



## **European Union**

### **Statement**

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**Economic development in Africa: Tackling illicit financial flows for sustainable  
development in Africa**

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**Statement by the European Union Delegation to the UN and other  
international organisations in Geneva**

**Geneva, 30 September 2020**

**- CHECK AGAINST DELIVERY -**

Mr President, Secretary General, Excellencies, distinguished Delegates,

I have the honour to speak on behalf of the European Union and its Member States. We thank the Secretariat for its 2020 report on Economic development in Africa. The **report includes several very valid observations and recommendations**, which we will highlight in our statement. However, there are **also elements that we find missing** and which would ensure a more comprehensive and balanced representation of this complex subject matter.

**The European Union and its Member States, consider financial integrity and combatting illicit financial flows as a priority for the achievement of the Sustainable Development Goals**, as also stated in our Joint Communication “*Towards a Comprehensive Strategy with Africa*” and reinforced by the June Council Conclusions on Africa. Solving this complex and multifaceted issue of illicit financial flows is a clear shared responsibility of developed and developing countries, to which all of us need to live up to.

**We commend the strong engagement of all actors, including UNCTAD, towards better accountability, transparency and financial integrity.** In this sense, it is relevant to underscore the ongoing and highly important work carried out within different frameworks, such as UNODC, FATF, OECD and G20. It is somewhat regrettable that this EDAR report does not appear to do full justice to the crucial work carried out in these entities, which bring together relevant expertise as well as country representation.

The report correctly notes that the **complexity of the phenomena makes it very challenging to agree on a detailed definition of illicit financial flows**. A definition that would go beyond describing it through the customary general concepts of criminal activities, corruption and commercial activities.

Even if, according to the findings quoted by this report, more than half of the illicit financial flows originate in commercial activities, the **arguably partial analysis of the other two key components of the illicit financial flows renders the report somewhat unbalanced**. While it is understandable that the report focuses on issues closer to UNCTAD’s expertise, such representation might give an impression that the

illicit financial flows problematic can be largely solved only by addressing the existing commercial and taxation practices of multinationals.

We would like to **emphasise the importance of transparency and financial accountability in fighting bribery and corruption as key drivers for addressing illicit financial flows**. In this sense, **institutional strengthening and good governance, including an enhanced Public Finance Management systems, should be given a more dominant place** in this report, especially as these concepts represent a direct counterweight to many of the problematic commercial practices identified in the report. Along the same line, considering how **digitalisation, which goes hand-in-hand with good governance, can help tackle many aspects of illicit financial flows as well as create new risks**, it also would merit a more prominent consideration by the report.

In line with our commitment to policy coherence for development, the EU also seeks to apply coherent and coordinated domestic policies to support partner countries combating tax evasion and illicit financial flows, in clear recognition of this being a shared responsibility of developed and developing countries.

Mr. President, distinguished delegates.

Allow me now to say a few words on some of the recommendations issued by the report.

The report accurately notes that **important multilateral negotiations and developments on key issues of base erosion, profit shifting and taxation are ongoing**. For instance the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) with 137 member countries, or the Global Forum on Transparency and Exchange of Information for Tax Purposes with 161 member countries, amongst them 32 African countries. Both frameworks play a crucial role in leading the global discussions for creating international tax standards and enforcing them through robust peer-review processes. To support partner countries to reach these standards and reap the revenue benefits, the EU co-finances technical assistance work undertaken by the OECD in this area.

Overall, **the value of these actions merits a clear recognition**. Existing shortcomings of current frameworks need to be addressed, clearly. But this needs to be done in a

resource-efficient manner and with outcomes that are enforceable in practice. Hence, in line with the report's recommendations, we call on African, as well as on other developing countries, to continue and even further strengthen their active engagement in these fora.

In this sense, we would like to **underscore the importance to focus on an effective implementation of existing instruments and build within the competent frameworks**, most notably the Financial Action Task Force and the OECD, **rather than on establishing new mechanisms**. These are not flawless frameworks – and shortcomings should and are being addressed – but they do account for important advancements in this field. Creating new instruments whose value is questionable, could divert attention and efforts from implementation of existing frameworks and commitments. In this sense, we believe that the work of the High Level Panel on Financial Accountability, Transparency and Integrity mentioned by the report, should focus on areas of consensus and promote implementation of what already exists, while reaching out to the mentioned competent frameworks.

As highlighted before and as noted in various parts of the report, **institutional strengthening and capacity development are central to addressing illicit financial flows**. In the absence of strong and capable institutions, the design of norms might be deficient and their implementation compromised. The EU and its Member States have long been convinced of the importance of strong institutions and made this a **central element of our cooperation aid**.

Indeed, **we are proud to be largest grant donor in the area of domestic revenue mobilisation and to effectively follow up on our commitments under the Addis Tax Initiative**, as well as advancing its post-2020 agenda. Our support includes **bilateral** assistance often linked to budget support operations, including for experts embedded in relevant ministries working on domestic reforms. On the **regional** level, a new program aiming at reducing illicit financial flows at Africa's continental level will be launched by the end of the year. This initiative aims at strengthening African Union Commission's facilitating role in fighting illicit financial flows, in cooperation with key partners such as the African Tax Administration Forum.

On the **international** level, the EU and its Member States have provided support to the UN Tax Committee and co-financed the participation of partner countries representatives in its meetings. We support the work under the Revenue Mobilisation thematic fund as well as the Managing Natural Resource Wealth thematic funds, and provide technical assistance to partner countries in their efforts to tackle money laundering and counter terrorist financing, and thus comply with FATF standards.

Finally, **some thoughts on the recommendations regarding tax treaties**. Indeed, based on the positive experience amongst some countries, such tax treaties used to be indiscriminately promoted by various multilateral entities, including by UNCTAD. But as rightly noted by the report, for such treaties to be valuable and prevent tax-related loopholes, they need to be designed well and be balanced, enforced by strong institutions and be a part of a wider package of economic measures. The EU has been working on tax good governance by introducing and promoting tax transparency and international standards, including those aiming at closing loopholes in double taxation treaties as anti-base erosion measures. However, as implied by the International Consortium of Investigative Journalists, some countries might consider such loopholes as their competitive advantage. Therefore, we support the call made by the report to the African countries, to join the international efforts on tax good governance and to level the playing field among countries on tax competition.

Before concluding, **two questions for the Secretariat**. According to the quoted so-called Mbeki report, ten countries account for almost four fifths of all illicit financial flows in Africa, with the top three accounting for 72% of that. All but two of these ten countries are middle-income countries, arguably with better resources for strong institutions than many low income countries. Are there lessons that can be learnt to prevent illicit financial flows originating in those furthest behind, thus ensuring that they do not lose valuable domestic resources for reaching the SDGs? And what might be the specificities in Nigeria, Egypt and South Africa that resulted in such remarkably higher level of illicit financial flows as compared to any other African country?

In conclusion, we would like to thank again the secretariat for this report that includes many important elements on the subject of illicit financial flows. And reiterate our

commitment to tackle this issue in the spirit of a shared responsibility of developed and developing countries.

Thank you.