundering and combating the financing of terrorism
APAL:	Public law enforcement actors
ASYCUDA:	Automated System for Customs Data
ATAF:	African Tax Administration Forum
BPS:	Botswana Police Service
BURS:	Botswana Unified Revenue Service
CG:	Commissioner General
CRS:	Common reporting standard
DCEC:	Directorate on Corruption and Economic Crime
DGSM:	Directorate of Geological Surveys and Mines
DISS:	Directorate on Intelligence and Security Services
DoM:	Department of Mines
DPP:	Directorate of Public Prosecution
EITI:	Extractive Industries Transparency Initiative
EOIR:	Exchange of Information on Request
ECA:	Economic Commission for Africa
FATF:	Financial Action Task Force
FIA:	Financial Intelligence Agency
FIU:	Financial Intelligence Unit
GDP:	Gross domestic product
GFI:	Global financial integrity
GRA:	Gambia Revenue Authority
IBFD:	International Bureau of Fiscal Documentation
ICGLR:	International Conference on the Great Lakes Region
IFFs:	Illicit financial flows
ISSAIs:	International Standards for Supreme Audit Institutions
ITA:	Income Tax Act
ITCBC:	Institutional and Technical Capacity Building Committee
KRA:	Kenya Revenue Authority
LTU:	Large Taxpayer Unit
MEMD:	Ministry of Energy and Mineral Development
MMMD:	Ministry of Mines and Minerals Development
MNE:	Multinational enterprise
MNOs:	Money network operators
MOSES:	Mineral Output Statistical Evaluation System
MOU:	Memorandum of understanding
MRPs:	Money remittance providers
OECD:	Organisation for Economic Co-operation and Development
PEP:	Politically exposed persons
SACCOs:	Savings and credit cooperatives
SAI:	Supreme audit institutions
SDG:	Sustainable Development Goal
TIWB:	Tax Inspectors without Borders
TP:	Transfer pricing
TRA:	Tanzania Revenue Authority
UN:	United Nations
UNCTAD:	United Nations Conference on Trade and Development
URA:	Uganda Revenue Authority
VAT:	Value-added tax
WAEMU:	West African Economic and Monetary Union
WCO:	World Customs Organization
WTO:	World Trade Organization
ZRA:	Zambia Revenue Authority



Glossary of Terms

African Tax Administration Forum (ATAF): A forum that aims to improve tax systems in Africa through exchanges, knowledge dissemination, capacity development and active contribution to the regional and global tax agenda.

Arm's length principle: The arm's-length principle is an international standard that compares the transfer prices charged between related entities with the price in similar transactions carried out between independent entities at arm's length.

Automated System for Customs Data (ASYCUDA): This is a computerised customs management system that covers most foreign trade procedures. It handles manifests and customs declarations, along with accounting, transit and suspense procedures.

Beneficial owner: Any natural person who directly or indirectly through any contact, arrangement, understanding, relationship or otherwise, is the ultimate beneficiary of a share or other securities in a company. In layman's terms, a beneficial owner of a company enjoys the benefits or proceeds of a company or controls a company without being on record as the official owner.

Connected persons: Two persons are treated as connected if one has control of the other or both are under the control of the same person or persons.

Controlled transactions: Transactions between two enterprises that are associated with each other.

Double tax agreement: An agreement between states (usually in the form of a bilateral treaty) designed to prevent an individual from being taxed on the same income by two different countries.

Extractive Industries Transparency Initiative: An initiative aimed at promoting the open and accountable management of oil, gas and mineral resources. The mission is to promote understanding of natural resource management, strengthen public and corporate governance and accountability, and provide data to inform policymaking and multistakeholder dialogue in the extractive sector.

Financial Action Task Force (FATF): This is the global money-laundering and terrorist-financing watchdog. It sets international standards that aim to prevent these illegal activities and the harm they cause to society.

Global Forum on Transparency and Exchange of Information for Tax Purposes: This is a multilateral framework for tax transparency and information sharing. The Global Forum monitors and peer reviews the implementation of international standards of exchange of information on request (EOIR) and automatic exchange of information.

Illicit Financial Flows (IFFs): IFFs refer to the movement of money across borders that is illegal in its source, transfer or use.

AFROSAI Institutional and Technical Capacity Building Committee (ITCBC): This committee is responsible for the implementation of the strategic priority of the AFROSAI 2022-27 Strategic Plan. The ITCBC's main mandate is to implement actions adapted to the African context to deal with emerging issues within the SAI community.

Money laundering: The process by which criminals attempt to conceal the true origin and ownership of the proceeds of their criminal activity, allowing them to maintain control over the proceeds and, ultimately, providing a cover for their sources of income.

Multinational enterprise group: A group of associated companies with business establishments in two or more jurisdictions.

Multinational enterprise: A company or corporation that operates in multiple countries, often with subsidiaries, associate or branches.

Mutual administrative assistance in tax matters: This offers tax authorities a legal framework for cooperating across borders without violating the sovereignty of other countries or the rights of taxpayers.

Performance audit: The audit examines in an independent, objective and reliable manner whether public sector enterprises, systems, operations, programmes, activities or organisations operate in accordance with the principles of economy, efficiency and effectiveness and whether improvements are possible.

Politically exposed person (PEP): An individual who is or has been entrusted with a prominent function. Many PEPs hold positions that can be abused for the purpose of laundering illicit funds or other predicate offences such as corruption or bribery.

Related parties: A person or an entity that is related to the reporting entity.

Tax evasion: The use of illegal methods to reduce the amount of income tax that an individual or business owes.

Trade misinvoicing: The act of misrepresenting the price, description of goods or services or quantity of imports or exports to hide or accumulate money in other jurisdictions. The motive could, for example, be to evade taxes, avoid customs duties, transfer kickbacks or launder money.

Transfer pricing: The price of transactions occurring between related companies, in particular companies within the same multinational group.

Uncontrolled transaction: Transactions between enterprises that are independent of each other.

West African Economic and Monetary Union (WAEMU): An organisation whose mission is to bring about the economic integration of the member states by enhancing the competitiveness of their economies within the framework of an open and competitive market, and a streamlined and harmonised legal environment.

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Executive Summary

1. Background and audit approach

1.1. Background

Illicit financial flows have a negative impact on a country's ability to mobilise its national resources for sustainable economic development. According to the United Nations Conference on Trade and Development (UNCTAD), "illicit financial flows and corruption hinder Africa's development by draining foreign exchange, reducing domestic resources, stifling trade and macroeconomic stability, and deepening poverty and inequality. Global Financial Integrity (GFI) has published several reports on illicit financial flows. In its 2014 study Illicit Financial Flows from Developing Countries: 2003-2012, the GFI revealed that sub-Saharan Africa loses around $68.6-billion a year in illicit financial flows. These illicit flows rob Africa and its people of their prospects, undermine transparency and accountability, and erode confidence in African institutions. Faced with high levels of capital flight, tax evasion and a heavy reliance on corporate taxation, African governments face major challenges in broadening their tax base".

In response to these challenges, the African Organisation of Supreme Audit Institutions (AFROSAI), at the 51st Governing Board meeting in July 2016 in Windhoek, Namibia, decided to carry out coordinated audits to actively combat IFFs. The first audit, focusing on the fight against corruption through the review of public procurement systems and the asset declaration regime, was successfully conducted in 2017, with the participation of 12 African supreme audit institutions (SAIs).

This report is the result of the second joint effort by AFROSAI, supported by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), to tackle IFFs. Initiated in April 2023, the second coordinated audit focuses on the legislative, regulatory and institutional frameworks for tax revenue mobilisation in Africa. It is part of the African Union's Agenda 2063 and relates to the United Nations' Sustainable Development Goal 16.4 for 2030, which aims to significantly reduce IFFs.

To ensure the smooth implementation of the planned audit, a memorandum of understanding (MoU) was signed on 24 April 2023 in Nairobi between the AFROSAI Institutional and Technical Capacity Building Committee and 12 SAIs. The purpose of the MoU was to formalise cooperation between these institutions by establishing a structured framework for conducting the audit. SAIs play an essential role in the fight against IFFs by overseeing the accountability of government agencies for the resources allocated to them.

The objective of this audit was to verify whether the legislative, regulatory and institutional frameworks that govern the activities of national tax authorities give them sufficient powers and capacity to protect national revenues and prevent illicit financial flows.

1.2. Audit approach

This is a performance audit combining elements of compliance.

To carry out this coordinated audit and achieve the objectives set, a participatory approach was adopted. This involved planning and detailed examination work at national level, integrated with regional workshops that provided opportunities to build the capacity of the SAI audit teams involved in the project and review the results of the work carried out at each key stage of the audit process. The process comprised:

i. Planning and selection of audit topics. This phase enabled the scope of the audit to be narrowed down to the organisation, operation and activities of the tax authorities in the target countries, as well as their agencies or other institutions involved in resource mobilisation
ii. Validation of the design matrices or logical verification grids. The logical verification grids and the national audit programmes were validated to ensure that they comply with the objectives and audit criteria in question
iii. Adoption and validation of the findings matrices. This stage provided an overview and stabilised the main audit findings, as well as defining the drafting methods for the national reports
iv. Drafting and validation of report matrices. The findings matrices were drafted, national reports examined and tools for drafting the coordinated regional report validated, followed by the appointment of the SAI members responsible for drafting the report
v. Validation of the consolidated report and evaluation of the project. This phase ensured that all the results were in line with expectations

2. Main audit findings and recommendations

The mobilisation of tax revenues and the fight against illicit financial flows are crucial to the sustainable economic development of countries on the African continent. In this respect, it is essential that the legal and institutional arrangements governing the liquidation (assessment) and collection of tax revenues are sound and effective to guarantee the mobilisation of public resources. The fragility of the legal and institutional frameworks of several African countries compromises the collection of tax revenues and encourages the expansion of illicit financial flows.

An in-depth analysis of weaknesses in the legislative and institutional frameworks in Africa, resulting from the country reports, has highlighted, in particular, issues related to transparency, inter-institutional cooperation and the effectiveness of tax collection mechanisms. By identifying challenges and proposing concrete solutions, this report aims to improve financial governance, reduce IFFs and strengthen public revenue mobilisation, thereby contributing to the sustainable development of African countries.

The report provides a comprehensive analysis of the legal and institutional arrangements for tax revenue mobilisation, focusing on IFFs in Africa. The audit work carried out by the various participating SAIs generated a number of major findings and recommendations.

2.1. Major findings

The coordinated audit acknowledges progress in drafting legislation to combat illicit financial flows (IFFs) and establishing relevant structures. However, many legal and institutional frameworks remain incomplete, outdated, or have specific shortcomings outlined below.

The audit highlighted the following key points:

i. African administrations lack transparency in the implementation of preventive measures to combat IFFs, particularly in the extractive industries
ii. Legal frameworks are not always consistent or harmonised, allowing multinational companies to exploit legal loopholes to avoid tax. Inconsistencies and shortcomings in tax laws and regulations and transfer pricing practices have been identified in several countries, posing a major challenge in the fight against IFFs
iii. At the institutional level, the financial administrations or government agencies responsible for mobilising tax revenues often lack the technical skills and human resources to detect suspicious transactions and correctly apply the law to protect the interests of public treasuries. In addition, tax, customs and judicial institutions do not always work together effectively, and investigations or audits are frequently delayed, weakening the fight against IFFs. The granting of unfettered discretionary powers to tax or customs authorities also creates an environment conducive to corruption and impunity

iv. The lack of international cooperation, combined with the poor application of information exchange and administrative assistance mechanisms, complicates the fight against IFFs on a global scale, thus limiting the mobilisation of tax revenues. Furthermore, the lack of cooperation between government agencies and jurisdictions compromises the effectiveness of the fight against IFFs. Efforts to exchange information are insufficient, which exacerbates the lack of tax transparency

v. Many countries struggle to carry out thorough investigations into deductible expenditure, resulting in a significant loss of tax revenue. Tax collection remains inefficient due to manual systems and the lack of integrated data

vi. Tax incentives, particularly in the extractive industries, are often misused and encourage tax evasion. Stability clauses limit the flexibility of governments to adapt legislation and recover missing tax revenues

2.2. Main recommendations

The recommendations are divided into three categories: recommendations to African governments, AFROSAI and the African Union.

Recommendations to African governments

To mitigate illicit financial flows, governments should implement the following measures:

i. Improve their legal frameworks to enhance transparency and policy coherence
ii. Implement policies and mechanisms to ensure a high level of integrity among those responsible for mobilising tax revenues
iii. Subscribe to regional and global initiatives for cooperation in financial intelligence and mutual legal assistance
iv. Map IFF risks at the national level, and design appropriate strategies and action plans to address them
v. Adapt the legislative, regulatory and institutional frameworks to include stricter sanctions against price manipulation and non-compliance with tax obligations
vi. Promote the visibility of information/transactions, particularly for tax authorities
vii. Ensure the integration of systems to resolve the problem of data fragmentation and the "silo effect" resulting from different competent authorities
viii. Move towards technology by modernising control systems to ensure real-time management and monitoring of transactions by tax authorities
ix. Monitor the activities of companies while keeping track of their beneficial owners and commercial operations, including international operations
x. Balance the opening up of countries to business with the possibility of exploitation: countries should review the appropriateness of tax incentives/exemptions granted to multinational companies, both in terms of timing and quantity, to manage the risk of exploitation
xi. Strengthen organisational and professional capacities, for example, by enhancing the technical expertise of staff within competent authorities. This will ensure that government officials are well equipped with the technical and legal knowledge required for negotiating contracts and conducting audits in complex industries
xii. Governments should strengthen inter-administrative collaboration to eliminate compartmentalised administrations. They can do this by setting up information platforms spanning tax administrations and the various government departments whose information is invaluable in determining the taxes owed to the government
xiii. Governments should intensify international cooperation and adopt measures to combat IFFs by benchmarking and adopting best practices in areas such as information exchange and providing mutual legal assistance for investigations and to prosecute cross-border illicit financial activities. In addition, technical assistance programmes and initiatives such as the Tax Inspectors Without Borders (TIWB) programme and the Addis Tax Initiative should be optimised .

Recommendations to AFROSAI

As part of its commitment to combat IFFs, AFROSAI should:

i. Encourage or advocate for similar audits in destination countries through INTOSAI and its organs
ii. Build the capacity of SAIs that are keen to conduct IFF audits in future
iii. Encourage dialogue with like-minded partners to sustain the momentum already achieved

Recommendations to the African Union

The African Union is urged to:

i. Continue advocacy for the signature, ratification and implementation of African instruments to combat corruption and related economic crimes
ii. Intensify support for building African governments' skills in the areas of contract negotiations, tax governance, and the identification and repatriation of unduly diverted assets
iii. Advocate at the regional level for an independent review – and, if necessary, revision – of stability clauses in tax treaties to strengthen national systems for mobilising public resources
iv. Engage international institutions such as the International Monetary Fund, World Bank and European Union to address IFFs
v. Coordinate efforts between African countries in the fight against IFFs
vi. Advocate for and encourage the integration of. tax authorities

3. Conclusion

The coordinated audit reaffirmed that illicit financial flows remain a pressing issue. About 10 years after the publication of the Thabo Mbeki report on illicit financial flows from Africa and five years after the UNCTAD report on tackling illicit financial flows in Africa, significant legislative and institutional shortcomings continue to hamper efforts to combat these flows effectively. As in the previous audit, 12 African SAIs participated, underscoring their ongoing commitment to addressing this critical challenge for the continent's development.

It would be advisable for other African countries to assess their respective legal and institutional frameworks to ensure robust domestic revenue-raising systems.

Introduction

1. General background

Illicit financial flows (IFFs) are a major obstacle to the development of African countries, hampering their ability to mobilise the resources needed to finance key sectors such as infrastructure, education, health and other essential public services.

A joint study by the African Development Bank (AfDB) and Global Financial Integrity (GFI) revealed that from 2000 to 2009, around US$30.4-billion flowed out of Africa every year, mainly in the form of IFFs . Over the longer period of 30 years, from 1980, between US$1 200-billion and US$1 300-billion US were siphoned off.

The High-Level Panel on Illicit Financial Flows from Africa, set up by the African Union and the Economic Commission for Africa (ECA), and chaired by former South African President Thabo Mbeki, estimated in a report published in 2015 that Africa lost more than US$50-billion a year through IFFs. These financial losses, including through commercial tax evasion, tax fraud, abusive transfer pricing practices, smuggling and corruption, deprive African governments of revenue that is vital to achieving their development goals.

In its Africa 2020 Economic Development Report, Africa focused on IFFs and sustainable development on the continent, the United Nations Conference on Trade and Development (UNCTAD) estimated that Africa loses around US$88.6-billion annually to IFFs. The report further stated that this figure, equivalent to almost 3.7% of the continent's gross domestic product, far exceeded the amount of official development assistance received, estimated at US$48-billion.

Source: UNCTAD 2020 report

The UN and External Experts Group on Indicators for Sustainable Development Goals (SDGs) define illicit financial flows as funds that are received, transferred or used illegally. IFFs undermine the efforts of African governments to strengthen domestic revenue mobilisation.

[2] Data obtained from the African Development Bank's Strategic Framework and Action Plan on the Prevention of Financial Flows in Africa (2017-2021)
[3] Africa 2020 Economic Development Report: Illicit financial flows and sustainable development in Africa (p.29)

They increase their dependence on external aid and reduce their capacity to finance sustainable development projects. IFFs are also likely to compromise the achievement of the African Union's Agenda 2063 objectives. The aim is to eradicate IFFs, while strengthening the mobilisation of domestic resources to support inclusive and sustainable growth on the continent.

In recent years, major international exposés by investigative journalists such as the Panama Papers (2016), Paradise Papers (2017), FinCEN Files (2020) and Pandora Papers (2021) have highlighted the global scale of these practices, including networks of tax evasion, money laundering and abuse of offshore structures. These investigations have revealed the extent of the ramifications of these IFFs, which compromise development programmes, particularly in Africa.

2. Specific background and rationale

Aware of the scale of the challenges posed by IFFs, and capitalising on their expertise in performance and compliance auditing, African Supreme Audit Institutions (SAIs) have become actively involved in combating these flows. At its governing board meeting in July 2016 in Windhoek, the African Organisation of Supreme Audit Institutions (AFROSAI) took the initiative to tackle the issue by launching a coordinated audit in this area. That initial audit, focused on the fight against corruption through reviewing public procurement systems and the asset declaration regime, was conducted in 2018, with the effective participation of 12 African SAIs.

Following the success of this large-scale project, the AFROSAI Institutional and Technical Capacity Building Committee (ITCBC), supported by the AFROSAI Executive Directorate, with assistance from the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) Good Financial Governance in Africa programme, decided to continue their efforts by targeting a new audit theme.

As part of its 2022-27 strategic cycle, AFROSAI opted for a coordinated audit of African legislative, regulatory and institutional frameworks for tax revenue mobilisation. It chose this theme in line with African governments' commitment to improve domestic resource mobilisation, tying in with point 72.0 of the African Union's Agenda 2063 and the United Nations' Sustainable Development Goal 16, Target 4, which aim to reduce IFFs and enhance the recovery of stolen assets by 2030.

Through a memorandum of understanding signed on 24 April 2023 between the AFROSAI ITCBC and 12 member SAIs, it was agreed that "the legislative, regulatory and institutional frameworks for tax revenue mobilization" would be the main audit theme, considering the extent of the problem and its topicality. Within the framework of their national audits, the participating SAIs adapted the theme to the specific IFFs challenges in their respective countries.

Table I lists the countries that successfully completed national audits in accordance with the memorandum of understanding, and their respective topics.

Table 1: List of SAIs and their audit topics

NO.	SAI	AUDIT TOPIC COVERED
1	**BOTSWANA**	Audit by the Botswana Revenue Service of the legislative, regulatory and institutional framework for transfer pricing in Botswana and its impact on tax revenue mobilisation
2	**BURKINA FASO**	Performance audit of the legal and institutional frameworks for the mobilisation of duties and taxes arising from the extractive activity of gold and other precious substances in Burkina Faso

3	CAMEROON	Assessment of the effectiveness of the legal and institutional frameworks of banks, the financial intelligence unit and public law enforcement authorities in combating illicit financial flows
4	COMOROS	Company tax collection system in the Comoros
5	GABON	Audit of the legislative, regulatory and institutional framework for tax revenue mobilisation
6	GAMBIA	Combating illicit financial flows in Gambia: the Gambia Tax Authority (transfer pricing)
7	GUINEA	Audit of the legislative, regulatory and institutional framework of the mining sector
8	KENYA	Focus on the management of tax exemptions on public infrastructure projects by foreign companies
9	UGANDA	Assessing the effectiveness of Uganda's legal, regulatory and institutional framework for curbing illicit financial flows in the extractive industries
10	SENEGAL	Audit of the legal and institutional framework for revenues from the mining sector and transfer prices
11	TANZANIA	Detection and control of illicit financial flows (through transfer pricing transactions)
12	ZAMBIA	The legislative, regulatory and institutional framework for revenue mobilisation (mining sector)

3. Benefits of the audit

Mobilising tax revenues and combating IFFs are critical to the sustainable economic development of African nations. To achieve this, strong and effective legal and institutional mechanisms for tax assessment and collection are essential to ensure the efficient mobilisation of public resources. The fragile legal and institutional frameworks of several African countries compromise the collection of tax revenues and encourages illicit financial flows.

Considering these challenges, it was crucial to mobilise the AFROSAI SAIs to conduct joint assessments of the relevant legal frameworks and institutional mechanisms at national level. The audit of legal and institutional frameworks for tax revenue mobilisation is essential for several reasons:

Firstly, it helps to identify weaknesses and gaps in existing systems, making it easier to implement corrective measures. Audits can also detect risks associated with illicit financial flows, such as under-reporting of profits, abusive transfer pricing and corruption.

Secondly, increasing transparency and accountability improves the management of public revenues, particularly in the extractive sector. In this respect, an audit helps to optimise the mobilisation of tax revenues by improving collection mechanisms.

Finally, it helps to assess the compliance of national legal frameworks with international norms and standards through adopting relevant measures to effectively combat illicit financial flows. Audits of illicit financial flows also help to strengthen countries' institutional arrangements by identifying weaknesses in financial regulatory and anti-corruption frameworks.

4. Audit objectives and criteria

In accordance with Article 5 of the April 2023 memorandum of understanding, the main objective of the coordinated audit was to verify whether the legislative, regulatory and institutional mechanisms governing the activities of the different countries' tax authorities give them sufficient powers and capacity to protect national revenues and prevent illicit financial flows. The specific objectives included:

i. Assessing the transparency of legal frameworks for the disclosure of tax and financial information
ii. Analysing the coherence and integrity of legal and institutional arrangements for combating IFFs, including transfer pricing manipulation
iii. Evaluating inter-institutional and international cooperation in the fight against IFFs
iv. Examining the performance of tax collection mechanisms
v. Analysing the impact of tax incentives and stability clauses on revenue mobilisation

The relevant audit criteria were based on the national legal frameworks, tax laws and regulations of the 12 participating countries, as well as international norms and standards.

These criteria were derived from two primary sources: the international norms and standards established by global or regional organisations to which the SAI countries belong, such as the OECD, FATF and EITI; and each Member State's internal legal and institutional framework, along with accepted principles of good audit management.

5. Scope of the audit

The audits carried out by the various SAIs covered two main areas of examination. The first concerned the existence and robustness of legislative and regulatory frameworks for combating illicit financial flows, within the parameters of transparency, integrity, the power and responsibility of the competent authorities, tax incentives, stability clauses and transfer pricing. The second covered the institutional framework of tax administration regarding organisational and professional capacity, collection systems, and collaboration with other competent authorities involved in combating IFFs.
It is important to emphasise that the audit specifically covered public entities involved in the tax revenue mobilisation process and administrative structures responsible for combating IFFs.
This coordinated audit covered the period from 2015 to 2023, although some of the analysis may refer to situations from before or after this period.

6. Audit approach and methodology

The audit methodology used by the SAIs involved in this audit was based on the INTOSAI professional framework for coordinated audits, which is a type of cooperative audit – it is risk-based and refers to the technical framework for the practice of external auditing in the public sector. The audits of the legal and institutional frameworks for tax revenue mobilisation were carried out in accordance with the ISSAI principles, in particular ISSAI 300 on performance audits and ISSAI 400 on compliance audits.

Performance auditing is an independent, objective and reliable examination of whether public sector enterprises, systems, operations, programmes, activities or organisations are operating with due regard to economy, efficiency and effectiveness and whether there are opportunities for improvement. The purpose of compliance auditing is to enable SAIs to determine whether the activities of public sector entities comply with the laws and regulations that govern them. When compliance audit is included in a performance audit, compliance is considered as one of the aspects of economy, efficiency or effectiveness. Using this combined approach made it possible to examine aspects relating to economy, effectiveness and efficiency.

7. General limits of the audit

There were some limitations that hampered the execution of the coordinated audit process. Firstly, several SAIs faced challenges due to a lack of data for in-depth analysis in some areas. Secondly, delays were observed in the submission of required documents during the detailed examination process. Finally, the varied audit themes chosen by the participating SAIs posed a significant challenge to harmonising the results and consolidating the regional report.

However, despite these obstacles, the participating SAIs managed to produce their respective national reports through diligent data collection and analysis. The audit process identified various gaps and deficiencies in the countries' legislative, regulatory and institutional frameworks for tax revenue mobilisation. This regional report consolidates the conclusions and recommendations set out in the national reports to give impetus to system improvements for combating illicit financial flows.

8. Report outline

This report is divided into two chapters:

Chapter 1: The legislative and regulatory framework for illicit financial flows
Chapter 2: The institutional framework for fighting against illicit financial flows

Chapter 1: The Legislative And Regulatory Framework For Illicit Finanial Flows

1.1. BACKGROUND

The Organisation for Economic Co-operation and Development (OECD) has noted that the issue of illicit financial flows (IFFs) is increasingly on the international agenda. Despite the opacity of IFFs and the challenges in quantifying their risks, governments need to strengthen their anti-money laundering regimes, apply greater transparency to corporate ownership, and support efforts to trace, freeze and recover misappropriated assets. They should also commit to the automatic exchange of information to combat tax evasion.

Countries' legal frameworks cover their laws and regulations on tax revenue mobilisation and includes conventions, rules for dealing with transfer pricing, and procedures for exchanging information, both nationally and globally.

1.2. TRANSPARENCY OF LEGAL FRAMEWORKS

Transparency is crucial to effectively combating IFFs as part of tax revenue mobilisation in Africa. However, transparency efforts in Africa remain largely insufficient, particularly in client profiling, the implementation of preventive measures for high-risk sectors, and the disclosure of beneficial ownership information. The Extractive Industries Transparency Initiative (EITI) seeks to improve this situation by raising public awareness of all aspects of the regulatory framework for the extractive industries. This includes the legal framework, tax regime, roles of government entities, necessary reforms, and laws and regulations designed to combat the risks of corruption in this sector.

Table 2 shows the current state of transparency of the legislative and regulatory framework for the audit topics selected by each participating SAI.

Table 2: Transparency of the legislative and regulatory framework

SAI	AUDIT TOPIC	FINDINGS
BOTSWANA	Audit by the Botswana Revenue Service of the legislative, regulatory and institutional framework for transfer pricing in Botswana and its impact on tax revenue mobilisation	Botswana has specific transfer pricing regulations, gazetted as the Income Tax (Transfer Pricing) Regulations, 2019
BURKINA FASO	Performance audit of the legal and institutional frameworks for the mobilisation of duties and taxes arising from the extractive activity of gold and other precious substances in Burkina Faso	• The system for granting and renewing mining permits is not transparent • The process of identifying real beneficiaries remains a challenge, with implementation and comprehension lagging behind

SAI	AUDIT TOPIC	FINDINGS
CAMEROON	Assessment of the effectiveness of the legal and institutional frameworks of banks, the financial intelligence unit and public law enforcement authorities in combating illicit financial flows	• The Financial Intelligence Unit is not empowered to ensure that information relating to suspicious transactions is complete and transmitted by credit and microfinance institutions in a timely manner • The review of the General Customs Code and General Tax Code revealed that transactions, as currently prescribed by applicable regulations and implemented, grant significant discretionary powers to the minister of finance, director general of taxes, and customs administration personnel. The lack of adequate regulatory oversight, particularly the absence of caps and clear criteria for granting transactions, allows competent authorities to exercise their discretion without proper constraints or oversight
COMOROS	Company tax collection system in the Comoros	An examination of the current general tax code and various finance acts revealed shortcomings in the system for combating indirect profit transfers and illicit financial flows
GABON	Audit of the legislative, regulatory and institutional framework for tax revenue mobilisation	The national legal framework is silent on aspects relating to beneficial ownership and the lifting of banking secrecy
GAMBIA	Combating illicit financial flows in Gambia: the Gambia Tax Authority (transfer pricing)	There is no legislative or regulatory framework governing transfer pricing
GUINEA	Audit of the legislative, regulatory and institutional framework of the mining sector	Although the legal framework promotes transparency in the process of awarding and renewing mining titles, award decisions and reports are not published on the website of the Ministry of Mines and Geology. There is also no law on beneficial ownership

SAI	AUDIT TOPIC	FINDINGS
KENYA	Focus on the management of tax exemptions on public infrastructure projects by foreign companies	Laws regulating and supervising sectors considered fertile ground for IFFs are inadequate. These sectors include real estate agencies, money remittance providers, money network operators, savings and credit cooperatives, casinos, the legal sector and car dealerships, as well as non-profit organisations
SENEGAL	Audit of the legal and institutional framework for revenues from the mining sector and transfer prices	Neither the Public Finance Management Transparency Code, nor the Mining Code and its implementation decree, specify the entity responsible for publishing contracts and permits. Decree No 2021-1145 of 7 September 2021, setting out the rules for the organisation and operation of the National Committee of the Extractive Industries Transparency Initiative, does not specify the entity responsible either
TANZANIA	Detection and control of illicit financial flows (through transfer pricing transactions)	• Tanzania has laws, regulations and guidelines governing transfer pricing, an established tax revenue authority, and laws for administering taxes, including arrangements between associates that must be conducted at arm's length • The commissioner may make adjustments with regard to arrangements inconsistent with the arm's length principal • Multinational enterprises operating in Tanzania that participate in controlled transactions are required to complete transfer pricing documentation
UGANDA	Assessing the effectiveness of Uganda's legal, regulatory and institutional framework for curbing illicit financial flows in the extractive industries.	Up-to-date, relevant laws, policies and manuals help to foster an enabling environment to combat IFFs in Uganda. Uganda also has reporting and whistleblowing mechanisms in place, which have strengthened checks and balances against corruption and the acquisition of illicit wealth through the monitoring of suspicious cases and the protection of whistleblowers

SAI	AUDIT TOPIC	FINDINGS
ZAMBIA	The legislative, regulatory and institutional framework for revenue mobilisation (mining sector)	The legal and regulatory framework includes the Income Tax Act, the Mining Royalties Act , the Value Added Tax Act and the Income Tax Act (which covers corporate income tax)

Source: SAIs national reports

Analysis

It was noted that a well-developed legislative framework, grounded in the rule of law, coupled with a regulatory and legal regime that emphasises adherence to policy frameworks and guidelines, have contributed to promoting good financial management, sound fiscal policies and good macroeconomic governance. Clear guidelines for transfer pricing documentation also play a role in enforcing compliance with regulations.

However, the fight against IFFs remains inconsistent. While some countries have implemented specific mechanisms and laws, others still lack robust frameworks to counter indirect profit transfers and illicit practices. On the one hand, it was observed that the legal framework is outdated, lacks clarity and the tax laws are ineffective. This was especially evident in the difficulties faced by entities tasked with publishing contracts and licenses in accordance with EITI commitments, which has compromised transparency in the extractive sector's efforts to combat illicit financial flows.

On the other hand, information asymmetry, exacerbated by confidentiality clauses from the Financial Intelligence Authority, posed a risk of eroding the tax base and facilitating indirect profit transfers, in particular by multinational corporations and mining companies.

Gaps were identified in national legislation, notably on beneficial ownership, banking secrecy and transfer pricing. Some countries have no legislative framework to regulate these aspects, while others often don't apply existing regulations. Decisions are unclear or not systematically published, while information on beneficial owners is inadequate. This hinders regulators and supervisors in combating illicit financial flows and undermines good governance.

Recommandations 1

i. African governments should update their legal frameworks to incorporate a single register of beneficial owners and beneficiaries, as advocated by EITI 2019 and the Financial Action Task Force (FATF). Governments should review and refine laws to close loopholes to curb IFF cases
ii. They should boost whistleblower protection measures
iii. They should publish all active contracts (including annexes, amendments and riders) via their respective extractive industries authorities
iv. They should apply the provisions of their income tax act in relation to transfer pricing and strengthen tax regulations, including securing tax revenues, strengthening systems to combat indirect profit transfers and tax laws to reduce tax evasion and improve revenue mobilisation
v. They should address challenges in the specific areas to ensure that regulatory and supervisory frameworks for non-profit organisations are put in place, so that mitigation measures are risk based and do not disrupt or discourage the legitimate activities of non-profit organisations
vi. They should establish, and assess the effectiveness and quality of, financial intelligence operations, implement corrective measures in the event of non-compliance with transparency requirements for legal entities, and ensure information-sharing to minimise information asymmetry with other government entities involved in the fight against corruption and illicit financial flows

1.3. FINANCIAL INTEGRITY

According to the United Nations Economic Commission for Africa's Economic Development in Africa Report 2020, illicit financial flows essentially stem from three sources: commercial activities, criminal activities and corruption of public officials.

In accordance with FATF Recommendation 30, it recommends that "countries should put in place processes to ensure that the staff of authorities involved in tax revenue collection are of high integrity".

In the same vein, the 2023 EITI Standards state that "stakeholders are expected to uphold the highest standards of integrity, ethical conduct and honesty".

This aspect of the legal framework for combating IFFs is fundamental, insofar as it is up to people to apply the laws. It is therefore important that tax and customs authorities, the competent sectoral authorities, financial intelligence units, and prosecuting and sanctioning authorities consider by the requirements listed below:

i. The adoption of appropriate ethical standards and codes of conduct
ii. Creating an environment that encourages probity, particularly through quality leadership and supervisory activities
iii. The existence of an adequate remuneration system to promote the probity of the public officials concerned
iv. The introduction of a promotion or sanction system based on values linked to ethics and professional conduct
v. Effective application of penalties in the event of breaches
vi. Raising awareness of ethics and responsibility within the relevant authorities
vii. The introduction of early warning mechanisms in the event of non-compliant acts
viii. The use of independent and impartial investigations into taxpayers' complaints about any misconduct or malpractice on the part of the tax authorities

The results compiled for this component are summarised in Table 3.

Table 3: Promoting the financial integrity of competent authorities

COUNTRY	FINDINGS
BURKINA FASO	There is generally an adequate control environment for mining operations and related financial transactions. The customs and tax administrations incorporate codes of ethics and professional conduct, and there are anti-corruption committees that conduct awareness-raising and training activities for public officials. Law No 004-2015/CNT of 3 March 2015 on the prevention and repression of corruption incorporates obligations regarding the declaration of assets, donations, gifts and other benefits in kind received in the exercise of public functions. However, the anti-corruption law does not contain sufficient specific provisions to protect whistleblowers. It also does not criminalise the illicit enrichment of public officials in accordance with applicable international standard-setting instruments

COUNTRY	FINDINGS
Cameroon	The audit identified: • Active promotion of ethics and professional conduct in tax and customs administrations, resulting in the financial targets set for these entities being exceeded over the last 10 years • The allocation of quarterly bonuses to staff working for the financial authorities. Performance bonuses are paid to managers who meet or exceed their revenue-raising targets • The introduction, through specific clauses, of a promotion system for staff who distinguish themselves through ethical conduct. In addition, high-performing staff are recognised on a the monthly, quarterly, six-monthly and annual basis • The existence of a regularly updated Code of Ethics and Professional Conduct at the General Directorate of Taxes (DGI) • Setting up a Committee for the Promotion of Ethics and Governance (CPEG) within the Customs Directorate (DGD) • The introduction of a rapid alert system via a helpdesk platform and an 8244 toll-free number open to all users and available 24 hours a day, seven days a week • The dematerialisation of tax procedures to reduce the human footprint in tax operations
Comoros	The Book of Tax Procedures provides for measures to combat tax fraud and evasion aimed solely at the taxpayer (tax and criminal penalties). There are no penalties for public authorities that engage in tax fraud or evasion. In short, there are no clear legal rules governing conflicts of interest between those involved in tax assessment or collection to strengthen the integrity of the system as a whole
Djibouti	The DGI's legal framework does not facilitate optimal management of tax revenue and no charter of values and integrity has been implemented
Gabon	The legal framework partially addresses criminal liability of unscrupulous public officials (due to the non-criminalisation of offenses related to illicit financial flows in national legislation)
Guinea	Articles 2, 11, 76 and 78 of Anti-corruption Law No 0041/2017/AN of 4 July 2017; Article 776 of Law No. /2016/059/AN of 26 October 2016 on the Penal Code; and Article 7 of Law No 2021/0024/AN of 16 June 2021 criminalise illicit enrichment by public officials and mandate the reporting of suspicious behaviour Cases of illicit enrichment involving tax and customs officials are heard by the Court for the Repression of Economic and Financial Offences (Cour de répression des Infractions Economiques et Financières)

COUNTRY	FINDINGS
Uganda	The government has set up channels for reporting suspected cases of IFFs, including among civil servants. These include: • The Whistleblowers Protection Act 2010, which provides incentives and legal protection for persons who report any act of corruption or impropriety in public or private institutions • The Anti-Corruption Division of the High Court, which has jurisdiction to hear and determine corruption cases, including those involving IFFs • The Inspectorate of Government, an independent institution mandated to promote good governance and eliminate corruption, abuse of authority and public office misuse

Source: SAIs national reports

Analysis

The audit concluded that most jurisdictions have established ethical standards and codes of conduct for individuals engaged in tax revenue mobilisation. However, these measures fall short in stemming the tide of corruption due to several factors, including:

i. Non-systematisation of sanctions in the event of proven breaches
ii. A failure by the relevant authorities to conduct independent, impartial investigations into taxpayers' complaints about misconduct
iii. Political interference in certain tax transactions
iv. Moderate supervision of the application of customs and tax transactions, and little publicity for subsequent decisions

Recommendations 2

Governments should:

i. Develop strategies to promote ethics and integrity in the mobilisation of public resources
ii. Clarify and refine the discretionary powers of competent authorities to ensure they do not facilitate IFFs
iii. Strictly apply sanctions recommended by inspection missions and publish the results

1.4. INVESTIGATIONS INTO TAX-DEDUCTIBLE EXPENSES

The audit revealed that deductible expenses were a common concern regarding income, value-added and sales taxes. Illicit financial flows often occur through fictitious expenses, some of which are linked to fraudulent schemes. This risk calls for in-depth investigations into companies' tax affairs since non-action can lead to vast tax-revenue losses for African countries. Different scenarios apply in different countries, as Table 4 demonstrates.

Table 4: Tax-deductible expenses

COUNTRY	FINDINGS
Cameroon	A document review highlighted Cameroon's exposure to under-invoicing in international trade. An examination of companies' tax operations revealed shortcomings in monitoring, audits and investigations, which resulted in a loss of US$4.2-billion in imports and US$8.2-billion in exports for the country. The audit also uncovered significant discrepancies in international trade transactions, particularly in the valuation of mineral-derived products. The declared export values by Cameroon differed notably from the import values recorded by other countries. An examination of the General Tax Code shows that the provisions of Article L125 of the Book of Tax Procedures grant the director general of taxes and the minister in charge of finance discretionary powers in transaction matters. It has been observed that from 2014 to 2019, the tax authorities have granted more than 60% tax relief in exercising this power, representing an amount of around 59.785-billion Central African franc, or US$108.7-million.
Kenya	The audit revealed discrepancies between value-added tax and income tax in Kenya, particularly where invoices could not be traced to legitimate commercial transactions. It found that tax authorities, during tax assessments, rejected costs in VAT returns when inputs failed to meet the required acceptability criteria, but accepted the same costs in income tax returns due to a lower acceptability threshold. A key issue was the lack of a thorough investigation into whether an actual supply had occurred. If not, the costs should have been rejected for both the VAT and the income tax returns. However, this loophole in the tax system allowed companies to claim the same expenses for VAT and income tax, benefiting from the lower acceptability threshold of the income tax regime. Investigations by the competent authority are conducted based on legal requirements but are not comprehensive enough to link cash movements to the actual supply of goods or services.
Senegal	The audit revealed significant issues with carreau-mine valuations (the value of mineral products at the mine, before transport or processing). This stemmed from the underpricing of mineral substances (phosphate and manganese) by some mining companies. It also revealed practices such as the manipulation of transfer prices and unjustified increases in deductible expenses. It appeared that any investigations, which could have helped to recover lost revenues, were not comprehensive enough to be effective.

COUNTRY	FINDINGS
Zambia	The audit revealed a decline in corporate income tax collection in 2022 and 2023, resulting from an erosion of the corporate income tax and mining royalty tax bases. The revenue from these two taxes declined in 2023, with corporation tax falling by 30% and mining royalties tax by 14%. Deductible expenses were partially authorised by law when related to royalties. However, the additional expenses could not be detected by tax investigations, audits and adjustments.

Source: SAIs national reports

Analysis

The main assumption is that taxpayers seek to reduce their taxable income to reduce their tax burden. To achieve this, companies and other taxpayers implement strategies to increase their spending during the tax year.

Tax authorities have the power to investigate and ensure that the correct taxes are collected. However, failures often occur due to a lack of proper investigations or the application of tax laws without considering or referring to other relevant legal provisions that may prove useful in recovery procedures.

Delays in audits and investigations are a major obstacle, allowing the loss of tax revenue due to fictitious costs or excessive deductible expenses.

Recommendations 3

i. Strengthen interadministrative cooperation and modernise tax authorities' control systems to ensure optimum coordination
ii. Adopt legislative reform to enable stricter sanctions against price manipulation and tax non-compliance, and encourage transparency and accountability
iii. Tax investigations should be based on the law, commercial practices and the cooperation of other competent authorities, such as financial intelligence units

1.5. DEPLOYMENT OF TAX RECOVERY MEASURES

While the tax laws in force in different African countries allow for tax recovery, they may be constrained by issues of implementation in accordance with the legislation in force. The audit noted various shortcomings in tax collection, as shown in Table 5.

COUNTRY	FINDINGS
Botswana	During the review of transfer pricing cases, it was observed that once audits were completed, the process to recover the transfer pricing assessments and issue the corresponding penalties was almost as long as the audit period.

COUNTRY	FINDINGS
Comoros	Discrepancies were observed between the amounts assessed and the claims sent to the taxpayer. The audit highlighted that companies and businesses often evade tax and/or pay very little tax. In 2021 and 2022, the loss suffered by Treasury because of the non-taxation of certain companies and banks amounted to 4 393 997 euro (US$4 854 708)
Guinea	The 2021 and 2022 reports from the Directorate General of Customs mention significant shortfalls in revenue from exemptions. In fact, the court found that from 2019 to 2021, these exemptions in the mining sector amounted to about 5.210-billion Guinean francs (US$602 331 213)
Kenya	The audit found no collection system in place to pursue taxpayers beyond Kenya's borders where taxes had not been declared and paid in full. This came to light during the examination of Revenue Authority assessment records regarding road construction payments to companies who failed to declare and pay their correct share of taxes. The taxpayers left the country before tax authorities could assess and recover the government's share of tax. Although the tax authorities carried out audits in instances of tax default, the audit found that the collection of the taxes was not efficient since audits and investigations were conducted after the perpetrators had used the funds and, in some cases, become untraceable
Senegal	An examination of customs investigation reports revealed capital evasion involving the failure to repatriate export earnings (gold and basalt) and violation of the conditions for opening and operating foreign accounts. The country thus faces challenges related to the full recovery of revenues from the export sales of mining products. Numerous instances of delays and unpaid royalties were also identified, affecting the state's treasury
Zambia	The audit found collection and enforcement measures to be compromised by the fragmentation of data on illicit financial flows. The Zambia Revenue Authority, Financial Intelligence Unit and Drug Enforcement Commission, which are responsible for collecting taxes, were unable to discharge this responsibility to the best of their ability due to conflicting information. However, Zambia has undertaken set up a Financial Task Force Committee on Asset Recovery to recover revenue lost as a result of IFFs

Source: SAIs national reports

Recommendations 4

i. Strengthen and streamline tax authorities' and other agencies' control systems to detect inconsistencies, prevent fraud and ensure more effective monitoring of tax compliance while reinforcing tax recovery efforts
ii. Speed up the audit, adjustment and investigation process
iii. Take advantage of information exchange between domestic and international agencies to recover tax revenues
iv. Work on laws relating to the preservation of funds in countries to ensure that when audits, investigations and adjustments are carried out, there is revenue available to be collected on time

1.6. TAX INCENTIVES

Organisational efficiency is often hampered by limited material and financial resources. The inability to implement and realise tax exemptions and the inefficient use of incentives underline these constraints. Limited resources have a significant impact on organisational functions and financial management performance.

The lack of coherent and integrated efforts has led to fragmented approaches to tackling inefficiencies and tax revenue losses. Tax benefits and incentives in various countries translate into more than significant economic contributions or compliance with legal frameworks. Poor information-sharing and jurisdictional disputes compound these problems. For example, the lack of documentation and sharing of inventories with tax authorities hampers correct valuation for tax purposes.

Table 6: Tax incentives

COUNTRY	FINDINGS
Kenya	An analysis and review of tax-exempt projects in Kenya revealed that certain contractors sought and obtained approval for the cost of items used in publicly funded projects when these costs were close to the contract price. It is illogical for a commercial entity to pursue a project that is not profitable. The audit revealed a lack of coordination in accounting for assets and equipment used after the completion of official aided funded projects (OAFPs), which could result in tax revenue loss. The audit highlighted the lack of documentation and sharing of inventories with the Kenya Revenue Authority, which hampered the valuation of assets for tax purposes
Zambia	Incentive measures seem to disproportionately favour the mining sector to the detriment of tax revenues
Burkina Faso	The detailed examination revealed that the exemptions granted in the mining sector are too generous and not widely applied
Senegal	The tax and customs exemption mechanisms granted to mining companies, particularly under the 2003 Mining Code, have been excessively generous and counterproductive. Despite these incentives, the mining sector's contribution to the national economy remains limited. For instance, the postponed budgetary assessment of tax expenditures for 2021 estimated the tax expenditures of the extractive sector at 391.34-billion West African CFA franc, representing 48% of total tax expenditures across all sectors, while revenues from the mining sector are estimated at 148-billion FCFA

COUNTRY	FINDINGS
Gabon	The audit showed that the executive authority granted tax benefits in violation of the provisions of the General Tax Code
Guinea	Significant tax exemptions are provided for in mining agreements, but these have not yet been implemented
Cameroon	The mobile verification mission observed in their document review that, contrary to tax legislation that stipulates a standard tax regime for public procurement contractors for externally financed projects (except for VAT on acquisitions, which is to be covered), financing agreements and procurement contracts systematically exempt awarded companies from paying taxes due in Cameroon. This notable includes corporate income tax (CIT); withholding tax on investment income (IRCI); personal income tax (PIT); the Special Income Tax (SIT); the Special Tax on Petroleum Products (STPP); registration fees, and more. All these taxes are in fact legally owed by the contracting companies

Source: SAIs national reports

Analysis

At national level, the institutional and legal frameworks of the participating countries generally require more mechanisms for effective coordination of financial intelligence. A lack of coordination and non-compliance with tax legislation lead to inefficiencies and revenue losses.

At the institutional level, there are wide-ranging challenges in establishing and maintaining collaborative mechanisms for financial supervision. These weaknesses are highlighted by poorly coordinated accounting practices and disproportionate mining incentives. There is also a need for greater institutional checks and balances when it comes to discretionary powers.

Recommendations 5

In view of the above-mentioned shortcomings, it would be appropriate to:

i. Strengthen information exchange mechanisms between relevant stakeholders, including tax administrations and regulators, to improve the accuracy of financial data and compliance with rules
ii. Review and rationalise tax exemptions and incentives to ensure they are effectively implemented and contribute positively to economic growth while reducing revenue leakage
iii. Evaluate tax incentives with a focus on socioeconomic cost-benefit analysis
iv. Tax administrations should develop structured guidelines for monitoring and processing cases once they have been completed. These guidelines should ensure collaboration with national treasuries, implementing agencies and public procurement regulatory authorities.

1.7. STABILITY CLAUSES

Stability clauses generally refer to contractual or legal provisions designed to guarantee a certain degree of legal, fiscal or regulatory stability for companies. These clauses are often incorporated into mining contracts or government regulations to provide investors with a degree of predictability and legal certainty in their long-term operations. Typically, they include commitments by governments to maintain specific fiscal or regulatory conditions for a defined period, usually for the duration of a mining contract or a specified period. They can also cover aspects such as the stability of operating rights, tax rates, environmental conditions and labour rules, among others.

These clauses are often considered essential for attracting investment in the mining sector, as they reduce the uncertainty associated with possible changes in the legal or regulatory framework that could affect the profitability of mining operations. However, the formulation and implementation of these clauses may vary from one country or region to another, depending on economic development policies and priorities, and natural resource management. The stability clauses observed in some of the participating jurisdictions are presented in Table 7.

Table 7: Stability clauses

COUNTRY	FINDINGS
Zambia	Clause 2.4 of the deed states that a company has the right to apply offsets under clause 2 (settlement of offsets and obligations), irrespective of the Zambia Revenue Authority's ongoing audit assessments, including credibility checks or disputes between the authority and the taxpayer company regarding historical refundable VAT, the settlement sum or the current amount of refundable VAT. In addition, a company's right to set off its future tax liabilities is absolute, unconditional and irrevocable and not subject to reduction or set-off by the ZRA or the Zambian government in respect of any claim or amount relating to tax or otherwise
Burkina Faso	The audit examination showed that tax and customs stability clauses have a negative effect on the country's economy
Senegal	Stability clauses in mining agreements may offer companies legal certainty, but they have a negative impact on the mobilisation of tax revenues from the mining sector. These clauses, for example, prevent the effective collection of export tax on non-monetary gold, resulting in significant revenue losses for the state
Gabon	The government is unable to revise extractive sector contracts containing stability clauses as provided for in the General Tax Code
Guinea	The court has noted that stability clauses in mining agreements do not encourage their revision

Source: SAIs national reports

Analysis

Although stability clauses provide legal and economic certainty by ensuring that fiscal and regulatory conditions remain unchanged for a given period, they often have the unintended consequence of limiting the effective mobilisation of tax revenues.

The audit made it clear that these clauses, which are common in the mining industry, prevent the effective collection of taxes such as export duties on non-monetary gold, and breach the general tax code. These stability clauses generally do not encourage revision or renegotiation. Their rigidity locks countries into agreements that can become disadvantageous over time, particularly when economic conditions and political priorities change.

Recommendations 6

It is recommended that governments:

i. Renegotiate mining contracts by initiating discussions with mining companies to review the terms of existing contracts with a view to revising stability clauses. This could involve introducing mechanisms for periodically reviewing fiscal conditions in line with changes in commodity prices and market conditions
ii. Assess economic impact by carrying out in-depth studies of stability clauses to demonstrate their negative effects on public revenues and social services. This data can be used to argue for legislative changes to limit the application of stability clauses in certain circumstances
iii. Strengthen the negotiating skills of senior civil servants in the mining sector, including training staff on technical and legal aspects of the extractive sector, and tax and accounting issues related to mining operations

1.8. TRANSFER PRICING

Transfer pricing is a key area where countries lose tax revenue. It concerns the determination of prices charged for transactions between related parties. Transactions between related parties must comply with the arm's length principle, which means the prices charged in transactions between related parties must not differ from the prices charged in transactions with third parties in comparable circumstances (i.e. market value). The observations in Table 8 relate to the legislative framework for transfer pricing.

Table 8: Status of transfer pricing legislative frameworks

COUNTRY	FINDINGS
Botswana	Transfer pricing is governed by the Income Tax Act and the Transfer Pricing Regulations 2019. The legislative framework is in line with international best practices used by key institutions combating IFFs, such as the OECD, the UN and ATAF. It was however found that the Botswana Unified Revenue Service (BURS) was issuing letters of extension for the submission of transfer pricing documentation, contrary to the law, which requires transfer pricing documentation to be submitted within four months of the end of the tax year. The extensions were granted due to the onerous nature of preparing the documentation required by law. In addition, it was found that the tax department did not sufficiently control transfer pricing submissions

COUNTRY	FINDINGS
Burkina Faso	The audit found no formal method for assessing transfer prices. The procedures for signing agreements were yet to be defined. Consequently, no agreement had been signed with the DGI. The decree establishing a list of countries that had signed agreements with Burkina Faso on the automatic exchange of tax returns had also not yet been signed
Cameroon	An analysis of tax adjustment files and customs reports revealed various cases of irregular transfer pricing, most involving erosion of the tax base by either reducing revenues or increasing expenditure
Gabon	There is no reference price database within the tax administration, and the transfer pricing unit of the General Directorate of Taxes has been non-operational since 2018. The General Directorate of Taxes lacks skilled personnel and reference materials to guide transfer pricing practices. The country is exposed to losses due to insufficient resources to monitor and enforce transfer pricing legislation
Gambia	The audit found no clear and precise regulations on transfer pricing
Senegal	The audit found no standard framework for alternative methods to determine or adjust prices between related entities in commercial or financial transactions that do not follow the arm's length principle. In addition, none of the audited entities had a relevant database or benchmark for analysing comparables for transfer pricing adjustment purposes
Tanzania	The Tanzanian tax authorities do not have effective strategies and plans to detect and control fraudulent transfer pricing practices. This is due to inadequate transfer pricing audit planning, which does not include all identified risks regarding multinational enterprises (MNEs), and the lack of databases that provide reliable and updated information on MNEs
Uganda	The country has well-defined laws with which competent authorities must comply to sanction tax and transfer pricing offenders. However, in many cases, the tax authorities have failed to apply the laws by not carrying out tax assessments of mineral exports, as shown below: Lack of tax valuation of certain exported minerals by the URA: Automated System for Customs Data (ASYCUDA) extracts relating to minerals exported during the review period (with the exception of gold) revealed 6 469 cases valued at UGX72.490-billion (almost US$19.47-million), where 22 categories of minerals were exported without any valuation, resulting in the non-payment of export taxes

COUNTRY	FINDINGS
Zambia	Although Zambia has implemented provisions to combat the loss of tax revenues in the extractive industries, the audit showed that small-scale mining operators are often untraceable, posing challenges for mining audits. This goes well beyond transfer pricing, since there are no prices to compare. The minerals extracted are mainly exported and often end up as "hidden transactions" conducted by local agents or representatives of the exporting companies

Source: SAIs national reports

Analysis

Some countries, such as Botswana and Senegal, have specific transfer pricing laws and specialised transfer pricing units, but the audit exposed gaps in the regulatory frameworks for transfer pricing at national level for most jurisdictions. The absence of clear regulations, reference databases and standardised frameworks for alternative pricing methods limits tax administrations' ability to apply the rules effectively.

Countries such as Gambia do not even consider transfer pricing to be a problem. In Burkina Faso, there is no formal transfer pricing system and the decree establishing the list of countries with which the country has concluded agreements for the automatic exchange of country-by-country declarations has not yet been signed.

There's a lack of robust regulation, instances of non-operational transfer pricing units (for example, in Gabon), and limited capacity to undertake transfer pricing audits in all participating jurisdictions. These constraints have led to an erosion of the tax base by reducing revenues or increasing expenditure. This erosion undermines revenue mobilisation efforts, reducing the financial resources available for public services and development initiatives.

Recommendations 7

It is recommended that governments:

i. Draw up precise and comprehensive regulations setting out the methods for determining transfer prices
ii. Ensure that transfer pricing regulations comply with international best practices in order to improve the consistency and transparency of transfer pricing practices
iii. Revitalise national transfer pricing departments or create specialised structures within tax administrations with sufficient resources and expertise to apply transfer pricing regulations effectively
iv. Organise training and capacity-building programmes for tax administration officials on transfer pricing methodologies, compliance issues and audit techniques
v. Introduce sanctions to reprimand tax administrations that fail to apply existing laws aimed at curbing illicit financial flows
vi. Collaborate with other competent authorities in the fight against illicit financial flows from different loss points

Chapter 2: The Institutional Framework For Combating IFFs

2.1. BACKGROUND

The institutional framework for combating illicit financial flows (IFFs) refers to all the institutions or structures dedicated to the optimal mobilisation of tax revenues. It must be clear, well coordinated and effectively implemented to ensure optimum tax revenue mobilisation. It must include specific laws and regulations, robust and dynamic supervision and collaboration mechanisms, and appropriate tools and resources to detect, prevent and punish illegal activities.

The purpose of this area of study is to ensure that the institutional frameworks implemented by governments are effective in combating all forms of IFFs. The audit revealed shortcomings in these frameworks, relating to organisational and professional capacities, recovery systems and international cooperation.

2.2. ORGANISATIONAL CAPACITIES

Organisational capacity is a major indicator of countries' ability to address the issue of illicit financial flows in the mobilisation of tax revenues.

An examination of the organisational capacities of the national structures responsible for combating IFFs revealed inadequate collaboration among the various administrations responsible for the settlement and collection of tax revenues, a lack of coordination, poor capacity for action and a failure to integrate the information systems of existing structures.

2.2.1. Insufficient collaboration between government agencies

To generate domestic revenue, tax administrations should collaborate with other government institutions to ensure effective complementary efforts to combat IFFs. Tax administrations must also collaborate with other competent entities in various fields, as information is key to the process. The audit revealed collaboration challenges in several countries, as illustrated in Table 9.

Table 9: Status of collaboration between government agencies

COUNTRY	FINDINGS
Botswana	The Botswana Unified Revenue Service (BURS), as the lead competent authority, collaborates with other government entities, mainly through formal commitments under service level agreements with the Directorate of Public Prosecutions (DPP). The purpose of these agreements is to strengthen the function of BURS, which is responsible for the investigation of tax offences, while the DPP is responsible for the prosecution of offences under national legislation. BURS has also signed a memorandum of understanding with the Botswana Police Service, Directorate on Corruption and Economic Crime, Directorate of Intelligence and Security Services and the Financial Intelligence Agency to cooperate in law enforcement and information exchange.

COUNTRY	FINDINGS
	In terms of notable positive aspects relating to powers and responsibilities, it was observed that BURS does not have any formal collaboration with the Department of Mines, which regulates the mining sector in Botswana, although this sector is exposed to illicit financial flows
Cameroon	Interviews with government officials involved in combating IFFs showed that information-sharing is neither automatic, nor systematic between the administrations responsible for collecting revenues from the mining sector. In addition, a document review revealed that roles and responsibilities in the fight against IFFs in the mining sector are not clearly defined, resulting in inefficient transfers of power and conflicts of competence between the administration and the mining industry
Comoros	There is no formal relationship between the General Tax and Property Administration, Financial Intelligence Service and financial institutions in reporting fraud or tax evasion. This lack of cooperation hinders the fight against illicit financial flows
Gabon	Gabon has a government commission responsible for managing requests for tax and customs benefits, but it is non-operational. The audit highlighted concerns regarding the granting of tax benefits, where the authority's powers are overridden by the executive branch of government without regard to the law
Guinea	The audit found that operational and control bodies have appropriate powers to prevent, detect and punish illicit financial flows
Kenya	The audit revealed inadequate cooperation between the competent authorities, although their mandates are established and defined in the legal framework. For example, although the Financial Reporting Centre has a working mechanism with the tax authorities, it shares minimal information with them. The tax authorities need to specifically request information from the Financial Reporting Centre in the course of investigations. The audit also revealed insufficient collaboration between the government agencies responsible for implementing tax exemption projects. The absence of a unified system for managing tax exemption processes has led to a lack of coordination of processes and potential shortcomings in their implementation. Cases of excessive imports of tax-exempt items and imports of items intended for local purchase have been identified. This lack of collaboration stems from the absence of an integrated system, which hinders immediate reconciliations and the removal of items from master lists

COUNTRY	FINDINGS
Uganda	The audit indicated significant shortcomings, despite the existence of a well-defined legal framework governing the operation of the tax authorities and the Financial Intelligence Agency. The agency fails to monitor and follow up suspicious transactions in a timely manner in accordance with requirements. Suspicious transactions must be dealt with by the competent authority. Where they relate to tax matters, the Uganda Revenue Authority is the competent authority. In the absence of real-time monitoring, the tax authorities are not equipped to tackle cases likely to generate illicit financial flows
Zambia	The extractive industries audit notes that the Zambia Revenue Authority has established an Artisanal Mining Unit, largely supported by the Ministry of Mines and Minerals Development in the provision of a manual valuation certificate. While initially seen as a deterrent, the audit found that transit corridors remain porous and unmonitored, and that other government bodies are unavailable to assist. This exposes the country to tax losses due to illicit flows

Source: SAIs national reports

Analysis

The main issue arises from a lack of collaboration among government bodies. The various competent authorities have legal frameworks in place to combat illicit financial flows, but government institutions work independently. Where collaboration does take place, it is formalised in the form of memoranda of understanding between entities, service level agreements and other arrangements.

This lack of cooperation between the authorities responsible for assessing and collecting tax revenue has several adverse consequences for revenue mobilisation and the fight against IFFs.

Firstly, it weakens the effectiveness of tax collection. When information does not circulate efficiently between the various tax entities, taxpayers can escape the identification systems set up on a sector-by-sector basis, leading to significant losses of revenue. This lack of cooperation makes it difficult to detect tax fraud, transfer pricing abuse or under-declaration of income.

Secondly, it hampers the ability of tax and customs authorities to investigate and recover assets misappropriated through IFFs. Fraud networks can exploit communication gaps between various administrations and take advantage of delays in investigations to move capital abroad before action can be taken. This also hampers sanctions and legal action. Suboptimal cooperation between authorities often results in a lack of solid evidence to prosecute tax evaders or offenders, compromising the application of penalties designed to prevent misconduct.

Finally, this fragmentation contributes to an environment of tax non-compliance, where taxpayers, particularly large multinational companies, can circumvent tax or customs regulations by exploiting divergences and inconsistencies between administrations. This can lead to increased tax evasion and weakened efforts to raise revenue, to the detriment of the economic development of the countries concerned.

Recommendations 8

i. Information exchange between government agencies should take place within a framework that allows continuous flow. This will enable tax authorities to take appropriate action and limit the loss of national revenue due to illicit financial flows
ii. In collaborating to combat illicit financial flows, government entities should tackle the issue in a unified manner, but each dealing with different aspects, to maximise efforts to reduce illicit financial flows
iii. Governments should strengthen institutions to ensure they operate in accordance with the law

2.2.2. A lack of coordination between the players involved in the fight against IFFs

Effectively combating illicit financial flows requires a coherent system of coordination, information sharing and collaboration.

The national systems examined displayed a lack of coordination between the structures involved in the fight against IFFs, as shown in Table 10.

Table 10: Overview of the lack of coordination in national systems

COUNTRY	FINDINGS
Burkina Faso	The country has structures with specific powers: an anti-corruption authority (ASCE LC); a national financial information processing unit (CENTIF); and a national gold fraud squad (BNAF). However, their actions are not always well coordinated and not risk based
Guinea	Guinea has no formal, concerted mechanisms for assessing and collecting revenue from the sector. Each collection structure (CPDM, DGD, DGI, DGTCP and BCRG) pays and recovers the revenues due to it, without an integrated review of the data with all the competent administrations and specialised control institutions
Comoros	There is no formal relationship between the Administration Générale des Impôts et du Domaine, the Service de Renseignement Financier and financial institutions when reporting cases of tax fraud or evasion
Gabon	There is no coordination between the players involved in mobilising tax revenues
Kenya	Kenya's tax authorities lack a mechanism to identify transactions where outbound transfers are disguised as payments for purposes other than the remuneration of foreign staff. Additionally, while the Kenya Immigration Department maintains a register of all foreign nationals, including their activities and declared remuneration in the country, this information is not shared with tax authorities. An examination of tax returns and self-declarations by taxpayers revealed that some foreign entities operating in the country paid their employees in their countries of origin without subjecting these salaries to Kenyan tax regulations

COUNTRY	FINDINGS
Senegal	Audit interviews and a document review revealed that even where institutional frameworks exist to combat IFFs, they are not integrated. Interviews conducted with the heads of the administrations involved in the fight against IFFs revealed that information-sharing is neither automatic, nor systematic. It is not even effective between the administrations responsible for collecting revenues from the mining sector. The documentary analysis shows that roles and responsibilities for combating IFFs in the mining sector are not clearly defined, resulting in ineffective power transfers and conflicts among administrations

Source: SAIs national reports

Analysis

The lack of coordination is generally due to inadequate national legal frameworks that mostly do not provide mechanisms for coordinating the structures involved in combating illicit financial flows. Additionally, it results from the lack of operationalisation of the coordination frameworks that have been set up, either because of inadequate resources allocated or a lack of professional skills among staff.

The effects of these limitations include:

i. Confusion as to the roles and responsibilities of staff
ii. An increased risk of tax losses
iii. Lack of information-sharing
iv. Failure to control illicit financial flows
v. Contradictory information from revenue collection and accounting structures
vi. Lack of transparency in financial governance and accountability
vii. Delays in monitoring and investigating suspicious transactions

Recommendations 9

It is recommended that governments:

i. Set up a formal framework for collaboration and coordination between administrations to promote a unified approach and coordinated response to the IFF issue
ii. Strengthen inter-institutional cooperation in the fight against IFFs
iii. Define roles and responsibilities clearly and finalise the transfer of competences to the appropriate entities

2.2.3. Shortcomings in the operation of public administrations involved in the fight against IFFs

To effectively combat illicit financial flows, all planned state services must be operational, i.e. adequately equipped with the necessary material and financial resources.

An examination of national systems to combat IFFs has revealed weaknesses in the operation of public administrations. These weaknesses are detailed in Table 11:

Table 11: Shortcomings in the operation of public administrations involved in the fight against IFFs

COUNTRY	FINDINGS
Burkina Faso	The system for checking the quantities and technical specifications of gold prior to export or import is not fully operational. The stamping/tracing system for exported ores has failed and the methods for tracing precious metals are unreliable
Guinea	Guinea does not have a system for stamping exported minerals. Overall, the agencies or officials do not have the material and financial resources needed to fight IFFs effectively
Botswana	The audit showed that the Botswana Unified Revenue Service received transfer pricing documentation manually, but had no designated place to store it. The audit and risk management specialists in the large taxpayer division received these files and stored them in basic locked office cabinets
Kenya	Information on projects could not be fully retrieved from the public procurement portal managed by the country's public procurement authority
Zambia	The Ministry of Mines and Minerals Development (MMMD) is unable to monitor the minerals value chain from extraction to export to ensure the accuracy of production data. The MMMD does not have the capacity to confirm the mineral content of all exports, and illegal mining is taking place in the country. Export permits are issued for unprocessed minerals, including ores, anodes and blisters
Uganda	There are delays in the implementation of mechanisms to combat IFFs by the Ministry of Energy and Mineral Development (MEMD) and the Directorate of Geological Surveys and Mines (DGSM), as required by the Mines and Minerals Act, 2022, and the regulations of the International Conference on the Great Lakes Region. The MEMD and DGSM have delayed the implementation of mechanisms to combat IFFs in the mining industry. These include, but are not limited to: a. The obligation to draw up a model agreement for future agreements b. The certification of mining products c. Mineral valuation d. Implementation of due diligence in the mineral chain e. A third-party audit of a designated mineral from Uganda f. The operationalisation of a Uganda national mining company g. The introduction of a chain of custody system to improve the management of mineral resources

Analysis

In the light of the above findings, the weaknesses of the public administrations responsible for combating IFFs are essentially due to:

i. The compartmentalisation of administrations
ii. The lack of appropriate equipment for monitoring and controlling the quantity and quality of ores produced and exported
iii. A lack of dynamism on the part of administrations
iv. Poor audit risk-assessment capability
v. The low level of automation in national tax departments

It was also noted that there are institutional obstacles to the coordination of the fight against IFFs.

The effects of these weaknesses include:

i. Underperformance by administrations in mobilising revenues from the extractive sector and in combating IFFs in general
ii. A lack of complete visibility of taxable bases, resulting in a loss of tax revenue
iii. A loss of comparative advantages linked to the international sale of minerals
iv. Lack of integration due to administrative silos
v. A low level of automation of services, exposing them to the risk of information leaks and document loss

Recommendations 10

It is recommended that governments:

i. Automate and integrate tax revenue collection systems
ii. Provide the authorities in charge of mobilisation with material, financial and human resources to strengthen their capacity to combat IFFs
iii. Facilitate formal mechanisms for collaboration between government agencies responsible for combating IFFs

2.2.4. Failure to integrate the information systems of the administrations responsible for settling and collecting revenues

Integrating the information systems of the administrations responsible for settling and collecting tax revenues improves the efficiency and accuracy of data processing, reducing errors and fraudulent practices. Such integration facilitates the detection of illicit financial flows and the sharing of information between agencies, helping to combat fraud. It also improves planning and decision-making, simplifies procedures for taxpayers and encourages greater tax compliance.

The administrative information systems responsible for settling and collecting revenue have in many cases not been integrated.

Table 12 provides an overview of the countries affected by this issue.

Table 12: Failure to integrate administrative information systems

COUNTRY	FINDINGS
Burkina Faso	The review revealed that the information systems of the revenue-collecting authorities involved in the mining sector were not connected
Senegal	An examination of the operations of the information systems of the entities covered by the audit showed that the databases of the various administrations responsible for revenue collection from the mining sector are not integrated. Various agencies in the mining sector maintain and manage multiple information systems, but they do not exchange information that could enable the timely detection of illicit financial flows in the revenue mobilisation process
Guinea	An interministerial platform has been created for information exchange between the Ministries of Mines and Geology, Budget, and Economy and Finance to secure mining revenues. However, it is not yet operational
Kenya	The audit highlighted a lack of collaboration between the government agencies in charge of tax exemption projects, mainly due to the absence of an integrated information system. This lack of integration led to shortcomings in the management of tax exemptions, with cases of excessive imports of exempt items and non-compliant imports. The lack of effective coordination combined with a system that is not integrated has prevented immediate checks and adjustments to the lists of items concerned.
Zambia	• The Zambia Revenue Authority (ZRA), in coordination with the Ministry of Mines and Minerals Development (MMMD), has developed a Mineral Production Statistical Evaluation System (MOSES) to monitor mineral production levels • The MOSES system does not interface with the ASYCUDA international system to determine whether set export limits have been exceeded • The ZRA did not grant the MMMD the right to consult the ASYCUDA system to monitor mineral exports, although the MMMD has repeatedly requested access to the system

Source: SAIs national reports

Analysis

The issue of non-integration of systems stems from the lack of a master plan to integrate data on the sector and make it accessible to financial administrations, as well as a lack of collaboration between them. The absence of common standards and norms for system interoperability make it challenging for various stakeholders to exchange data due to incompatible communications protocols or different data formats.

This lack of integration of systems responsible for the liquidation and collection of revenues can lead to coordination problems, data errors, difficulties in detecting illicit financial flows, lack of transparency and accountability, and an increased risk of fraud and corruption. This results in fragmented information, including geological data, mining cadastre records, licences, registers of beneficial owners, mining revenues, and financial statements of state-owned companies.

Recommendations 11

To improve information exchange and ensure early detection of illicit financial flows that could jeopardise revenue collection, it is necessary to:

i. Invite governments to take steps to integrate the information systems of the administrations responsible for the assessment and collection of tax revenues in their respective countries
ii. Encourage information sharing between administrations via collaborative platforms

2.3. PROFESSIONAL CAPACITIES

The review of this second aspect of the institutional framework included assessing whether the structures and agents responsible for combating illicit financial flows are sufficiently skilled to prevent and detect illicit financial activities, as are equipped to resolve problems.

It was found that professional capacity is limited in many countries, with limitations relating to inadequate mapping and risk assessment by agencies in charge of revenue mobilisation, a lack of specific training for administration officials in charge of revenue liquidation and collection, and officials involved in the fight against illicit financial flows lacking specific expertise.

These aspects are discussed below.

2.3.1. Lack of up-to-date mapping and risk assessment by the players responsible for mobilising revenues from IFFs

Risk management requires an anticipatory approach based on risk mapping, which is essential in the fight against illicit financial flows.

The coordinated regional audit showed that a number of AFROSAI member countries were not mapping the risks associated with illicit financial flows and transfer pricing. The details of this dysfunction are detailed in Table 13.

Table 13: Status of risk mapping and assessment limits

COUNTRY	FINDINGS
Botswana	The departments responsible for collecting mining revenues have not yet mapped the risks associated with illicit financial flows in the mining sector. Some structures with specific powers, such as the Anti-Corruption Authority (ASCE LC), the National Financial Information Processing Unit (CENTIF) and the National Anti-Gold Fraud Squad (BNAF) do take action, but it is not always risk based
Senegal	Except for the Directorate General of Customs (DGD), other departments of agencies involved in the mining sector have not mapped the risks associated with illicit financial flows and transfer pricing in the sector
Kenya	It was found that Kenya conducts question-based audits that ignore critical areas of potential tax loss

COUNTRY	FINDINGS
Tanzania	The audit showed that the ability to detect and control illicit financial flows arising from transfer pricing audits is limited due to the ineffective application of the results of risk assessment tools when transfer pricing audits are conducted.
Gambia	The Gambia Revenue Authority (GRA) has not implemented a risk assessment framework for tax audits. GRA officials indicated that a certain level of automation is required before risk assessment for the selection of tax audit files can be conducted, but that this level of automation is not yet available
Uganda	The audit showed a failure to identify and assess the risks of money laundering and terrorist financing because those responsible for carrying out a risk assessment have not complied.

Source: SAIs national reports

Analysis

This situation stems from a failure to prioritise the challenges of illicit financial flows and transfer pricing as part of tax liquidation and revenue collecting strategies, and a lack of skills in identifying, analysing and classifying the risks associated with IFFs.

The lack of a risk mapping for illicit financial flows linked to the tax revenue collection process hampers the detection of high-risk transactions with a negative impact on the volume of tax revenue collected.

Recommendations 12

In view of the above-mentioned shortcomings, it is necessary to:

i. Strengthen the capacity of government agencies and administrations in charge of control to assess the risks associated with illicit financial flows
ii. Invite governments to draw up and implement risk maps for illicit financial flows and transfer pricing while simultaneously taking appropriate action

2.3.2. Lack of specific training for staff involved in revenue mobilisation

To promote transparency, combat corruption, increase public revenue and strengthen compliance with international standards, it is essential that the staff of financial administrations responsible for clearing and collecting revenue are trained on methods to detect and punish illicit financial flows.

Specific training courses on IFFs will strengthen the ability of those in charge of clearance and collection to detect such flows and control the risks associated with revenue losses.

The audit noted a lack of support for training on IFFs with a view to optimising revenue mobilisation.

Table 14 shows an overview of the situation with regard to training in this area.

Table 14: Country situation regarding specific training for staff involved in revenue mobilisation

COUNTRY	FINDINGS
Burkina Faso	Due to a lack of appropriate training, the structures responsible for collecting mining revenues do not have the necessary operational and professional capacities to effectively combat illicit financial flows and optimise revenue mobilisation in the mining sector
Cameroon	The National Risk Assessment Report on the situation in Cameroon states, "Generally speaking, and with the exception of a few banks, most banks do not have well-established training programmes over a given period, with very specific objectives in terms of staff acquiring new knowledge in the area of AML/CFT."
Senegal	The Directorate General of Customs (DGD), the Directorate General of Mines (DGM) and the Directorate General of Public Accounts and the Treasury (DGCPT) account for around 39.33% of the revenue collected in the extractive sector, according to an analysis of data the from the Court of Auditors' 2022 report on Accounting for Revenue from the Mining Sector. However, they have not undertaken any activities to equip the officials responsible for the liquidation and collection of taxes and duties with the skills to combat illicit financial flows linked to the mobilisation of revenue from the sector. Additionally, the projected budgets and strategic plans of the aforementioned entities do not include actions or activities aimed at strengthening the capacity of their operational services to combat illicit financial flows in the mining sector

Source: SAIs national reports

Analysis

Inadequate training is linked to challenges including an increase in IFF-related issues, the lack of prioritisation of the problem of IFFS, the risks associated with the mobilisation of tax revenues, and a lack of financial resources.

These shortcomings in building the capacity of tax assessment and collection officials compromise their technical ability to detect suspicious commercial operations or transactions likely to generate IFFs.

In addition, the lack of training on illicit financial flows leads to inconsistencies in detection practices, variable corrective actions, increased risks of tax non-compliance, issues related to consistency and fairness, and damage to the reputation and credibility of the administrations in charge of liquidating and collecting tax revenues.

Recommendations 13

To remedy the failures noted above, it is recommended that governments:

i. Cover the issue of illicit financial flows in training programmes and plans for staff responsible for controlling tax revenue operations
ii. Allocate substantial resources to training administrative staff responsible for collecting tax revenues on illicit financial flows

2.3.3. The lack of and inadequate specialist knowledge among those involved in combating illicit financial flows

Breakthroughs in the fight against illicit financial flows depend primarily on the competence of staff throughout the value chain, particularly in terms of specific knowledge and skills.

A lack of specific expertise on the part of players has been noted in some countries, as shown in Table 15:

Table 15: Lack of specific IFF expertise among players

COUNTRY	FINDINGS
Botswana	The multidisciplinary staff responsible for transfer pricing issues are not inadequately trained and do not have professional qualifications in accounting or a related field, nor do they have database expertise in business processes, public relations or communication, or the legal expertise to interpret legal texts related to complex transactions
Guinea	The players responsible for combating IFFs do not have access to the expertise of specialist lawyers or mining, financial and accounting experts
Senegal	Staff do not have specialised skills in negotiating mining agreements, nor is there a permanent institutional framework for negotiation within the Ministry of Energy, Petroleum and Mines
Zambia	The geological survey office responsible for mapping available deposits throughout the country has insufficient staff

Source: SAIs national reports

Analysis

The limitations of national systems with regard to players with specific expertise in the area of illicit financial flows are mainly due to a lack of financial resources and technical equipment. This is compounded by a lack of training for officials in techniques to negotiate mining agreements, as well as the absence of integrated, formalised and permanent national negotiation frameworks.

These limitations reduce departments' efforts to stem tax revenue losses due to shortcomings in performing objective tax audits, negotiate mining agreements and contracts, and evaluate the quantities of minerals exported. The lack of negotiation expertise also results in the drawing up of unbalanced contracts and agreements, to the detriment of the participating states.

Recommendations 14

In view of the identified specific skills gaps of players involved in combating IFFs, the following measures are recommended:

i. Focus on professionalising officials and strengthening their capacity, particularly in the mining industry, quality and quantity control of minerals produced and exported, audits and contract negotiation

ii. Provide officials with sufficient financial and technical resources
iii. Set up permanent institutional frameworks comprising specialists trained in contract negotiation, and experts in mining law, the economics of natural resources and mining taxation

2.4. LIMITED TECHNICAL ANALYSIS CAPABILITIES

To effectively determine the volumes of minerals produced, identify sources of revenue and control the tax base, it is essential that the authorities responsible for liquidating and collecting revenue develop and maintain the necessary technical analytical skills. This ensures that all taxable income is correctly declared and that taxes are levied appropriately.

The detailed examination work done as part of the regional audit on illicit financial flows revealed that the administrations responsible for liquidating and collecting tax revenues in the mining sector do not have the technical capacity to analyse the quality and quantities of minerals produced by mining companies.

Table 16 shows the situation in the countries affected by this challenge.

Table 16: Administrations' limited technical analysis capabilities

COUNTRY	FINDINGS
Guinea	The system for monitoring quantities produced and exported is unreliable, since it is based solely on the "draught" method applied to export vessels
Senegal	In Senegal, an examination of the procedures for controlling mineral production revealed inadequate controls of the quantities and qualities of mineral substances extracted, as well as inaccurate assessments of selling prices and operating costs. Gold lifting commissions use mining operators' equipment to weigh ingots, which compromises the reliability of measurements. Gold content analyses are carried out by private laboratories, with no second opinion from the authorities. The customs and mining authorities do not have the technical means to verify the declared concentration levels
Zambia	In Zambia, the Ministry of Mines and Minerals Development (MMMD) does not monitor the minerals value chain from extraction to export to ensure accurate production data. Indeed, the MMDM does not have the capacity to confirm the mineral content of all exports. Furthermore, the Zambia Revenue Authority has not granted the MMMD the right to consult the ASYCUDA international system to monitor actual mineral exports, although the MMMD has requested access to the system on several occasions

Source: SAIs national reports

Analysis

The review reveals that the lack of technical analysis capacity in the mining sector is due to several factors, including the fact that regulatory authorities are unable to carry out their own, independent counter-expertise operations on mining company declarations because they lack the technical analysis resources. Other challenges include poor cooperation between agencies, and an inappropriate regulatory framework that does not allow control bodies to use external operators, and in particular independent analysis laboratories, to ensure the reliability of the information provided by mining companies on the quality and quantities of minerals produced and declared.

The current control mechanisms, characterised by a lack of technical analysis capacity, do not allow mineral production to be quantified correctly or mining companies to be taxed effectively. This shortcoming results in a substantial loss of tax revenue for states. Without analytical tools, it is difficult to verify the accuracy of the production declarations submitted by companies, which leads to the under-declaration of values and quantities produced.

This problem also makes it harder to trace the production and marketing of minerals. Tracing is essential to ensure that the sector's value chain is not affected by illicit financial flows. Without proper monitoring, minerals can be diverted to black markets or misrepresented to avoid taxation. This not only deprives the state of much-needed revenue but also facilitates money laundering and other criminal activities.

Recommendations 15

In view of the above-mentioned shortcomings, governments should:

i. Provide administrations with the means to assess the quality and quantity of ores produced through autonomous analysis techniques
ii. Set up mineral stamping systems to ensure legal mineral production and traceability along the value chain

2.5. REVIEW OF COLLECTION SYSTEMS

Collecting tax revenue helps to ensure fairness and equality among taxpayers. Importantly, it counters failures by taxpayers to meet their payment obligations, increasing tax yields and budgetary resources.

The collection of tax revenue is crucial to ensure the efficient management of resources and guarantee that businesses contribute fairly to national development.

The audit noted shortcomings regarding tax revenue collection systems in the national systems examined, with repercussions for the fight against IFFs.

These challenges are detailed in Table 17.

Table 17: Overview of the inadequacy of tax revenue collection systems

COUNTRY	FINDINGS
Botswana	A total of around 34.779-million pula (US$2.66 million) was recovered as additional tax. Around BWP1.145-billion (US$87.75-million) was adjusted in the accounts of audited taxpayers to reduce the amount of losses they had initially reported to the Botswana United Revenue Service. The sum of BWP469,463.99 (US$35,961) corresponded to a fine imposed for having declared incorrect income. A notable finding common to three cases reviewed was the length of time taken to recover transfer pricing assessments and related penalties. In one case, the audit work was completed on 28 September 2016 and payment was made on 14 December 2017, 15 months later. In another case, the taxpayer's accounts were adjusted nine months after the audit was completed

COUNTRY	FINDINGS
Burkina Faso	The review identified various shortcomings in the internal revenue collection system and process, including: • The unreliable nature of the assessment bases, in that the revenue assessment forms sent to mining operators and received by the PS contain calculation and carry-over errors and are sent relatively late • Partial or late collection of certain duties and taxes, including value added and corporation tax, royalties and dividends (few companies pay the priority dividend) Furthermore, between 2018 and 2022, only financial penalties were applied to offending companies in the mining sector. Heavier penalties such as imprisonment were not imposed on any of the directors of offending entities during the period under review
Burkina Faso	A review of reports from the General Directorate of Taxes (DGI) and the General Directorate of Customs (DGD) reveals that financial decisions and information related to transactions are not made public, reflecting a lack of transparency in the administration of state revenues
Comoros	A reconciliation of documents showing advance payments made by taxpayers and the taxpayers' revenue declarations recorded by the General Tax Administration revealed considerable discrepancies. An analysis of the financial statements of major companies and establishments and corporate income tax returns revealed that, despite the existence of the General Tax Code (AGID), the legal procedures for setting corporate income tax are not always followed. Most of the financial statements provided by companies did not accurately reflect their financial situation, and the adjustments made by AGID made it possible to limit tax evasion. Following an analytical review of the notification letters and the table of adjustments provided by AGID, and after reconciliation of these documents, it was observed that there was a breakdown in internal control and that there were inconsistencies between the tax adjustments made to taxpayers and the values notified to certain taxpayers. Compared with the corporate income tax declared in 2021 by certain companies (€95,777; or US$105,800), the adjustments increased the corporate income tax due (€771,719, or US$852,482), i.e. an increase of €675,642 (US$746,351), which represents a gain of almost 705.43% of the corporate income tax declared. As the system is declarative, the lack of control by the audit brigade means that tax fraud cannot be limited

COUNTRY	FINDINGS
Kenya	There is no collection system in place to pursue a taxpayer beyond Kenya's borders when they have not declared and paid their taxes in full. This was revealed when examining the assessment records kept by the Kenya Revenue Authority regarding companies paid for road construction work who failed to declare and pay their correct share of taxes. The taxpayers left the country before the tax authorities could assess and recover the tax. The audit indicated that, although the tax authorities carried out audits in cases of operator default, the collection of the taxes imposed was not efficient
Senegal	An examination of the customs operations of certain companies operating in the mining sector revealed that export receipts were not being repatriated as required by WAEMU regulations. In addition, assets were accumulated abroad through bank accounts opened outside the country, in violation of the conditions for opening and operating bank accounts abroad. The collection process is slow, cumbersome and costly, making it impossible to optimise revenue mobilisation. The many cases of late and unpaid fees have a negative effect on the state's cash flow
Zambia	The Financial Intelligence Centre (FIC) produces quarterly estimates of IFFs in the country. However, these estimates do not reflect the revenue lost due to the lack of consolidation of estimates made by the various stakeholders. A Financial Task Force Committee on Asset Recovery has been set up to recover revenue lost due to IFFs

Source: SAIs national reports

Analysis

This inefficiency is generally due to inadequate cooperation between government agencies and the tax authorities, and sub-standard non-accounting processing for the purpose of determining taxable income in countries where the tax system is declaratory.

In addition, there are delays in the collection of transfer pricing assessments, disputes over transfer pricing assessments, poor capacity to detect accounting manipulations that result in a reduction in taxable income, failure to comply with the obligations to repatriate export earnings imposed by the WAEMU, and the cumbersome nature of the system of prior control and collection procedures.

In addition, the mechanisms for controlling international transactions and the management of foreign bank accounts are inadequate, and penalties for late payment or non-payment are not applied to companies in default.

These shortcomings lead to tax revenue losses and slow collection procedures, with a negative impact on the state's budget revenues.

Recommendations 16

In view of the above-mentioned shortcomings, it is recommended that:

i. Governments evaluate their tax revenue collection systems to optimise their mobilisation
ii. Customs and tax authorities introduce compulsory collection procedures and enforce existing national regulations

2.6. REVIEW OF INTERNATIONAL COOPERATION

International cooperation is essential for tax administrations responsible for raising revenue in the fight against illicit financial flows (IFFs) for several reasons. It facilitates the exchange of information, the detection of suspicious transactions and the coordination of cross-border investigations, making it harder to conceal funds. It also enables the recovery of assets hidden abroad and has a deterrent effect against illicit activities.

The United Nations encourages international tax cooperation to combat tax fraud, tax evasion and IFFs. This includes supporting the implementation of international tax standards, such as those developed by the Organisation for Economic Co-operation and Development (OECD), and encouraging countries to work together to exchange information and resolve cross-border tax issues. It also includes support for the application of the Common Reporting Standard (CRS) for the automatic exchange of information on financial accounts and other transparency initiatives.

A review of international cooperation in tax revenue mobilisation reveals shortcomings in its deployment.

The work carried out by some of the countries involved in this coordinated audit reveals a number of problems. Firstly, there is a low level of international cooperation in the recovery of misappropriated assets and the exchange of tax information. This is reflected in a lack of statistics on prosecutions and recoveries, as well as delays or failures to respond to requests for information.

In addition, some countries, despite having signed bilateral and multilateral tax and customs agreements, do not always honour their commitments to exchange information, which weakens administrative and judicial cooperation.

Furthermore, existing frameworks for the automatic exchange of tax and customs information are often limited to bilateral or regional agreements, which limits effective efforts to combat illicit financial flows at international level.

Finally, despite the existence of structures dedicated to the exchange of tax information and mutual legal assistance, the concrete results, particularly in terms of recovering lost tax revenue, are often not quantified or evaluated, making it difficult to accurately measure their effectiveness.

The above findings on international cooperation are set out in detail in Table 18.

Table 18: Limitations linked to insufficient deployment of international cooperation

COUNTRY	FINDINGS
Burkina Faso	The detailed examination revealed that the country's level of international cooperation in the recovery of distracted assets is very low or non-existent. Mechanisms for recovering misappropriated assets are not well implemented.

COUNTRY	FINDINGS
	There are no statistics on financial flows diverted and prosecuted by the competent authorities, and no prosecutions or recoveries have been reported internationally. Requests for information made by certain authorities are almost always unanswered or responses returned late
Cameroon	A document review revealed that bilateral and multilateral tax and customs conventions have been ratified with regard to administrative cooperation. However, some states party to these conventions do not comply with the requirement to exchange information and do not always honour their commitments
Guinea	Guinea has a framework for the automatic exchange of tax, customs and financial data and information, but it is limited to a few countries in the West African subregion and does not cover judicial assistance or the sharing of experience
Uganda	An examination of the normative documents reveals the absence of international cooperation between Uganda and other countries and international organisations in the fight against IFFs, in relation to the mobilisation of revenues from the extractive industry
Gabon	The audit revealed that the country's competent authority has enabling legislation that supports requests for the exchange of information, which could facilitate the repatriation of tax revenues. However, it was found that the country has not ratified the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, which falls under the OECD's Global Forum on Transparency and Exchange of Information . This indicates a weak implementation of international cooperation initiatives. Additionally, the document review and interviews with internal stakeholders revealed the existence of only a limited network of tax treaties
Guinea	Examination of the memorandums of understanding on mutual assistance between customs administrations has revealed the existence of a framework for the automatic exchange of data and tax/customs and financial information. These include: • The Memorandum of Understanding between Guinea, Liberia and Sierra Leone of 4 November 2022 • The Additional Act on Mutual Assistance and Cooperation between Customs Administrations of ECOWAS Member States of 6 December 2018 • The Memorandum of Understanding on mutual administrative assistance between the customs administrations of Guinea and Mali of 12 August 2016 The existence of these memoranda of understanding are encouraging, but they only cover a few countries and there is no mention of the international bodies through which such exchanges take place. It is therefore a limited approach

COUNTRY	FINDINGS
Kenya	The tax administration structure includes an exchange of information office (EOI), which is a coordination point for exchanging tax information requested from the competent authorities of other countries and seeking information from other jurisdictions to unblock tax investigations. Its operations are supported by laws, treaties and signed memoranda. The efforts of the tax authorities' information exchange office are complemented by the Financial Information Centre, which is legally empowered to exchange information that may assist tax audits and investigations. Despite the existing legal and institutional framework, the results of information exchange and mutual legal assistance in tax collection have not been quantified

Source: SAIs national reports

Analysis

This inefficiency is generally due to inadequate cooperation between government agencies and the tax authorities, and sub-standard non-accounting processing for the purpose of determining taxable income in countries where the tax system is declaratory.

In addition, there are delays in the collection of transfer pricing assessments, disputes over transfer pricing assessments, poor capacity to detect accounting manipulations that result in a reduction in taxable income, failure to comply with the obligations to repatriate export earnings imposed by the WAEMU, and the cumbersome nature of the system of prior control and collection procedures.

In addition, the mechanisms for controlling international transactions and the management of foreign bank accounts are inadequate, and penalties for late payment or non-payment are not applied to companies in default.

These shortcomings lead to tax revenue losses and slow collection procedures, with a negative impact on the state's budget revenues.

Conclusion

This coordinated audit highlighted the progress made in developing and implementing legislation on illicit financial flows (IFFs) in their various forms.

The analysis revealed that several legislative, regulatory and institutional frameworks are either outdated or incomplete, failing to address critical issues such as beneficial ownership and bank secrecy. These gaps contribute to the lack of transparency and persistence of IFFs. Lack of transparency in sectors such as mining, the extractive industries and construction, and inadequate legislative provisions and stability clauses, hamper the effective enforcement of laws in these sectors and, consequently, the fight against IFFs.

Political interference in tax administration, particularly regarding tax incentives for multinational companies, was identified as a factor limiting the effective application of tax legislation across all the participating countries. Tax administrations were often not consulted or involved in the process of granting tax concessions, resulting in the inclusion of inappropriate clauses in contracts.

In addition, poor contract negotiation in critical sectors such as mining, a major contributor to gross domestic production in developing countries, has been noted in both Anglophone and Francophone regions. Poorly designed incentives can lead to mining companies making operating losses and even shutting down their mining operations in African countries, consequently paying little or no taxes.

The audit showed insufficient cooperation between competent authorities in combating IFFs in some jurisdictions. Blurred lines of responsibility between authorities such as tax administrations, financial intelligence units, financial institutions and political departments, and limited access to information, exacerbated by manual or non-integrated tax systems in some countries, hamper legal action in cases of non-compliance. Where memoranda of understanding do exist to facilitate information exchange, the competent authorities often do not exchange information with the tax authorities.

In terms of institutional frameworks, organisations such as the Financial Action Task Force (FATF), the African Forum on Tax Administration (FAAF), the Organisation for Economic Co-operation and Development (OECD), the United Nations and the Global Forum on Transparency and Exchange of Information for Tax Purposes play a key role in supporting African countries in the fight against IFFs. Through mutual evaluations and assistance programmes, resources are shared with tax administrations to train, share knowledge and expertise with staff involved in IFF audits and investigations. However, a common challenge across all countries has been the limited skills and expertise within tax administrations, resulting in fewer audits and ineffective asset recovery.

Regarding international cooperation, in line with the UN's Sustainable Development Goals 16 and 17, this audit highlights that strong, well-functioning institutions are essential to combat IFFs.

The audit has resulted in a series of recommendations for governments and international organisations. It is proposed that jurisdictions step up their monitoring of exports and imports and participate in information exchange to improve access to information for the competent authorities. These improvements will help facilitate investigations and audits into non-compliant tax behaviour.

At national level, inter-institutional collaboration should be established and/or strengthened. Competent authorities, including regulators, tax authorities, and financial and other institutions, should strengthen collaboration to maximise the impact of their individual mandates in combating IFFs. To facilitate information sharing, integrated systems should be developed and secured at all levels, and made accessible without geographical restrictions.

African governments should pay particular attention to the use of incentives, assessing stability clauses and tax incentives focusing on cost-benefit analysis at the socio-economic level. They should examine the appropriateness of tax incentives or exemptions granted to multi-national enterprises, both in terms of timing and quantity, with a view to managing operational risks.