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RISKS OF ILLICIT FINANCIAL FLOWS IN AFRICA

Understanding vulnerabilities to corrupt money flows in nine countries

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EXECUTIVE SUMMARY

Transparency International has identified key factors that make African countries susceptible to illicit financial outflows linked to corruption. Congo, Côte d'Ivoire, Ethiopia, Kenya, Mauritius, Morocco, Nigeria, South Africa and Zambia are all at risk.

Illicit financial flows (IFFs) are flows of funds across borders which originate from illicit activities, are transferred through illicit transactions or which stem from a licit activity but are used in an illicit manner.[1] IFFs are hugely detrimental to Africa's potential to achieve the Sustainable Development Goals as they cause a major drain on capital and revenues, undermine just fiscal systems and reduce resources available to governments to provide key public services.

Given the inherent challenges in calculating the volume of IFFs, especially those emanating from corruption, this report aims to identify some of the key risk factors which make African countries vulnerable to outflows of IFFs. It focuses on nine countries: the Republic of the Congo (Congo), Côte d'Ivoire, Ethiopia, Kenya, Mauritius, Morocco, Nigeria, South Africa and Zambia. They were selected with consideration for economic aspects such as reliance on economic sectors known to be linked to high levels of IFFs (e.g., extractives and state-owned enterprises) or a country's potential attractiveness as a transit or final destination for IFFs. This report explores what is known about the types, sources and destinations of IFFs in these countries, and identifies some of the governance and structural drivers which exacerbate the risks of IFFs. It also explores efforts to combat IFFs in the target countries, focusing on key elements of the anti-money laundering (AML) regime.

The report focuses on IFFs resulting from corruption, although findings may apply to some extent to other areas – such as IFFs related to tax and commercial activities, criminal activity or illegal markets.

IFF RISKS

In order to assess IFF risk, we analysed a series of governance and structural factors which are likely to make countries more susceptible to outgoing IFFs. These include levels of political instability, corruption and institutional capacity, the reliance of the economy on extractive industries and size of the informal sector, and the nature of transnational business ownership structures (that is, the degree to which citizens of the nine target countries hold ownership links with firms that are registered in countries with a low level of financial and corporate transparency, as well as the degree to which shareholders of legal entities present in the nine target countries are registered in, or are citizens of, jurisdictions with a low level of financial and corporate transparency).

According to our analysis, while all nine countries are undoubtedly at risk of outflows of IFFs, some are more susceptible than others. Nigeria and Congo appear to demonstrate the broadest exposure to IFF risks. They are both highly dependent on extractive industries, a sector which has been found to be particularly prone to illicit finance. This is especially true for Congo, for which oil and mineral rents contribute more than 30 per cent of its GDP. At the same time, both countries demonstrate the lowest scores among the target countries on key governance metrics which are crucial for controlling the flight of illicit finance, such as rule of law, regulatory quality and government effectiveness, while also scoring the lowest on Transparency International's Corruption Perceptions Index.

Not only does corruption generate illicit funds and magnify the likelihood of IFFs, it undermines the institutions that are responsible for detecting, investigating and prosecuting illicit flows. Crucially, Nigerian citizens also exhibit the strongest links with companies in risky jurisdictions, that is, countries with a low level of financial and corporate transparency.[2] Recent scandals have shone a light on how corrupt actors can use such so-called secrecy jurisdictions and complex financial structures to shield wealth and the proceeds obtained through illicit activities, such as corruption, fraud and tax evasion.

It is also worth noting that prevalence of cash transactions and the large size of the informal sector were noted as important risk factors for IFFs in all nine target countries, in particular in Congo, Côte d'Ivoire, Nigeria and Zambia, where the informal sector is estimated to account for between 40 per cent and 50 per cent of GDP.[3] While informality is a greater risk for IFFs from sources other than corruption, such as illegal trade and illicit drug trafficking for example, it does nevertheless present opportunities for the illicit transfer of funds generated through corruption.

At the other end of the spectrum are Mauritius and South Africa, which appear least at risk among the target countries as sources of IFFs. Both countries have relatively strong institutions and lower levels of perceived corruption than their peers, although the contribution of mineral rents to South Africa's economy may raise the overall risk level. However, it is important to note that while both countries, in comparison, may present lower risks of producing IFFs, they are both at risk of acting as destinations or transit countries for incoming IFFs from other countries, including the target countries analysed here, due to a range of factors including high levels of financial secrecy,[4] favourable conditions for professional enablers (individuals or organisations that provide professional services that enable criminality)[5] and economic trade ties with the source countries.[6]

Our analysis also suggests that the most frequent destinations for IFFs from the nine target countries are likely to be a combination of large, developed economies, especially those known for their low levels of financial and corporate transparency, such as Luxembourg and Switzerland, as well as financial centres in Asia and the Middle East, such as Singapore, Hong Kong and the United Arab Emirates (UAE).

PREVENTION AND DETECTION EFFORTS

In order to better understand key weaknesses in countries' efforts to combat IFFs, we analysed country compliance with those recommendations from the Financial Action Task Force (FATF) which are most relevant for understanding the resilience to corruption-linked IFFs. These include selected recommendations related to AML policies, coordination, preventive measures, transparency and beneficial ownership of legal persons and arrangements, powers and responsibilities of competent authorities, and international cooperation.[7] According to this analysis, Mauritius, Ethiopia, Nigeria and Zambia have stronger regimes in place to tackle IFFs, while Kenya, Côte d'Ivoire and Congo have weaker regimes. It is important to note than no country is fully compliant with international AML standards. Moreover, when looking at the effectiveness of the regimes in place, all countries score poorly.

Three of the nine target countries (Kenya, Nigeria and South Africa) are currently on the FATF's so-called grey list, while two (Mauritius and Morocco) were removed from the list in recent years. Countries on the grey list are subject to increased monitoring by the FATF, having committed to resolve their strategic deficiencies within agreed timeframes.[8]

Preventative measures & beneficial ownership transparency

In terms of efforts to tackle money laundering (and, by proxy, IFFs), we found that preventive measures and beneficial ownership transparency were two of the weakest areas.

In the area of preventive measures, common weaknesses include limited customer profiling, limited understanding on the part of Designated Non-Financial Businesses and Professions (DNFBPs) of money laundering risks and weak implementation of preventive measures for high-risk sectors, among others.

The level of beneficial ownership transparency among the nine target countries is particularly poor. None of the nine countries are fully compliant with the FATF's beneficial ownership recommendations, with seven only partially compliant or non-compliant (Mauritius and Ethiopia are both largely compliant).[9] Key weaknesses include gaps in access to timely and adequate beneficial ownership information in South Africa, the absence of a mechanism for identifying and storing information on beneficial owners in Congo or failure to verify information on beneficial owners in Côte d'Ivoire. In Kenya, meanwhile, despite implementing comprehensive beneficial ownership information provisions in both its company and AML legislation, these are not consistently adhered to.

Capacity

While most countries have conducted some form of national risk assessment, and in many cases have developed an AML policy or strategy, none, as far as could be ascertained, have developed specific strategies to combat IFFs. On the other hand, a number of countries have set up coordination structures to bring together relevant agencies in the fight against illicit financial outflows, pooling resources to improve efficiency and effectiveness of law enforcement agencies in investigations and prosecutions. Examples include the Inter-Agency Committee on Stopping IFFs in Nigeria, the Inter-Agency Working Group on IFFs in South Africa, or the Multi-Agency Task Force (MAT) in Kenya. Despite these efforts, inter-institutional coordination to tackle IFFs was reported to be weak in almost all target countries, with efforts often described as fragmented, overlapping or characterised by institutional rivalry.

Capacity to use financial intelligence and conduct investigations and prosecutions was also reported to be limited in a number of target countries, especially when handling complex cases (e.g., in Ethiopia, Kenya Mauritius, South Africa, Zambia). This is due to a lack of technological solutions, insufficient staffing or high staff turnover, inadequate training or limited communication between financial intelligence units and other relevant agencies.

International cooperation

International cooperation remains a weak point in a number of countries' efforts to tackle IFFs (e.g., in Ethiopia, Kenya, Côte d'Ivoire, Congo) although it was one of the stronger dimensions in other countries. One common weakness is the limited proactive use of international judicial cooperation in international money laundering cases. For example, Côte d'Ivoire has rarely filed a mutual legal assistance (MLA) request for the seizure or confiscation of proceeds resulting from a predicate or money laundering offence with an international component. In other cases, the effectiveness of cooperation is hindered by lack of an effective case management system (e.g., Zambia). Efforts to confiscate the proceeds of corruption are also limited in some cases. For example, while South Africa has achieved some good results in proactively pursuing confiscation of criminal proceeds, it has had less success recovering assets from state capture and proceeds which have been moved abroad. In Nigeria, meanwhile, there is no mechanism for sharing confiscated assets in the context of international cooperation.

RECOMMENDATIONS

While not representative of the whole continent, this analysis finds common challenges among the countries assessed and shows limitations in the implementation of standards and policies, calling for more coordinated action across countries. Within this context, we believe regional and international bodies with mandates to monitor or address IFFs and corruption across the region could and should be playing a more direct role to strengthen standards, drive political will and support implementation. To that end, the African Union and its bodies, Regional Economic Communities, the FATF and FATF-style regional bodies should:

1. **Support national counterparts in developing more sophisticated risk-based approaches to countering IFFs linked to corruption**. Where feasible, this should include the development of bespoke national strategies which go beyond existing AML strategies and consider countries' governance challenges and bring together all relevant government agencies.
2. **Support the development of a regional standard on beneficial ownership transparency to harmonise rules across the region**. This should help African countries effectively implement the recently revised international standard and allow beneficial ownership information to be used to prevent and combat IFFs linked to corruption. Among other things, the standard should establish direct access to structured, verified data for a wide range of domestic and foreign authorities, and guarantee meaningful access for independent watchdogs.
3. **Support members in strengthening and enforcing customer due diligence requirements for enablers** to help ensure that they are required to verify the identity of the customer and beneficial owner before or during

the course of establishing a business relationship and to report suspicious transactions to authorities. Particular attention should be paid to checks by DNFBPs, including real estate agents, dealers in precious metals and stones, lawyers, notaries and accountants.

4. **Support the capacities of resource-rich countries (e.g., Congo, Zambia, Nigeria, Côte d'Ivoire, South Africa) to monitor extraction of their natural resources and to follow the money** in related international business transactions. To this end, they should continue to promote existing reporting and transparency mechanisms in the natural resource sector such as the Extractives Industries Transparency Initiative (EITI) standard and support the publication of key data to allow for public scrutiny.

5. **Support greater inter-institutional coordination and clarity of roles among agencies responsible for combatting IFFs** at the national level, including stronger information exchange and collaboration between financial intelligence units, anti-corruption agencies and other relevant bodies.

6. **Foster exchange of expertise and experiences among member states** in the area of investigation and prosecution of cases related to IFFs, including the use of specialised investigative techniques and financial intelligence, and the formation of joint investigation teams This could include training opportunities for national investigators, judges and magistrates.

7. **Support bilateral working relationships between authorities in member states and the most important destination countries of IFFs**, including building mutual trust and understanding of each other’s institutional arrangements, as regular contact can help countries seek or provide cooperation.

8. **Encourage greater use of non-conviction-based asset forfeiture to target stolen assets, both abroad and domestically**, given the reported challenges in recovering stolen assets among the target countries.

9. **Increase pressure on financial centres and transit or destination jurisdictions for IFFs from Africa** to accelerate critical AML reforms and to improve international cooperation through global fora such as G7, G20 and the Conference of States Parties to the United Nations Convention against Corruption (UNCAC CoSP).

10. **Increase focus on corruption as a major source of IFFs from Africa**, ensuring that policy advances at regional and global levels designed to curb IFFs that are, for example, linked to commercial activities and tax abuse simultaneously address corruption-linked IFFs.

11. **Improve regional coordination on IFFs**, ensuring that AML and anti-corruption bodies as well as other groups with related mandates have a holistic view of the problem and a common agenda for combatting outgoing IFFs.

INTRODUCTION

IFFs, especially those related to corruption, are notoriously difficult to measure. To aid regional and global efforts for combatting them, we shed light on key risk factors which make African countries vulnerable to corruption-linked IFFs.

IFFs are a major development challenge for African countries. They undermine Africa's potential to achieve the Sustainable Development Goals, as they cause a major drain on capital and revenues. They are also a major obstacle to the development of effective and just fiscal systems[10] and reduce resources available to governments to provide public services such as education, healthcare and infrastructure.[11] IFFs also increase inequality by allowing the richest to hide their wealth.[12] Finally, IFFs foster grand corruption by providing the means to secure and enjoy the proceeds of corruption.[13]

Transparency International defines IFFs as the "movement of money that is illegally acquired, transferred or spent across borders".[14] Similarly, the United Nations Office on Drugs and Crime (UNODC) and the United Nations Conference on Trade and Development (UNCTAD) define IFFs as: "financial flows that are illicit in origin, transfer or use, that reflect an exchange of value and that cross country borders."[15] This includes: (i) flows originating from illicit activities; (ii) funds with licit origin but transferred through illicit transactions; or (iii) outflows stemming from a licit activity and used in an illicit manner. Thus, not all IFFs stem from illegal activity. For example, aggressive tax avoidance is a form of illicit financial flows which, although detrimental to sustainable development, is not generally illegal.[16]

Calculating the volume of IFFs is challenging, with efforts to date ranging from analysis of money laundering schemes to macroeconomic measures that compare trade statistics between countries. Furthermore, it is challenging to separate some practices, such as tax evasion (illegal) and aggressive tax avoidance (generally legal, but often considered illicit).[17] It is particularly difficult to estimate the volume of IFFs generated specifically through corruption. The fact that IFFs are both hidden and transnational in nature makes it hard to collect data in a comparable fashion.

The most commonly cited estimates of IFFs come from Global Financial Integrity (GFI). In 2010, based on two trade-related measures,[18] GFI estimated that illicit outflows from Africa between 1970-2008 amounted to US$854 billion, enough to not only wipe out the region's total outstanding external debt but leave US$600 billion for poverty alleviation and economic growth.[19] In 2015, GFI estimated IFFs from Sub-Saharan Africa at US$675 billion between 2004-2013.[20] A more recent estimate from UNCTAD suggests that Africa loses US$88.6 billion annually to IFFs.[21]

It is important to note that these figures relate to trade-related IFFs, largely resulting from commercial activities and tax evasion, rather than IFFs generated from corruption, which are particularly challenging to measure.[22] GFI estimated in 2014 that funds generated through bribery and theft by government officials amounted to around 3 per cent of the global total, compared to criminal proceeds from drug trafficking, racketeering, counterfeiting, etc. (30-35 per cent) and proceeds from commercial tax evasion, mainly through trade mispricing (60-65 per cent). They also suggest that these approximate percentages are likely to be of roughly the same order of magnitude for Africa.[23] Regardless of the exact amounts, the above figures serve to illustrate the magnitude of the problem and the urgent need to address it.

Given the challenges noted in measuring the exact extent of IFFs, especially those related to corruption, this report aims to identify some of the key risk factors which make African countries vulnerable to IFFs, with a focus on nine target countries: the Republic of the Congo (Congo), Côte d'Ivoire, Ethiopia, Kenya, Mauritius, Morocco, Nigeria, South Africa and Zambia.

We do this by discussing what is understood about the types, sources and destinations of IFFs in these countries, and identifying some of the governance and structural drivers which exacerbate the risks of IFFs. We then explore country-level efforts to combat IFFs in the target countries, focusing on those elements of the AML regime that we consider most relevant to combatting IFFs.[24]

The report is structured as follows:

+ Part 1 of the report provides a regional summary of the types, sources and destinations of IFFs as well as some of their governance and structural drivers to help identify common trends which regional and global policymakers should consider when addressing the problem of IFFs.
+ Part 2 of the report presents brief profiles for each of the target countries with more detail on potential sources, methods and routes of IFFs as well as prevention efforts, capacities and international cooperation to combat IFFs in each case.

Methodology

In order to assess IFF risks, we analysed a series of governance and structural factors which make countries more susceptible to outgoing IFFs. These include levels of political instability, corruption and institutional capacity, reliance of the economy on extractive industries and size of the informal sector, and the nature of transnational business ownership structures (that is, the degree to which citizens of the nine target countries hold ownership links with firms that are registered in jurisdictions with a low level of financial and corporate transparency, as well as the degree to which shareholders of legal entities present in the nine target countries are registered in (for legal persons) or are citizens of (for natural persons) jurisdictions with a low level of financial and corporate transparency).

The report draws on a range of quantitative and qualitative data sources, including the World Bank's Worldwide Governance Indicators (WGI) for government effectiveness, regulatory quality, rule of law and political stability and absence of violence/terrorism,[25] Transparency International`s Corruption Perceptions Index,[26] and World Bank Data on oil rents and mineral rents.[27] In order to analyse transnational business ownership structures, we drew on shareholder and beneficial owner data from Bureau van Dijk's ORBIS database[28] and the Tax Justice Network's Financial Secrecy Index.[29] (The full method for calculating the two measures of transnational business ownership structures for the nine target countries is presented in Annex 1). In order to analyse countries' prevention efforts, we examined the degree of compliance with the FATF recommendations most relevant to the fight against IFFs[30] (namely those related to AML policies, coordination, preventive measures, transparency and beneficial ownership of legal persons and arrangements, powers and responsibilities of competent authorities, and international cooperation[31]).

Finally, our local partners conducted interviews with 76 stakeholders from the nine countries, including policymakers, representatives of law enforcement and public agencies, representatives of the financial and commercial sectors and civil society representatives to provide additional insights on the types, sources and destinations of IFFs and as well as vulnerabilities and prevention efforts.[32]

KEY FINDINGS

While all nine countries are vulnerable, Nigeria and Congo appear to demonstrate the broadest exposure to IFF risks. What's more, Kenya, Mauritius and South Africa appear at risk of acting as destinations or transit countries for incoming IFFs.

TYPES AND SOURCES OF IFFS

The UNCTAD-UNODC Task Force on the statistical measurement of illicit financial flows has identified four main categories of activities that can lead to IFFs:

1. **Tax and commercial IFFs**, including tariff, duty and revenue offences, tax evasion, corporate offences, market manipulation and other selected practices, as well as tax-avoidance practices such as transfer mispricing, debt shifting, relocation of intellectual property, tax treaty shopping, tax deferral, changes in corporate structure or economic residence and other profit-shifting schemes.
2. **IFFs from corruption** including bribery, embezzlement, abuse of functions, trading in influence, illicit enrichment and other acts.
3. **Theft-type activities and financing of crime and terrorism,** including theft, extortion, illicit enrichment and kidnapping. In addition, the financing of terrorism or crime involves the illicit, voluntary transfer of funds between two actors with the purpose of funding criminal or terrorist actions.
4. **IFFs from illegal markets**, including domestic and international trade in illicit goods and services, including illegal trafficking of goods, such as drugs and firearms, or services, such as smuggling of migrants.

This report focuses specifically on the second category – IFFs from corruption – as one of the least understood areas, although it is acknowledged that there is some degree of overlap between the four. For example, the methods used to siphon off corruptly acquired funds may involve commercial and trade-based means. Among those persons we interviewed for our research, the most commonly cited corruption-related sources of IFFs in the target countries include embezzlement of public funds and bribery. In particular, collusion with local and foreign actors to obtain large procurement deals and licensing for companies – especially oil and mining companies – was highlighted as a trend in countries such as Ethiopia and Nigeria. Among non-corruption-related IFFs, tax evasion and customs fraud were often cited. This was closely followed by environmental crimes, such as trafficking in precious metals, illegal logging, poaching and trafficking in wildlife and other forest products, where corruption acts as facilitator. A final group of predicate offences commonly believed to act as a source of IFFs in the target countries includes drug trafficking and smuggling of pharmaceutical products, human trafficking and migrant smuggling, and illicit currency trafficking and counterfeiting. While trade mispricing and commercial tax avoidance were also commonly cited sources of IFFs, this was beyond the scope of our research.

IFF METHODS

Corrupt actors might hide their money in foreign jurisdictions as a form of insurance policy against political instability at home, such as the prospect of losing power and being prosecuted for historical corruption. Transferring the proceeds of corruption to other jurisdictions can also provide better access to foreign goods and help to build relationships with authorities in the foreign jurisdiction, which could potentially serve as a safe haven in the future.[33]

According to the FATF, there are three main methods by which money is moved for the purpose of disguising its origins and integrating it into the formal economy. The first is through the use of the financial system; the second involves the physical movement of money (e.g., through the use of cash couriers); and the third is through the physical movement of goods through the trade system.[34] Other methods have also been identified such as the illicit use of informal value transfer systems (e.g., hawala) or virtual assets (e.g., cryptocurrencies).

Yet, corrupt money is more likely to be moved through the financial system, as corrupt high-level officials usually receive payments in electronic form[35] – although on occasions it can be in cash (e.g., Glencore's payment of bribes in cash to officials in Nigeria and Côte d'Ivoire, among others).[36] Likewise, corrupt senior officials are more likely to use methods that are not available to others, such as the use of national central banks with limited independence to move the funds abroad.[37]

Revelations from the Panama and Pandora Papers[38] have exposed how corrupt actors can use anonymous shell companies[39] and secrecy jurisdictions[40] to shield wealth/proceeds obtained through illicit activities, such as corruption, fraud and tax evasion. Financial centres commonly implicated in these schemes have high levels of secrecy and favourable legal conditions which permit the establishment of anonymous structures to obscure the beneficial ownership of corporate vehicles that can be used to hide stolen assets.[41]

Evidence shared by our interviewees confirms that the channelling of funds into secrecy jurisdictions via complex corporate structures or through overseas accounts of public officials or their relatives is one of the most common methods for moving IFFs derived from corruption in the target countries. The purchase of, or investment in, overseas real estate was also cited as a common method in most target countries. The real estate sector is seen as a particularly attractive target for those wanting to hide the proceeds of crime as it allows significant amounts of cash to be laundered in a single transaction. Much the same is true of the precious metals and stones sector.

Moving funds through a complex web of financial vehicles

A number of examples illustrate how a web of complex financial vehicles and ownership structures make it difficult to identify the real owners and trace the provenance of funds from some of the target countries. According to the Panama Papers revelations, before and during his time in office, Peter Obi, the former governor of Anambra State in Nigeria set up a structured offshore business, using shell companies in London and the British Virgin Islands. He used corporate service providers and law firms from Monaco and Panama to set up the companies and provide nominee directors for them. Later, Obi also created a trust as the sole shareholder of his previous company, with several other intermediaries as holding companies. Obi failed to declare those companies while in office, which is a violation of the Nigeria's Code of Conduct Bureau and the Tribunal Act, which forbids public officials from operating or holding bank accounts outside Nigeria.[42]

The case of Claudia Sassou-Nguesso, daughter of the Congolese President, illustrates the use of complex financial structures and the purchase of property can obscure one's identity. Evidence points at her being the ultimate beneficial owner of a flat in New York City that was allegedly purchased with funds siphoned from the Congolese treasury. She allegedly acquired the property by employing multiple layers of offshore companies with the participation of nominees, an intermediary along all the stages of the process and a domestic contract to ensure her participation as beneficial owner.[43]

The case of Atiku Abubakar, the former Nigerian Vice President from 1999 to 2007, illustrates how complex banking transactions are used to move funds of suspicious origins. Abubakar has been previously investigated for the diversion of millions of state revenues. However, he has never been tried in court.[44] In 2012, his fourth wife, Rukaiyatu, who owns "Guernsey Trust Company Nigeria", sent more than US$1 million to Tanjay Real Estate Brokers to allegedly buy a flat in Dubai. The transaction was done in several steps: first, the money left Guernsy Trust Company Nigeria through its account from BSI SA - Switzerland (now EFG International) to a correspondent bank in NY, Citibank. Second, Citibank sent the funds to the NY branch of Habib Bank (HBL). Finally, they transferred the funds to the Dubai branch of HBL. Later, they would file a Suspicious Activity Report with the US federal authorities.[45]

Although more relevant to tax evasion and other corporate offences, trade-based money laundering was also noted as an important means to siphon off illicit funds embezzled from public accounts to foreign suppliers, for example from Mauritius, Morocco and Congo. Meanwhile, Morocco and Nigeria's free trade zones were specifically noted as high-risk areas for IFFs.

Emerging trends identified by those we interviewed include the increasing use of cryptocurrency and digital financial services, in particular in Kenya (now the world leader in the use of cryptocurrencies),[46] Nigeria and South Africa. Because crypto-assets tend not to be well regulated, they can provide a means to move value without being detected and later sold abroad for hard currency. Regulation of virtual assets remains inconsistent across the world, allowing for the anonymous trading of virtual assets in certain jurisdictions with little or no regulation of service providers. This allows for the conversion of fiat currencies (currency that is not backed by a physical commodity) into virtual assets, which could later be converted back into fiat currency in another jurisdiction.

Finally, unregulated money or value transfer services (such as hawalas), cash couriers and bulk cash smugglers were identified as important methods of moving illicit funds internationally in some countries, although this tends to be for sources derived from criminal activities and illicit trade rather than corruption.

IFF DESTINATIONS

Recent research suggests that while the most frequent destinations for IFFs from Africa have traditionally been large, developed economies that have important links with the source countries, there has been a global shift in the destinations towards emerging economies in the Asia and the Middle East such as China, Singapore, Hong Kong and the UAE.[47] Illicit flows to China, for example, have increased commensurate with trade since 2000, while illicit flows to the US have remained constant.[48] The reasons for this shift are believed to include a proactive attitude to attracting global businesses, coupled with high quality banking and legal services, laxer financial and corporate regulation, higher secrecy and widespread political stability and rule of law.[49]

While it is not possible to conclusively state which countries are the main destinations of IFFs from the nine target countries, trade and commerce related data can help give an indication of probable routes. For example, commercial and financial links with low-transparency jurisdictions are known to increase the likelihood of abuse to facilitate the movement of IFFs undetected.[50] Similarly, while there is no direct correlation between Foreign Direct Investment (FDI) flows and the movement of illicit funds, it has been shown that FDI flows reflect the degree of businesses integration with foreign countries which may facilitate the movement of illicit money overseas.[51] Data from the Tax Justice Network also shows the most common destinations of FDI from the nine target countries as being in Europe (France, Italy, Switzerland, Luxembourg and the UK) and Asia (namely China, Singapore and Hong Kong, with China particularly prominent) (see country profiles for further details).

Furthermore, the Tax Justice Network's IFF tracker identifies the main trading partners most responsible for vulnerability to IFFs, as well as the most vulnerable channel to IFFs (see Table 1).

It is also important to note that among African countries, South Africa, Kenya and particularly Mauritius also act as destinations of FDI from the target countries. For example, weaknesses in Kenya's finance and real estate sectors have been exploited to contribute to South Sudan's conflict, with South Sudanese funds believed to have been moved into Kenya using Kenyan corporate structures, luxury properties and banks.[52] Meanwhile, Mauritius is a top destination of FDI from Congo, Côte d'Ivoire, Kenya, Morocco and Nigeria, in large part due to its strong banking and financial institutions, stronger rule of law and the protection of investment agreements with many countries.[53] While much of this is legitimate, there is the risk that Mauritius also acts as a haven or transit point for illicit funds.

TABLE 1: TRADING PARTNER MOST RESPONSIBLE FOR VULNERABILITY TO IFFS

Country	Trading partner most responsible for vulnerability to IFFs	Most vulnerable channel to IFFs
Congo	Germany, USA, France	Inward trade
Côte d'Ivoire	Luxembourg, Mauritius, France	Outward FDI
Ethiopia	Switzerland, UAE, India	Outward trade (stone)
Kenya	Tanzania, UAE, Rwanda	Outward trade (electronics)
Mauritius	UAE, Kenya, China	Outward trade (electronics)
Morocco	UAE, France, Spain	Inward FDI
Nigeria	UAE, Belgium, Germany	Outward trade (stone)
South Africa	Saudi Arabia, Nigeria, Angola	Inward trade (minerals)
Zambia	UAE, South Africa, Tanzania	Outward trade (electronics)

Source: https://iff.taxjustice.net/#/

DRIVERS OF IFFS

Political & governance factors

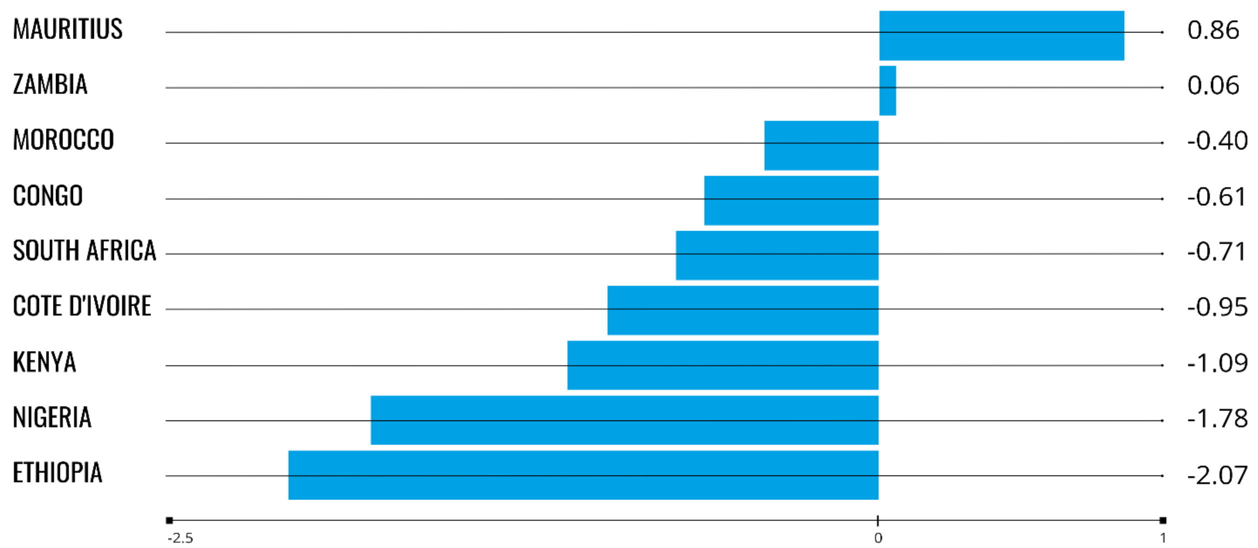
Since the emergence of the concept of IFFs in the 1990s, analysts have considered political instability to be one of the principal determinants of the outflow of capital related to corruption and tax abuse from countries. The risk of turmoil, expropriation and damages incentivise the outward movement of capital from an instable country. At the same time, political instability weakens the capacity to monitor and prevent illicit outflows by reducing the effectiveness of public institutions.[54]

Higher levels of corruption and weaker rule of law may also increase the risk of a country becoming a source of IFFs. Not only does corruption generate illicit funds and magnify the likelihood of IFFs, it undermines the institutions (such as central banks, financial intelligence units, police, prosecutors and courts) that are responsible for detecting, investigating and prosecuting illicit flows and undermines democracy, contributing to the maintenance of corrupt elites in power.[55] In countries with limited institutional capabilities, tax and enforcement authorities may lack the administrative instruments to discover and successfully challenge cases of corruption or tax abuse in court. Related to this, weak institutions have limited effectiveness in preventing the movement of the proceeds of corruption or tax abuse abroad, thus generating IFFs.[56] For example, according to the FATF, South Africa's sustained period of state capture helped not only to generate substantial corruption proceeds but also to undermine key agencies with roles in combatting such activity. Government initiatives from 2018/19 have started to address the situation, including by replacing key staff and increasing resources at key law enforcement and judicial agencies.[57] The combination of these factors suggests a positive relationship between political instability, institutional capacity, corruption and outgoing IFFs.

The World Bank's Worldwide Governance Indicators provide a useful insight into the above-mentioned weaknesses for the nine target countries. According to the WGI Political Stability indicator, with the exception of Mauritius and Zambia, all countries score below zero on a scale of -2.5 to 2.5, with political instability particularly apparent in Ethiopia and Nigeria (see Figure 1). Along with Congo, both countries also fare particularly badly on the WGIs Government Effectiveness, Regulatory Quality and Rule of Law indicators (see Figure 2), which provide an indication of the capacity of countries to tackle IFFs. Meanwhile, all nine target countries score 50 or less on Transparency International's Corruption Perceptions Index, which measures perceptions of corruption in a country's public sector (See Figure 3).

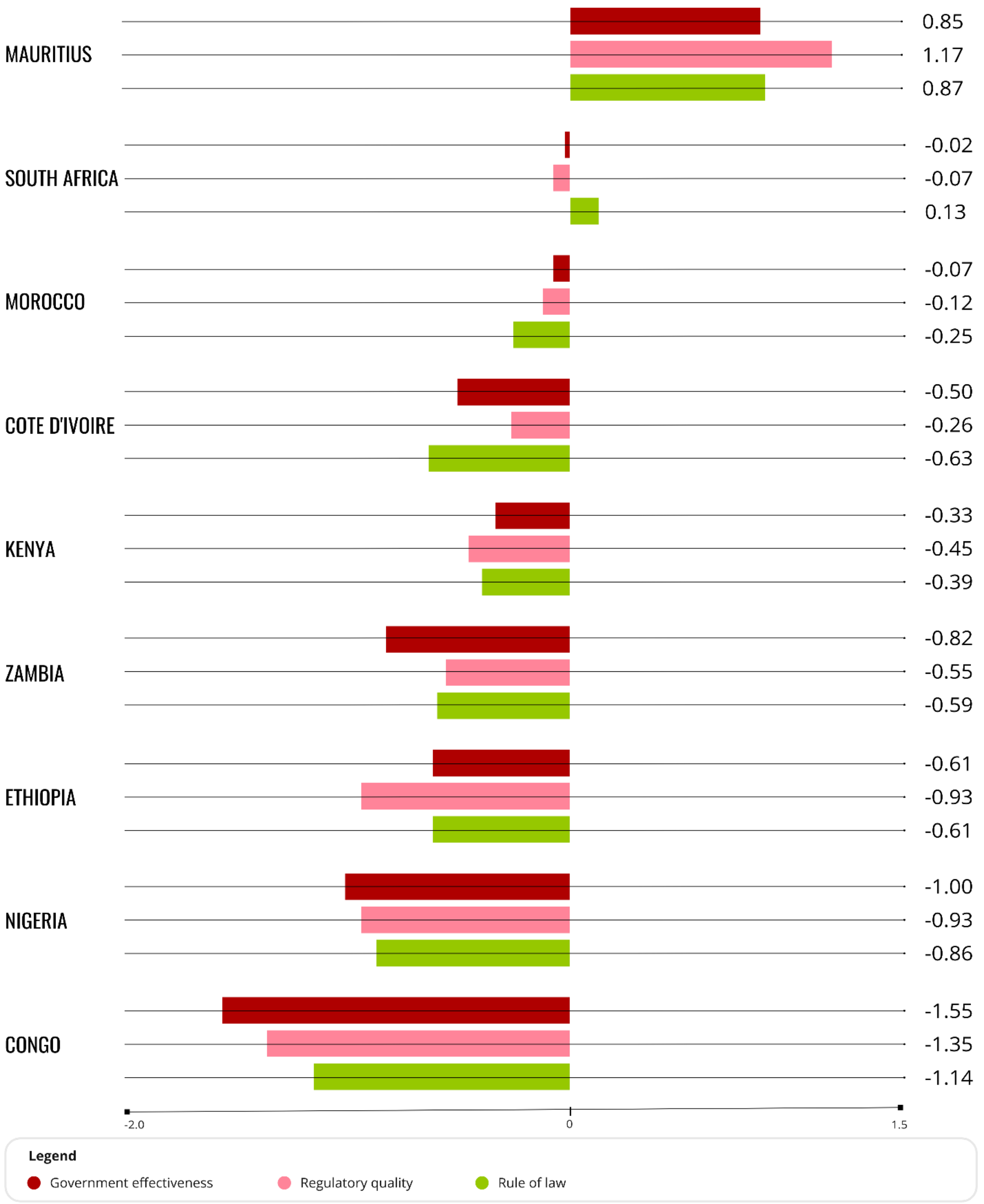
While not a direct determinant of the volume of IFFs, analysing the sectors most prone to corruption and money laundering can also help identify those sectors which, by extension, may be more susceptible to exploitation for IFFs. According to those we interviewed, some of the most vulnerable sectors include natural resources, wildlife and environment (Kenya, Congo, Côte d'Ivoire, Nigeria), real estate and infrastructure (Côte d'Ivoire, Mauritius, Morocco, South Africa, Zambia), gambling (Côte d'Ivoire, South Africa), land and agriculture (Côte d'Ivoire), and extractive industries and precious stones/metals (Congo, Côte d'Ivoire, Nigeria, South Africa, Zambia).[58] The United Nations Economic Commission for Africa (UNECA) considers the latter of these sectors to be particularly prone to producing outflowing IFFs[59] (see below).

FIGURE 1: WORLD BANK POLITICAL STABILITY AND ABSENCE OF VIOLENCE/TERRORISM INDICATOR (2021)[60]



The political stability indicator ranges from -2.5 (very unstable) to 2.5 (very stable).

FIGURE 2: WORLD BANK GOVERNMENT EFFECTIVENESS, REGULATORY QUALITY AND RULE OF LAW INDICATORS (2021)[61]



Governance indicators range from -2.5 (weak) to 2.5 (strong) governance performance.

TABLE 2: TRANSPARENCY INTERNATIONAL'S CORRUPTION PERCEPTIONS INDEX (CPI) (2023)[62]

Country	CPI score (out of 100)	CPI global rank (out of 180)
Congo	22	158
Côte d'Ivoire	40	87
Ethiopia	37	98
Kenya	31	126
Mauritius	51	55
Morocco	38	97
Nigeria	25	145
South Africa	41	83
Zambia	37	98

Reliance on extractive industries

The UNECA 2015 High-Level Panel on Illicit Financial Flows identified a clear relationship between countries that are highly dependent on extractive industries and the incidence of IFFs.[63] Similarly, GFI has found that oil price increases are associated with increases in illicit flows,[64] while other scholars have estimated that, for every extra dollar in oil exports, an additional 11 to 26 cents leaves the country in the form of IFFs.[65]

The extractive industries sector is particularly prone to IFFs for several reasons. [66] First, extractive sectors are often subject to discretionary decision-making and complex technical and financial processes, whose management requires a high degree of specialised competence. As a result, it is often companies active in the sector rather than governments who are involved in the accounting of tax payments. Second, there is often a lack of transparency regarding the distinction between public and shareholder interests. In particular, state-controlled corporations may serve the personal interests of their political patrons rather than the real public interest. Third, competition in the extractive sectors is often limited, resulting in fewer controls and market pressures in these sectors than in other more competitive sectors leading to a greater risk of financial malfeasance.[67]

The importance of extractive industries to the national economy is significant in at least five of the nine target countries, but especially in Congo, Zambia and Nigeria, where it represents 34.4 per cent, 28.2 per cent and 6.2 per cent of aggregate GDP, respectively (see Table 3). In Congo, for example, oil and trade activities are perceived by interviewees as one of the economic activities more likely to generate corrupt money through embezzlement and misappropriation of funds in public procurement. The oil industry, in particular, has a large influence on the country's national agenda and fosters power for the ruling elite. This has been further exacerbated by recent increases in revenue driven by increased production which have allowed the government to largely ignore calls from international bodies for further diversification and transparency.[68] In Nigeria, meanwhile, the Nigeria Extractive Transparency Initiative (NEITI) estimated in 2019 that 93 per cent of all outgoing IFFs were associated with the oil and gas sector.[69]

TABLE 3: OIL AND MINERAL RENTS (2021)[70]

Country	Oil rents (%of GDP)	Mineral rents (% of GDP)	Aggregate (% of GDP)
Congo	34.4	0	34.4
Côte d'Ivoire	0.7	2.5	3.2
Ethiopia	0	0.3	0.3
Kenya	0	0	0
Mauritius	0	0	0
Morocco	0	0.3	0.3
Nigeria	6.2	0	6.2
South Africa	0.4	3.8	4.2
Zambia	0	28.2	28.2

Transnational business structures

Transnational ownership structures of legal entities and arrangements are key to understanding IFFs. There is a growing body of literature which shows how opaque corporate structures and shell companies are misused to move and conceal the proceeds of money laundering, tax evasion, grand corruption, bribery and drug trafficking, among others.[71] The cross-border ownership and control of companies and other corporate structures may facilitate the transfer of funds through different companies and other financial vehicles without raising suspicion, which increases the risk of these countries being affected by IFFs. This is often exacerbated by complex ownership structures which use several layers of companies, spanning different jurisdictions, to disguise ownership. To analyse this phenomenon, we use two measures.

Firstly, a measure of legal entities linked to risky jurisdictions expresses the degree to which shareholders of legal entities present in the nine target countries are registered in (for legal persons) or are citizens of (for natural persons) jurisdictions with a low level of financial and corporate transparency. The theory is that IFFs are more likely to flow toward tax havens and offshore jurisdictions whose financial and corporate secrecy is higher; therefore, the higher the value of this variable, the higher the possibility of a country being affected by IFFs. (See Annex for a full explanation of how the measures are calculated and the sources used.)

Secondly, a measure of ownership links with risky jurisdictions expresses the degree to which citizens of the nine target countries hold ownership links with legal entities that are registered in jurisdictions with low levels of financial and corporate transparency. The theory is that the incidence of shareholders or beneficial owners[72] who own companies registered in high-risk jurisdictions is a plausible signal of IFFs leaving the country.

Of the nine target countries, Congo, Côte d'Ivoire, Ethiopia and Zambia would appear to have the highest degree of legal entities controlled from risky jurisdictions (see Table 4). Meanwhile, Nigeria and Ethiopia would appear to have the closest ownership links with risky jurisdictions, followed by Morocco, Kenya and Congo (see Table 5).

TABLE 4: LEGAL ENTITIES IN TARGET COUNTRIES CONTROLLED FROM RISKY JURISDICTIONS

Country	Legal entities controlled from risky jurisdictions (higher score = stronger control)
Congo	63.4
Côte d'Ivoire	52.6
Ethiopia	52.5
Kenya	0.3
Mauritius	9.3
Morocco	0.8
Nigeria	0.9
South Africa	6.5
Zambia	43.6

Source: See Annex 1. Scores are presented on a scale of 0-100, where the lower the score, the weaker the links with risky jurisdictions.

TABLE 5: COMPANIES IN RISKY JURISDICTIONS CONTROLLED OR OWNED BY INDIVIDUALS IN TARGET COUNTRIES

Country	Ownership links with risky jurisdictions (higher score = stronger links)
Congo	62.7
Côte d'Ivoire	50.8
Ethiopia	71.6
Kenya	66.3
Mauritius	22.8
Morocco	66.4
Nigeria	82.3
South Africa	14.3
Zambia	32.3

Source: See Annex 2. Scores are presented on a scale of 0-100, where the lower the score, the weaker the links with risky jurisdictions.

TABLE 6: MAIN JURISDICTIONS WHERE COMPANIES OWNED BY INDIVIDUALS FROM TARGET COUNTRIES ARE REGISTERED

Nationality of beneficial owners	Country of registration (1st place)	% of all individual shareholders or beneficial owners from that nationality	Country of registration (2nd place)	% of all individual shareholders or beneficial owners from that nationality
Congo	Belgium	39	France	35
Côte d’Ivoire	UK	39	France	23
Ethiopia	UAE	46	Bahrain	12
Kenya	UK	66	UAE	9
Mauritius	France	4	South Africa	2
Morocco	UK	45	France	20
Nigeria	UAE	18	Italy	10
South Africa	UK	17	Lesotho	2
Zambia	UK	66	Australia	1

The largest share of companies owned by individuals from the nine target countries are the UK, UAE, Belgium and France (see Table 6). Some countries appear to host higher concentrations of companies with owners from specific target countries. For example, 66 per cent of Kenyan and Zambian ownership connections are with a single country (the UK in both cases), suggesting that business links with that country deserve particular scrutiny.

It should be noted that Mauritius has a particularly low incidence of owners registered in different jurisdictions, as 70 per cent of companies whose owners are citizens of Mauritius are registered in Mauritius itself.[73] As a recognised secrecy jurisdiction with limited corporate transparency and a large corporate services sector, the available data might also include nominee directors and shareholders, and not necessarily the real owners of these companies. The global financial services sector in Mauritius is one of the most developed in the region, making the country a preferred investment destination for high-net-worth non-resident customers. To this end, the financial services and products offered in the country expose Mauritius to a substantial risk of attracting cross-border IFFs.[74] The Offshore Leaks investigation by the International Consortium of Investigative Journalists, for example, identified that just six foreign directors based in Mauritius represented more than 3,000 companies.[75]

COUNTRY PROFILES

We analyse risks to corruption-linked IFFs in Congo, Côte d'Ivoire, Ethiopia, Kenya, Mauritius, Morocco, Nigeria, South Africa and Zambia. We examine the sources, suspected methods and routes, and authorities' efforts to curb IFFs.

1. REPUBLIC OF THE CONGO

Estimated scope & sources of the IFFs

There is little reliable data on the volume of IFFs from Congo. According to estimates from GFI in 2010, the country saw cumulative outflows of IFFs totalling US$21.6 billion between 1970–2008, equivalent to a 3 per cent share in Africa's total IFFs during that period, although it is not known what proportion of this total represents the proceeds of corruption.[76]

According to the FATF, a number of offences committed in Congo generate funds that are channelled abroad, often with the involvement of non-Congolese nationals or residents. The main threat of money laundering and, by extension, IFFs comes from a range of illicit activities including corruption, embezzlement of public funds, tax and customs fraud, environmental crimes such as trafficking in precious metals, poaching and illegal felling of forest species, trafficking in wildlife and wood products, drug trafficking, smuggling of pharmaceutical products, illicit currency trafficking and counterfeiting. Meanwhile, banks, money and securities transfer companies, the real estate sector and the precious metals and stones trade sector are considered to be the sectors most exposed to money-laundering risks.[77]

Suspected IFF methods & routes

According to those interviewed for this report, the creation of shell companies was one of the main methods employed in corruption-related schemes, often used in combination with other methods.[78] The FATF's 2022 Mutual Evaluation Report found that manual foreign exchange, microfinance, money transfer by mobile phone and legal professionals were considered particularly vulnerable.[79]

While there is no clear data on the main destinations of IFFs from Congo, one useful proxy is the volume of FDI from the country.[80] Data from the Tax Justice Network identified the top two destinations of outflows of FDI from Congo in 2018 as France (84 per cent), and Mauritius (15 per cent).

FATF has noted that the geographical location of the country, the sharing of an economic and monetary area with five states, its wealth of natural resources, the particularity of its economy (based largely on oil production and logging), the dominance of cash transactions, the large size of the informal sector and the multiplication of new financial products are some of the vulnerabilities that make the Congo most susceptible to money laundering. In addition, Congo's open maritime and porous land borders with neighbouring states expose it to cross-border flows of illicit funds and trafficking.[81]

Prevention efforts to curb IFFs

Republic of Congo's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Correspondent banking	Largely compliant
Money or value transfer services	Partially compliant
Wire transfers	Partially compliant
Internal controls and foreign branches and subsidiaries	Largely compliant
Higher-risk countries	Partially compliant
Reporting of suspicious transactions	Partially compliant
Tipping-off and confidentiality	Compliant
Designated Non-Financial Businesses and Professions (DNFBPs)	Partially compliant
Transparency and beneficial ownership of legal persons	Partially compliant
Transparency and beneficial ownership of legal arrangements	Partially compliant

According to its most recent FATF evaluation in 2022, Congo's AML system has made progress since the previous evaluation, particularly with the effective operation of its Financial Intelligence Unit (NAFI) and strengthening of the institutional framework for combatting corruption through the setting-up of the Anti-Corruption High Authority. The legal framework was updated after 2015, with the adoption of the new AML regulation to be consistent with international standards.[82]

However, the overall level of effectiveness of the AML system is still considered low. For example, internal procedures regarding customer profiling, identification of beneficial owners, detection and reporting of suspicious transactions are not implemented. As far as DNFBPs are concerned, there is a general failure to implement the customer due diligence obligations, apart from subsidiaries of international groups of accounting firms. In general, the identification of beneficial owners and access to reliable sources of information, especially with regard to the identity of customers and the company documents, and the lack of training and awareness-raising among the various actors involved in AML, are major challenges for most of the obliged entities in the Congo. There is no clear mechanism for identifying beneficial owners in the Congo, nor is there a designated place to centralise such information. Congolese law strictly confines the identification of beneficial ownership to the anti-money laundering obligations imposed on financial institutions and designated non-financial businesses and professions. While trusts and similar arrangements are not legally recognised, trusts set up abroad can operate in the country and there are no mechanisms for their control and supervision. Congo also lacks binding measures for the application of risk mitigation measures in the case of higher-risk countries.[83]

Capacities to curb IFFs

Congo's National Risk Assessment (NRA), adopted in March 2021, led to the establishment of a national anti-money laundering policy and strategy for the first time in the country, although the NRA report has not yet been proactively disseminated.[84] Congo does not have a specific strategy nor national coordination mechanism that targets IFFs as a phenomenon, and the understanding of the risks is quite limited.[85]

Congo has an authority responsible for coordinating national AML policy, but it is not yet operational, and the major actors in the fight against financial crime have no known mechanism or platform for pooling their actions. NAFI is responsible for receiving, processing and analysing suspicious transaction reports. However, NAFI receives suspicious transaction reports from only a few banking institutions and microfinance institutions. Other reporting professions, DNFBPs, and Customs and Taxation authorities do not yet report suspicious transactions to NAFI, because they are mostly unaware of their obligations.[86]

Republic of Congo's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Assessing Risks and Applying a Risk-Based Approach	Partially compliant
National cooperation and coordination	Largely compliant
Financial intelligence units	Largely compliant
Powers of law enforcement and investigative authorities	Compliant
Responsibilities of law enforcement and investigative authorities	Partially compliant
Cash couriers	Largely compliant

Investigative authorities do not systematically conduct parallel investigations for money laundering when processing files on underlying offences. Similarly, there is no evidence that investigations focus on the different types of money laundering activities, including self-money laundering, third party laundering, as well as laundering of proceeds from the underlying offences committed abroad. The competent courts are not well structured and do not have the financial and human resources or specific training in high-risk areas (illicit exploitation of natural resources and wildlife crimes). None of the supervisory authorities have imposed sanctions for breaches of AML obligations on the entities they supervise to date.[87]

International cooperation to curb IFFs

According to the FATF, while the Congo has an appropriate legal framework for international judicial cooperation, the level of activity is unsatisfactory. The country has not demonstrated a proactive use of international judicial cooperation in money laundering cases although it is exposed to a range of risks, especially transnational risks. There is no mechanism for sharing confiscated assets in the context of international cooperation and no designated central authority or formal mechanism for the transmission and prioritisation of mutual legal assistance (MLA) requests.[88]

Republic of Congo's compliance with selected FATF ratings

FATF recommendation	FATF rating
Mutual legal assistance	Partially compliant
Mutual legal assistance: freezing and confiscation	Partially compliant
Other forms of international cooperation	Largely compliant

2. CÔTE D'IVOIRE

Estimated scope & sources of the IFFs

Very little is known about the scope and sources of illicit financial flows from Côte d'Ivoire, especially those relating to the proceeds of corruption. In 2015, GFI estimated the average annual IFFs from trade mis-invoicing and leakage in the balance of payments between Côte d'Ivoire and its trading partners at US$2.3 billion between 2004-2013.[89]

According to those interviewed for this report, the activities most likely to generate IFFs include the import and export of merchandise, gambling, real estate, public procurement and mining.[90] The FATF recently identified the major predicate offences to money laundering in Côte d'Ivoire to include corruption, environmental crimes, drug trafficking, counterfeiting, trafficking in counterfeit medicine, fraud and scams.[91] Other research has found that the sectors most vulnerable to corruption include land, agriculture and in particular extractive industries. Procurement processes are a particular area of concern, given suspicions of favouritism and opaque selection criteria in the awarding contracts, exacerbated by weak auditing practices[92] Taking these vulnerabilities together with the fact that mineral rents are responsible for 2.5 per cent of GDP suggests that mining may be a sector particularly vulnerable to IFFs.

Suspected IFF methods & routes

According to interviewees, funds unduly gained through corruption are commonly used to acquire assets abroad. The most commonly cited method is to channel funds into secrecy jurisdictions via shell companies, as evidenced by revelations from the Panama Papers which identified several high-profile individuals holding offshore accounts.[93]

According to those we interviewed, the principal destination for IFFs from Côte d'Ivoire is likely to be Europe, followed by a range of offshore secrecy jurisdictions.[94] This would seem to correlate with data from the Tax Justice Network, which identified the top destinations of outflows of FDI from Côte d'Ivoire in 2018 as Luxembourg (26 per cent), Mauritius (24 per cent), France (20 per cent) and the Cayman Islands (12%), collectively accounting for more than 80% of Côte d'Ivoire's FDI (see Figure 4).[95]

According to the FATF, the country's geographical position, importance in the regional economy, and developed and open financial sector all render it particularly exposed to money-laundering risks. Côte d'Ivoire has significant cross-border commercial and financial flows with its regional partners, as well as international financial centres in Europe and Asia. The country serves as a financial centre for the West African Economic and Monetary Union region, mainly due to the prominence of its banking and financial sectors.[96]

According to interviewees, Côte d'Ivoire is also considered to be a destination for IFFs from some Economic Community of West African States (ECOWAS) countries (Burkina, Mali, Togo, etc.) whose nationals allegedly channel their illicit gains through banks based in Côte d'Ivoire. The country has also allegedly recorded a significant increase of flows from Asia, especially China, into the real estate and public works sectors, although the interviews did not produce any evidence to suggest a criminal origin of the funds[97].

Setting up offshore companies away from public scrutiny

Recent anecdotal evidence sheds light on the suspicious use of companies and trusts by Ivorian politicians. Journalistic investigations based on data leaks have uncovered financial structures of companies and trusts that had kept their owners hidden away from public scrutiny. For instance, in 2021, the Pandora Papers[98] revealed that Patrick Achi, the current Ivorian prime minister, reportedly set up a company in the Bahamas, which he owned via a trust arrangement, without disclosing a clear purpose or assets. Allegedly, while acting as an adviser to the Ivorian Minister of Energy in 1998, Achi employed the services of a London-based offshore specialist to set up the structure.[99] Likewise, the West Africa Leaks[100] revealed that Noël Akossi Bendjo – former mayor of Plateau, a commune in Abidjan – employed the services of a Panamanian offshore specialist to set up a company in the Bahamas. He owned all the shares of the company, which had several projects in Abidjan, while Bendjo was still the mayor of the commune.[101]

Prevention efforts to curb IFFs

Côte d'Ivoire's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Correspondent banking	Largely compliant
Money or value transfer services	Partially compliant
Wire transfers	Partially compliant
Internal controls and foreign branches and subsidiaries	Partially compliant
Higher-risk countries	Partially compliant
Reporting of suspicious transactions	Partially compliant
Tipping-off and confidentiality	Largely compliant
Designated Non-Financial Businesses and Professions (DNFBPs)	Partially compliant
Transparency and beneficial ownership of legal persons	Partially compliant
Transparency and beneficial ownership of legal arrangements	Non-compliant

According to its most recent FATF assessment in 2023, Côte d'Ivoire has achieved some progress in countering money laundering, particularly with the adoption of an AML law in 2016, the drafting of a National Risk Assessment and a national strategy, as well as awareness-raising among various actors regarding the AML issues.

However, financial institutions have a limited understanding of the money laundering risks to which they are exposed. For example, the implementation of requirements related to wire transfers is limited due to shortcomings related to customer identification, while financial institutions do not implement sufficient measures to identify beneficial owners. Furthermore, available information on beneficial owners is not subject to verification, and authorities cannot rely on reporting entities in accessing beneficial ownership information that is accurate and up-to-date. Trusts and similar arrangements are not legally recognised, and trusts set up abroad can operate in the country without control or supervision of their beneficial owners. The implementation of requirements relating to politically exposed persons (PEPs) is limited in effectiveness. According to the FATF: "In a context where corruption is a prominent threat, these gaps constitute a fundamental deficiency".[102]

Capacities to curb IFFs

Côte d'Ivoire does not have a specific strategy against IFFs, nor a national coordination mechanism to address IFFs. National coordination of AML is facilitated through the National Financial Intelligence Unit (FIU) and a range of authorities involved in AML or in vulnerable sectors, although this does not extend to supervisory authorities. According to the FATF, the FIU has conducted only limited strategic analyses, mainly due to limited technical and IT capacities and a lack of human resources.[103]

The Economic and Financial Crimes Tribunal (PPEF) was established in October 2020 as a specialised judicial body dedicated to the investigation and prosecution of serious and complex economic and financial offences. Thanks to the PPEF, money laundering offences are now targeted more systematically in predicate offence proceedings, although it is not sufficiently prosecuted as an independent offence, particularly in international cases. While the existence of transnational crime is well-established, the international aspects of investigations are under-exploited.[104]

Côte d'Ivoire's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Assessing Risks and Applying a Risk-Based Approach	Partially compliant
National cooperation and coordination	Partially compliant
Financial intelligence units	Largely compliant
Powers of law enforcement and investigative authorities	Largely compliant
Responsibilities of law enforcement and investigative authorities	Compliant
Cash couriers	Partially compliant

According to the FATF, there is significant room for improvement with regard to the confiscation of assets held abroad and the confiscation of cash at the border, which are not proportionate to transnational threats. The establishment of the Agency for the Management and Recovery of Criminal Assets (AGRAC) in June 2022 is considered a strong signal and the premise for increased effectiveness of confiscation mechanisms, although it is too early to judge its effectiveness. [105]

International cooperation to curb IFFs

International cooperation remains a weak point of Côte d'Ivoire's efforts to curb IFFs. Despite the transnational nature of most cases, Côte d'Ivoire has rarely filed an MLA request for the seizure or confiscation of proceeds resulting from a predicate or money laundering offence with an international component. The limited use of international cooperation is not consistent with the associated threats of tax fraud and illicit flight of capital, as identified by Côte d'Ivoire's National Risk Assessment. Between 2017 and 2021, for example, the General Tax Directorate only sent two requests to its counterparts.[106]

Côte d'Ivoire's compliance with selected FATF ratings

FATF recommendation	FATF rating
Mutual legal assistance	Largely compliant
Mutual legal assistance: freezing and confiscation	Partially compliant
Other forms of international cooperation	Partially compliant

3. ETHIOPIA

Estimated scope & sources of the IFFs

According to estimates from GFI, between 2005 and 2014, an average of US$1.26 billion to US$3.15 billion dollars left Ethiopia as IFFs every year, equivalent to 11 per cent to 29 per cent of the country's total trade and 40 per cent to 97 per cent of the total aid inflows to the country.[107] Although about 80 per cent of the sources of illicit funds were estimated to stem from trade and commercial activities, corruption and bribery is believed to have facilitated the increase of IFFs in the country.[108] It has also been estimated that the average growth lost as a result of capital flight between 2000 and 2013 was about 2.2 per cent per year and that poverty would have been reduced by about 2.5 per cent had it not been for IFFs.[109] The African Union estimated in 2015 that the failure to curtail illicit financial flows cost Ethiopia close to 6 per cent of its GDP annually.[110]

According to individuals interviewed for this report, corruption of public officials is a common method to generate illicit funds through embezzlement and bribery, whereby Ethiopian public officials allegedly collude with local and foreign agents to obtain large procurement deals and licensing for companies.[111] The National Money Laundering & Terrorism Financing Risk Assessment, conducted in 2016, identified corruption, tax fraud/evasion, human trafficking and migrant smuggling, goods and currency smuggling (contraband), Illegal hawala (illicit money transfer) and fraud as as major sources of illicit finance.[112]

Suspected IFF methods & routes

According to interviewees, Ethiopia is mainly considered a source of IFFs, with the final destinations of IFFs from Ethiopia including countries such as the UAE and China, which are important trade partners. Countries such as the UAE are believed to have become popular destinations for bank transfers assumed to have been illegally transferred out of Ethiopia as well as real estate properties suspected to have been purchased bought with the proceeds of crime.[113]

While there is no clear data on the main destinations of IFFs from Ethiopia, one useful proxy is the volume of FDI from the country.[114] According to data from the Tax Justice Network, the top destinations of outflows of FDI from Ethiopia in 2018 include Italy (74 per cent) and China (22 per cent).

A recent case illustrates the practice of laundering the proceeds from grand corruption associated with large procurement deals, licensing of companies (e.g., mining companies) and other types of corrupt deals through overseas accounts of public officials or their relatives. Public officials also reportedly misuse their privileges to bypass border/airport controls and siphon off foreign currency they have bought from the parallel market. Another IFF method allegedly being increasingly used by individuals is investment in overseas real estate, for example in the United Arab Emirates.[115]

According to interviewees, countries whose companies or nationals commonly invest in Ethiopia such as Turkey, India, Egypt and China are also believed to be destination countries for IFFs. Ethiopia is also considered a transit country in cases of drug trafficking from neighbouring countries such as Kenya, Somalia and Djibouti. Uganda and Rwanda have allegedly become common destinations of IFF from Ethiopia as a large Ethiopian diaspora resides and invests in these countries.[116]

Recovering stolen assets deposited abroad

In May 2018, Ethiopian Prime Minster Abiy Ahmed announced that his government was conducting investigations into assets that were stolen and deposited in foreign banks.[117] Although the Prime Minster stated that various countries were cooperating with the Ethiopian law enforcement to return the stolen assets, further details of the investigation have not been made public.[118] Later that year, the government reportedly arrested and charged over 40 officials from the army-owned Metal Engineering Technology Corporation (MeTEC) in connection with allegations of embezzlement involving hundreds of millions of US dollars. Allegations filed against the CEO of MeTEC relate to 30 international procurement deals concluded without competitive tenders between 2010 and 2018 and amounting to a total of US$1 billion. Moreover, the Deputy CEO was alleged to have conspired with employees of MeTEC to conduct international procurement worth around US$2 billion without legal procurement procedures. In the same period, the government was also reported to have arrested another 59 officials and businessmen suspected of grand corruption from various public agencies.[119]

Prevention efforts to curb IFFs

Ethiopia's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Correspondent banking	Compliant
Money or value transfer services	Compliant
Wire transfers	Compliant
Internal controls and foreign branches and subsidiaries	Largely compliant
Higher-risk countries	Largely compliant
Reporting of suspicious transactions	Compliant
Tipping-off and confidentiality	Largely compliant
Designated Non-Financial Businesses and Professions (DNFBPs)	Largely compliant
Transparency and beneficial ownership of legal persons	Largely compliant
Transparency and beneficial ownership of legal arrangements	Not applicable

Ethiopia has made incremental improvements to the preventive mechanisms in place to combat money laundering, and by proxy, IFFs. According to the FATF, the legal framework underpinning Ethiopia's AML system is generally solid. The main issues that would require attention include more precise guidance to DNFBPs and better coordination of asset freezing, confiscation and management.[120] It should be noted that Ethiopia does not have any trust-like structures and non-resident foreigners are unable to open an account in Ethiopia.[121]

According to the FATF, Ethiopia strictly polices the inflows and outflows of funds and strongly enforces its capital controls. As a result, the majority of investigations and of the suspicious transaction reports (STRs) received relate not to the sources of illicit proceeds, but rather to the illegal (or unlicensed) provision of Money or Value Transfer Services and money exchange services.[122] Furthermore, most of the laws focus on attracting foreign capital to Ethiopia by amending or simplifying strict legal requirements on transferring funds out of Ethiopia, but they do not have the required legal framework to control potential abuse by investors.[123]

Capacities to curb IFFs

According to the FATF, cooperation in money laundering cases among law enforcement agencies is close. For example, the provision of analysed STRs from the Financial Intelligence Centre led to the creation of a special investigative AML unit in the federal police force. On the other hand, financial intelligence is not widely used by relevant authorities once it is received. Meanwhile, there is a lack of analytical software, sufficient staff and resources, which hinders their capacity to identify money laundering cases.[124]

Several directives have been enacted by Ministry of Finance, the National Bank and the Customs and Revenue Authority to regulate the foreign exchange regime, but most of them have proven ineffective as they are hard to apply in practice and often give the relevant authorities unrestricted discretionary power to enforce them. Rather than helping to curb illicit financial outflows, this has opened the door for additional corrupt practices.[125]

The country has not adopted a specific policy on IFFs, although the Federal Ethics and Anti-Corruption Commission of Ethiopia is currently preparing National Anti-Corruption Strategy, which includes components addressing IFFs and money laundering. However, it is still in preparation.[126]

Ethiopia's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Assessing Risks and Applying a Risk-Based Approach	Compliant
National cooperation and coordination	Largely compliant
Financial intelligence units	Largely compliant
Powers of law enforcement and investigative authorities	Largely compliant
Responsibilities of law enforcement and investigative authorities	Largely compliant
Cash couriers	Partially compliant

International cooperation to curb IFFs

The FATF identified significant weaknesses in international cooperation due to a lack of expertise to conduct MLA, even though the legal framework for international cooperation is largely in place. The main deficiencies include the lack of systems to manage cases and manage and dispose of assets, the requirement for dual criminality for non-coercive measures, and the lack of powers of authorities to exchange information with foreign counterparts. Therefore, Ethiopia is not cooperating with international counterparts effectively. There are no mechanisms and expertise within the Financial Intelligence Centre to conduct MLA or extradition in money laundering cases, limited examples of other forms of cooperation, and requests submitted are not commensurate with the risks faced in Ethiopia.[127]

Ethiopia's compliance with selected FATF ratings

FATF recommendation	FATF rating
Mutual legal assistance	Largely compliant
Mutual legal assistance: freezing and confiscation	Largely compliant
Other forms of international cooperation	Partially compliant

4. KENYA

Estimated scope & sources of the IFFs

Estimates from 2017 suggest that Kenya has lost over US$10.6 billion in accumulated illicit financial flows since 1970, making Kenya one of the countries most prone to IFFs among Africa's non-resource-endowed countries.[128] Kenya has also been ranked among major money laundering jurisdictions across the globe, with an estimated US$3.5 billion laundered through the Kenyan economy in 2020.[129] The US government recently listed Kenya as a "major money laundering jurisdiction", citing numerous domestic and foreign criminal activities and highlighting that money laundering takes place in both the formal and informal sectors.[130]

Corruption is a major predicate offence for money laundering in Kenya. According to the country's national risk assessment, Kenya presents high risks of money laundering associated with embezzlement of public funds and bribery.[131] Associated illicit finance risks include domestic corruption, terrorist financing, environmental crimes, illegal trafficking and tax evasion.[132]

Offshoring unexplained wealth

Recent investigations have exposed how opaque business structures, exacerbated by other structural risk factors in Kenya, can facilitate the amassing overseas of unexplained wealth for powerful individuals.

For instance, in 2021, the Pandora Papers revealed that Uhuru Kenyatta, the former Kenyan President, and his family had secret offshore investments, despite claiming that he had declared all his family's assets in 2018. The family owned at least seven legal entities and arrangements between Panama and the British Virgin Islands,[133] including a company with stocks and bonds worth US$30 million.[134] A foundation called Varies was set up in 2003 in Panama, naming the President's 88-year-old mother as the first benefactor, and the President as second, which meant that he would inherit it after her death. The purpose of the foundation and its assets are unknown.[135] In another case, former governor of Migori County, Okoth Obado, allegedly used 16 shell companies to transfer county government funds out of Kenya, in part to pay into his children's accounts in Australia and Canada for their education, and in part to allegedly buy real estate and other property.[136]

Suspected methods of IFF routes

According to some of those interviewed for this report, prominent methods used to siphon illicit funds out of Kenya include the use of complex corporate structures and opaque public private partnerships in infrastructural projects, real estate acquisition, cross-border transfers to offshore tax havens, profit shifting, trade-based mis-invoicing and transfer pricing.[137] Other emerging trends include the increasing use of cryptocurrency and digital financial services. Kenya is now the world leader in the peer-to-peer use of cryptocurrencies.[138] The Central Bank of Kenya has recently warned that the increasing use of cryptocurrencies, which enables people to share digital currencies without the need for a centralised third party to handle the transactions, may increase the risk of money laundering due to its unregulated nature.[139] This, by extension, presents an increasing risk for IFFs. It has also been noted that cash couriers are becoming popular due to increased scrutiny from financial regulators and institutions, as well as increased capacity of law enforcement agencies (LEAs) in financial forensic investigations, discouraging the use of banking services.[140]

According to interviewees, Kenya is perceived as primarily being a source being of illicit flows, with suspected destinations increasingly moving from traditional destination countries in the EU and the US to secrecy jurisdictions such as Mauritius, the Cayman Islands, Nigeria and the UAE, which are often used as transit points before they are moved on.[141] While there is no clear data on the main destinations of IFFs from Kenya, one useful proxy is the volume of FDI from the country.[142] It is instructive to note, for example, that Mauritius accounts for 86 per cent of all outward FDI from Kenya.[143]

As well as being a source of IFFs, Kenya was also cited as a destination for IFFs, particularly from the Democratic Republic of Congo, South Sudan, Somalia and Nigeria, among others, including via alleged money laundering through capital investment in legitimate businesses in Kenya.[144] For example, weaknesses in Kenya's finance and real estate sectors have been exploited to contribute to South Sudan's conflict. South Sudanese funds are believed to have been moved into Kenya using Kenyan corporate structures, luxury properties and banks. Arms and munitions have also transited through Kenya into South Sudan.[145]

Kenya is also believed to be an important facilitator and transit point for IFFs. Kenya acts as a strategic gateway between East and Central Africa and Europe, the Middle East and Asia. It also more developed financial system then other countries in the region. While this position offers significant opportunity for the Kenyan economy, it also makes Kenya vulnerable as a transshipment point for illicit trade and finance.[146]

Prevention efforts to curb IFFs

In February 2024, Kenya was placed on the FATF's list of jurisdictions under Increased Monitoring. The country committed to strengthen the effectiveness of its AML regime, including by: (1) improving risk-based supervision of financial institutions and DNFBPs and adopting a legal framework for the licensing and supervision of virtual asset service providers; (2) enhancing the understanding of preventive measures by financial institutions and DNFBPs; (3) designating an authority for the regulation of trusts and collection of accurate and up-to-date beneficial ownership information; (4) improving the use and quality of financial intelligence products; (5) increasing money laundering investigations and prosecutions in line with risks.[147]

Although Kenya is non-compliant or only partially compliant with those FATF recommendations most closely related to curbing IFFs, the country has made strides in strengthening its AML system and has registered good results in the confiscation of proceeds of crime, and access and use of financial intelligence, among others. However, fundamental weaknesses remain, particularly in relation to risk-based supervision and implementation of preventive measures (especially for DNFBPs).[148]

Furthermore, despite Kenya implementing comprehensive beneficial ownership information provisions in both its companies and AML legislation, key requirements for the implementation, as well as prohibitions against the registration of shell companies and the opening of anonymous accounts, are not consistently enforced.[149] Not all registered companies have complied with the reporting deadlines, while others are unable to obtain the required information or seek to circumvent the reporting thresholds by splitting shares among many shareholders to disguise beneficial ownership.[150] These factors may contribute to higher risk of IFFs in the country, as they could facilitate the laundering of corrupt money.

Kenya's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Correspondent banking	Partially compliant
Money or value transfer services	Non-compliant
Wire transfers	Non-compliant
Internal controls and foreign branches and subsidiaries	Partially compliant
Higher-risk countries	Partially compliant
Reporting of suspicious transactions	Non-compliant
Tipping-off and confidentiality	Partially compliant
Designated Non-Financial Businesses and Professions (DNFBPs)	Non-compliant
Transparency and beneficial ownership of legal persons	Partially compliant
Transparency and beneficial ownership of legal arrangements	Partially compliant

Capacities to curb IFFs

Kenya's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Assessing Risks and Applying a Risk-Based Approach	Partially compliant
National cooperation and coordination	Non-compliant
Financial intelligence units	Partially compliant
Powers of law enforcement and investigative authorities	Partially compliant
Responsibilities of law enforcement and investigative authorities	Partially compliant
Cash couriers	Partially compliant

According to the FATF, Kenya's NRA carried out between 2019 and 2022 demonstrates a lack of understanding of the money laundering risks Kenya faces from the various predicate offences as well as a failure to recognise key IFF risks posed from corruption, cash, cross-border transactions and virtual assets. The NRA also presented misplaced conclusions indicating that Kenya was more at risk from lesser offences such as fraud, forgery and drug-related offences, which was inconsistent with its risk profile showing corruption to be a major concern.[151]

Nevertheless, Kenya does have in place regulatory and institutional frameworks to combat corruption-related offences and money laundering.[152] While there is no singular strategy against IFFs, the country has a Multi-Agency Task Force (MAT) that coordinates the investigation and prosecution of predicate offences, such as corruption and money laundering. Established in 2015, the MAT aims to address the lack of synergies and inter-agency cooperation against those illicit activities, pooling resources to improve efficiency and effectiveness of law enforcement agencies in investigations and prosecutions.[153]

However, there are important shortcomings in the effectiveness of these regulatory and institutional frameworks, such as a lack of capacity to prosecute when handling complex cases, a lack of resources and inadequate training of officials in relevant agencies. Anti-corruption institutions and policies have been deemed too weak to battle corruption and impunity. For instance, according to Freedom House, the Ethics and Anti-Corruption Commission (EACC) has suffered from weak leadership and lacks prosecutorial power, which has been proven by a largely unsuccessful pursuit of corruption cases. The same shortcomings were found at the Office of the Director of Public Prosecutions and within the judiciary.[154]

International cooperation to curb IFFs

Kenya has fairly comprehensive legislation for mutual legal assistance and extradition and has provided both in the past. Kenya has a strong framework for mutual legal assistance which meets most of the FATF's requirements, although it has not demonstrated that it has a case management system in place to monitor and track requests. According to the FATF, while Kenya is seeking international cooperation to pursue criminals and assets in cases with transnational elements to a limited extent, these tend to be related to the proceeds and benefits of tax evasion rather than other sources such as corruption. Kenyan competent authorities have not obtained and/or provided basic or beneficial information to foreign counterparts, which the FATF has described as "somewhat is inconsistent with Kenya's risks being the economic hub of East Africa."[155]

Kenya's compliance with selected FATF ratings

FATF recommendation	FATF rating
Mutual legal assistance	Largely compliant
Mutual legal assistance: freezing and confiscation	Compliant
Other forms of international cooperation	Partially compliant

5. MAURITIUS

Estimated scope & sources of the IFFs

In 2015, GFI estimated the average annual Illicit financial flows from trade mis-invoicing and leakage in the balance of payments between from Mauritius at US$609 million between 2004 and 2013.[156] Meanwhile, drug trafficking (in cannabis, heroin, cocaine and ecstasy) is estimated to have generated outward IFFs from the Maldives at US$16.4 million on average per year between 2020 and 2021.[157]

Indeed, Mauritius' 2017 NRA identified drug trafficking as a major proceeds-generating crime. In addition, Mauritian authorities identified the real estate sector and the global business sector as vulnerable to abuse for money laundering purposes.[158] According to the FATF, vulnerabilities likely to affect Mauritius include reliance on third-party introducers to carry out customer due diligence measures, the concentration of compliance functions in multinational corporations, the absence of a reliable source of beneficial ownership information and the non-face-to-face nature of this type of business.[159] According to a local source, public procurement and concessions is also a significant source of IFFs, citing as an example the irregular procurement of medical equipment in response to the COVID-19 emergency from entities with no prior health sector experience.[160]

Suspected IFF methods & routes

Those we interviewed stressed the importance that trade plays as a primary method to siphon illicit funds out of Mauritius. For instance, funds embezzled from public accounts through procurement are sent to foreign suppliers via trade-based money laundering as payments.[161] The real estate sector is seen as an attractive target for those wanting to hide the proceeds of crime. Professional enablers such as lawyers and notaries as well as Dealers in Precious Metals and Stones (DPMS) also pose a risk of facilitating IFFs, although the DPMS sector in Mauritius is relatively small.[162]

While there is no clear data on the main destinations of IFFs from Mauritius, one useful proxy is the volume of FDI from the country.[163] According to data from the Tax Justice Network, the top destinations of outflows of FDI in 2018 include China (22 per cent) Singapore (18 per cent), the UK (12 per cent) and the Cayman Islands (6 per cent).

Mauritius is deemed largely a destination or transit country for illicit money. The country is considered a regional financial hub with a privileged reach to the African region, due to its steadily-growing economically diversified economy based on exporting textiles as well as robust industries in tourism, financial and information and business services.[164] Strong banking and financial institutions, strong rule of law and the protection of investment agreements with many countries mean Mauritius is an attractive destination for foreign funds. While much of this is legitimate, there is the risk that Mauritius also acts as a haven for illicit funds. According to one interviewee, Mauritius' stable political environment is considered especially attractive to South Africans who use Mauritius' place in the global business system to transit funds destined for real estate investment abroad.[165]

Prevention efforts to curb IFFs

Mauritius is compliant or largely compliant with all ten FATF recommendations most closely related to curbing IFFs. Despite this, from February 2020 to October 2021, Mauritius entered the FATF's list of jurisdictions under Increased Monitoring, mainly due to shortcomings in risk-based supervision for the global business sector and DNFBPs, a lack of transparency in beneficial ownership information, weakened capacity of LEAs to conduct complex money laundering investigations and weaknesses in its implementation of targeted financial sanctions.[166] In order to address these shortcomings, Mauritius has put in place mechanisms to ensure that information on ownership, accounting information and banking information are maintained, can be accessed by the government authorities and can be shared with foreign authorities,[167] although this is not available to the public. Mauritius was removed from the Increased Monitoring list in 2021.[168]

In addition, Mauritius has had a system for unexplained wealth orders (UWOs) in place since 2015. An UWO is a civil court order that can assist countries in investigating or confiscating assets that are incommensurate with a person's known sources of income. While a positive development, data show that in Mauritius, the time from a law enforcement referral to obtaining an UWO even in simple cases may easily exceed one year. In a more complex case, the Integrity Reporting Services Agency (IRSA) took around 16 months to analyse and apply for an UWO. As of June 2022, four years had elapsed since the case was referred to the IRSA and the court had yet to give its decision.[169]

Mauritius's compliance with selected FATF recommendations	
FATF recommendation	**FATF rating**
Correspondent banking	Compliant
Money or value transfer services	Compliant
Wire transfers	Compliant
Internal controls and foreign branches and subsidiaries	Compliant
Higher-risk countries	Compliant
Reporting of suspicious transactions	Compliant
Tipping-off and confidentiality	Compliant
Designated Non-Financial Businesses and Professions (DNFBPs)	Compliant
Transparency and beneficial ownership of legal persons	Largely compliant
Transparency and beneficial ownership of legal arrangements	Largely compliant

Capacities to curb IFFS

Mauritius's compliance with selected FATF recommendations	
FATF recommendation	**FATF rating**
Assessing Risks and Applying a Risk-Based Approach	Compliant
National cooperation and coordination	Compliant
Financial intelligence units	Compliant
Powers of law enforcement and investigative authorities	Compliant
Responsibilities of law enforcement and investigative authorities	Compliant
Cash couriers	Largely compliant

A national committee for AML has been set up under the chairmanship of the Ministry of Finance and Good Governance to advise government on matters relating to anti-money laundering. Nevertheless, according to those we interviewed, despite improvements in the legal framework, there is low effectiveness in implementation of measures, mainly due to the weak institutional capacity of relevant agencies associated with the lack of political will. This extends beyond just the AML system and reaches other relevant agencies in the fight against IFFs, such as the Independent Commission Against Corruption (ICAC) and LEAs.[170]

This is to some extent confirmed by the most recent FATF assessment of Mauritius. Although the assessors have stated that there are an adequate number of investigations being carried out by the ICAC on corruption-related money laundering, the number of cases taken to court and convictions secured are relatively low. Also of concern is the limitation of the ICAC's powers to effect arrests. LEAs do not conduct parallel financial investigations in a majority of cases. LEAs do not have adequate capacity to carry out specific investigative techniques, although they were noted to be receiving training in other areas of investigations.[171]

International cooperation to curb IFFs

Mauritius has a generally adequate legal framework to enable provision of MLA and extradition. However, this its application is negatively affected by limitations to the offences for which LEAs can apply for a court order to access all information relating to trusts and global business licensees. These limitations restrict the information which can be exchanged under international cooperation, including beneficial ownership information.[172]

Mauritius's compliance with selected FATF ratings

FATF recommendation	FATF rating
Mutual legal assistance	Largely compliant
Mutual legal assistance: freezing and confiscation	Largely compliant
Other forms of international cooperation	Largely compliant

6. MOROCCO

Estimated scope & sources of the IFFs

In 2015, GFI estimated the average annual Illicit financial flows from trade mis-invoicing and leakage in the balance of payments from Morocco between 2004 and 2013 to amount to US$4.1 billion.[173] In 2010, GFI placed Morocco third among African countries in terms of the volume of such illicit financial flows from 1970 to 2008 to the tune of US$34 billion in total (4.7 per cent of Africa's total).[174]

According to the FATF, Morocco is exposed to domestic money laundering risks and risks associated with customers and cross-border activities. High-risk areas include trafficking in narcotic drugs and psychotropic substances, followed by corruption.[175] Vulnerabilities stem from the prevalence of cash-based transactions, geographic location, established trafficking networks, a high volume of remittances and public corruption.[176]

Suspected IFF methods & routes

According to the US Department of State, real estate, jewellery and vehicle purchases are used to launder illicit proceeds. Unregulated hawalas and bulk cash smugglers are also used to move illicit funds internationally. Money transfer services also create a vulnerability due to their high volume.[177]

Morocco also operates seven free trade zones (FTZs) which are regulated by an inter-agency commission. Morocco's Financial Intelligence Unit has reported suspicions of money laundering activity through the Tangier FTZ.[178] The development of FTZs most notably the "Casablanca Finance City" (CFC) have the mission of attracting and managing capital invested in Africa. In 2016, the CFC was designated by the European Union as a tax haven, placing Morocco on the EU's list of high-risk countries,[179] although this has since been revoked.

International casinos with in-house accounts are another vehicle through which money may enter and exit Morocco without currency control restrictions, but the extent to which this transfer method is used to launder illicit proceeds is unknown.[180]

While there is no clear data on the main destinations of IFFs from Morocco, one useful proxy is the volume of FDI from the country.[181] According to data from the Tax Justice Network, the top destinations of outflows of FDI from Morocco in 2018 include France (52 per cent), Switzerland (10 per cent), Luxembourg (10 per cent) and Mauritius (9 per cent).

Prevention efforts to curb IFFs

Morocco's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Correspondent banking	Compliant
Money or value transfer services	Largely compliant
Wire transfers	Largely compliant
Internal controls and foreign branches and subsidiaries	Largely compliant
Higher-risk countries	Largely compliant
Reporting of suspicious transactions	Largely compliant
Tipping-off and confidentiality	Compliant
Designated Non-Financial Businesses and Professions (DNFBPs)	Largely compliant
Transparency and beneficial ownership of legal persons	Partially compliant
Transparency and beneficial ownership of legal arrangements	Partially compliant

In February 2021, Morocco was placed under Increased Monitoring by the FATF,[182] mainly due to deficiencies with their risk-based supervision and deficiencies in beneficial ownership information, among others.[183] In February 2023, Morocco was removed from the list thanks to improvements in its international cooperation mechanisms, strengthened anti-money laundering supervision, strengthened transparency of legal persons, improving access to accurate beneficial ownership information and strengthened capacities of the Financial Intelligence Unit.[184] However, although Morocco is now compliant or largely compliant with all eight of FATF's IFF-related preventive measures, it remains only partially compliant with beneficial ownership transparency requirements. Even though Morocco does not impose a mandatory requirement for companies to actively maintain information about their beneficial owners, the legislation does require the registration of such information.

Moreover, the level of implementation of due diligence measures towards customers and beneficial owners varies among financial institutions. The level of understanding on the part of DNFBPs of risks and implementing of preventive measures, for example, is weak. While the quantity and quality of suspicious transaction reports received from banks is good, in general, it is below standard for other financial institutions.[185]

Capacities to curb IFFs

According to the FATF, Morocco has made progress in technical compliance and effectiveness since 2019, including by coordinating the activities and objectives of all relevant agencies so to be consistent with the identified money laundering risks and adjusted in line with evolving risks. However, Morocco does not have a strategy specifically targeted at combatting IFFs.

Morocco's Financial Intelligence Unit (ANRF, previously the UTRF) plays a key role in collecting and analysing intelligence information. One of ANRF's main functions is to coordinate the fight against money laundering at the national level, between ministerial sectors, administrations, public institutions, etc. It has a number of reporting entities who are legally obliged to report to it in the event of suspicions of money laundering. While the ANRF disseminates information and analysis results to prosecutors and other competent authorities, these are poorly used in investigation processes. Meanwhile, LEAs do not have adequate understanding of the risks related to money laundering resulting from predicate offences, particularly those which represent a real threat to Morocco, such as drug trafficking, trafficking in human beings and migrant smuggling. The investigation of money laundering crimes in Morocco faces difficulty due to the lack of parallel financial investigations and weak cooperation and coordination between authorities concerned with combatting money laundering and those concerned with combatting predicate offences. Authorities do not have sufficient powers to identify, trace, freeze and seize assets in money laundering offences arising from corruption offences.[186]

Morocco's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Assessing Risks and Applying a Risk-Based Approach	Largely compliant
National cooperation and coordination	Largely compliant
Financial intelligence units	Largely compliant
Powers of law enforcement and investigative authorities	Partially compliant
Responsibilities of law enforcement and investigative authorities	Largely compliant
Cash couriers	Partially compliant

International cooperation to curb IFFs

According to the FATF, the Ministry of Justice can and does respond to the incoming requests for MLA, but there are often delays. Investigating judges do not regularly use available tools for international cooperation due to weak understanding of the importance of such tools in prosecuting money laundering and related offences. Moroccan authorities do not have a case management system and mechanisms to prioritise and execute international cooperation requests, and to allows cases to be monitored from creation to closure and afterwards.

Morocco's compliance with selected FATF ratings

FATF recommendation	FATF rating
Mutual legal assistance	Largely compliant
Mutual legal assistance: freezing and confiscation	Partially compliant
Other forms of international cooperation	Largely compliant

7. NIGERIA

Estimated scope & sources of the IFFs

According to research by GFI, Nigeria accounted for 30.5 per cent of all the Illicit financial outflows from Africa between 1970 and 2008, losing approximately US$218 billion within the period.[187] A more recent estimate stated that the average annual Illicit financial flows from Nigeria between 2004 and 2013 were US$17.8 billion, making it the tenth highest country in the world in terms of IFF outflows.[188]

According to interviewees, important sources of IFFs include embezzlement of state resources, especially from oil and gas revenues.[189] Indeed, the Nigeria Extractive Transparency Initiative (NEITI) estimated in 2019 that 92 per cent of all outflowing IFFs were associated with the oil and gas sector.[190] Other cited sources include wildlife trafficking and illegal logging, tax evasion, human trafficking and drugs or arms dealing.[191]

Suspected IFF methods & routes

According to the FATF, the movement of proceeds of illicit activities within and outside Nigeria occur through a variety of means, including cash transfers, trade-based money laundering, cross-border trade (e.g., importation of goods such as luxury or used cars, textiles, precious metals and consumer electronics), direct wire transfers, domestic and foreign bank deposits and foreign currency transactions. A large percentage of proceeds are also laundered abroad through foreign exchange dealers and cash couriers to regional and international jurisdictions.[192]

This was confirmed by those we interviewed for this research, who highlighted the non-banking financial sector such as money exchanges or the cryptocurrency market as well as the real estate sector as significant risks for compliance with AML standards in Nigeria. Financial transactions within the real estate sector, for example, often involve cash payments and are therefore difficult to investigate by law enforcement.[193] Foreign exchange offices were seen as particularly attractive because due diligence is weaker compared to banks.[194]

While there is no clear data on the main destinations of IFFs from Nigeria one useful proxy is the volume of FDI from the country.[195] According to data from the Tax Justice Network the top destinations of outflows of FDI from Nigeria in 2018 include Mauritius (70 per cent) and South Africa (7 per cent).

According to interviewees, the most common destinations of IFFs from Nigeria are still considered to be the UK and US, plus Crown Dependencies such as Jersey and overseas territories in the Caribbean. According to those we spoke to, Dubai and Hong Kong have grown in significance as destinations for Nigerian illicit flows in recent years. This is partly because of the fear that western countries are more able and willing to freeze assets as compared to Asian jurisdictions.[196]

Interviewees confirmed that Nigerian institutions focus almost entirely on Nigeria as a source of IFFs. However, some specialised sub-units in Nigerian anti-corruption agencies specialise in certain types of incoming IFFs. Drug-related organised crime, human trafficking, weapons smuggling and wildlife smuggling were cited as significantly contributing to inflows of IFFs. [197]

IFFs and Nigeria's oil industry

One of the most notorious cases of IFFs related to Nigeria's extractive industry is that of the Malabu oil block. In April 1998, Malabu, a newly incorporated company without significant experience, was granted the exclusive rights to one of Nigeria's most valuable offshore oil blocks by the then-Petroleum Minister. Malabu had been set up just five days before the award. The oil block then sat idle for 13 years, until the Nigerian government facilitated a transfer of the rights from Malabu to Shell and Eni in 2011 via a two-step transaction. In the first step, Shell and Eni paid US$1.3 billion to the government. In the second step, the government agreed to transfer US$1.1 billion to Malabu's owners. Malabu later transferred most of the funds it received to several shell companies through various banks in London. The transaction has since been under investigation in several jurisdictions.[198]

In a more recent case, it was alleged that from 2011 to 2015, Nigerian businessmen Kolawole Akanni Aluko and Olajide Omokore conspired with others to pay bribes to Nigeria's former Minister for Petroleum Resources, Diezani Alison-Madueke, who oversaw Nigeria's state-owned oil company. In return, Alison-Madueke allegedly used her influence to steer lucrative oil contracts to companies owned by Aluko and Omokore. The proceeds of those illicitly awarded contracts, totalling more than US$100 million, were then laundered in and through the United States and used to purchase various assets through shell companies, including luxury real estate and a superyacht. In March 2023, the US Department of Justice announced it had recovered approximately US$53 million in cash plus a promissory note with a principal value of US$16 million.[199] In August 2023, it was reported that Diezani Alison-Madueke had been charged with bribery offences in the UK on suspicion of accepting financial rewards for awarding the multi-million dollar oil and gas contracts.[200]

Prevention efforts to curb IFFs

In February 2023, Nigeria was placed on the FATF's list of jurisdictions under Increased Monitoring and committed to strengthen the effectiveness of its AML regime. While the country has made progress in improving its legislative framework, updating its assessment of inherent risks and strengthening its implementation of targeted financial sanctions, there are a number of areas in which it requires further action. These include: (1) completing its residual risk assessment and updating its national anti-money laundering strategy to ensure alignment with other national strategies relevant to high-risk predicate offences; (2) enhancing formal and informal international cooperation in line with money laundering risks; (3) improving risk-based supervision of financial institutions and DNFBPs and enhancing implementation of preventive measures for high-risk sectors; (4) ensuring that competent authorities have timely access to accurate and up-to-date beneficial ownership information on legal persons and applying sanctions for breaches of beneficial ownership obligations; (5) demonstrating an increase in the dissemination of financial intelligence by the Financial Intelligence Unit and its use by LEAs; (6) demonstrating a sustained increase in money laundering investigations and prosecutions in line with risks; (7) proactively detecting violations of currency declaration obligations and applying appropriate sanctions and maintaining comprehensive data on frozen, seized, confiscated and disposed assets.[201]

With regard to beneficial ownership information, in 2022, Nigeria introduced the Person of Significant Control Regulations. The legislation bounds companies to maintain accurate and up-to-date information of their beneficial owners. Further, in July 2023, Nigeria introduced a central register to systematically collect and maintain beneficial ownership information, which is publicly accessible. However, the vast majority of trusts are not obliged to obtain and hold adequate, accurate, and current information on the identity of their beneficial owners.[202]

Nigeria's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Correspondent banking	Compliant
Money or value transfer services	Compliant
Wire transfers	Largely compliant
Internal controls and foreign branches and subsidiaries	Largely compliant
Higher-risk countries	Largely compliant
Reporting of suspicious transactions	Compliant
Tipping-off and confidentiality	Largely compliant
Designated Non-Financial Businesses and Professions (DNFBPs)	Partially compliant
Transparency and beneficial ownership of legal persons	Partially compliant
Transparency and beneficial ownership of legal arrangements	Partially compliant

Capacities to curb IFFs

According to the FATF, Nigeria has undertaken positive steps to increase its understanding of risk and authorities have demonstrated a broad general understanding of the types of money laundering risks facing the country. Nevertheless, the depth and sophistication of its understanding of key risks, including of corruption and fraud, legal persons (including free zone enterprises) and politically exposed persons are underdeveloped.[203]

According to interviewees, Nigerian law enforcement within the anti-corruption domain is fractured, overlapping and characterised by infighting and institutional rivalry. This negatively impacts international cooperation and domestic progress in complex matters such as tax evasion, transitional organised crime, etc.[204] This is confirmed by the FATF's most recent assessment, which found that cooperation is stronger among financial sector supervisors and key LEAs, and weaker between the Economic Financial Crimes Commission (EFCC) and the Independent Corrupt Practices and Other Related Offences Commission (ICPC). The absence of certain national-level policies and practices appears to inhibit fuller coordination, for example in coordinating corruption-related money laundering cases and in sharing financial intelligence. Obstacles include overly restrictive need-to-know policies, inter-agency rivalry, overlapping functions and the lack of a recognised central platform for coordination and managing conflicts.[205]

In 2019, the Nigerian government set up an Inter-Agency Committee on Stopping IFFs with the ICPC as the secretariat. The committee is chaired by the Special Adviser to the President on Economic Matters, and its members include the ICPC, EFCC, Central Bank of Nigeria (CBN) and others.[206] Among other things, the committee has recently issued Revised Guidelines on the Negotiation and Drafting of Contracts and Agreements by Government Parties to Prevent Corruption, Illicit Financial Flows and Ensure Sustainable Development.[207]

Nigeria's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Assessing Risks and Applying a Risk-Based Approach	Partially compliant
National cooperation and coordination	Partially compliant
Financial intelligence units	Compliant
Powers of law enforcement and investigative authorities	Compliant
Responsibilities of law enforcement and investigative authorities	Compliant
Cash couriers	Partially compliant

International cooperation to curb IFFs

Nigeria recently enacted the Mutual Legal Assistance in Criminal Matters Act, 2019 to streamline processes for MLA. Nevertheless, the FATF has concluded that Nigeria still does not have effective legal and operational frameworks for seeking international cooperation. Nigeria did not demonstrate that it prioritises and provides constructive information or assistance, including adequate, accurate and current basic and beneficial ownership information of legal persons.[208] Nigeria also lacks an explicit policy to confiscate the proceeds and instrumentalities of crime or formal arrangements for asset-sharing with foreign countries for the purposes of restitution.[209]

Nigeria's compliance with selected FATF ratings

FATF recommendation	FATF rating
Mutual legal assistance	Largely compliant
Mutual legal assistance: freezing and confiscation	Largely compliant
Other forms of international cooperation	Largely compliant

8. SOUTH AFRICA

Estimated scope and sources of the IFFs

According to GFI, South Africa was second only to Nigeria in terms of illicit financial flows from trade mis-invoicing and leakage in the balance of payments between 1970 and 2008, losing US$82 billion during that period (equivalent to 11.4 per cent of the African total).[210] GFI later estimated average annual losses at US$21 billion between 2004-2013.[211] A joint report by the OECD and the National Treasury of South Africa in 2022 estimates that between US$3.5 and 5 billion in IFFs leave South Africa each year, representing approximately 1-1.5 per cent of South African GDP. This estimate is derived from estimates of between US$40 and 54 billion in undeclared South African assets held in international financial centres in 2018.[212]

According to the FATF, the main domestic proceeds-generating predicate crimes in South Africa are tax crimes, corruption and bribery, and fraud, followed by trafficking in illicit drugs and environmental-type crimes. As a large economy and a regional financial hub for Sub-Saharan Africa, South Africa also has a notable exposure to the threat of foreign proceeds of crime generated in the region being laundered in or through the country.[213]

According to some experts, the mining sector accounts for the biggest source of IFFs, not from corruption, but rather from corporations through tax evasion and avoidance, transfer mispricing and thin capitalisation practices.[214] The National Treasury of South Africa, meanwhile, suggests that activities that generate IFFs are mostly procurement-related corruption as exemplified in the Gupta case, tax-related activities in the mining sector such as in Samancor and Lonmin,[215] and to a certain extent also exchange control related , with the Tian Tian Wang case one such example.[216]

Suspected IFF methods and routes

According to one interviewee, methods employed in IFFs in South Africa include the use of virtual assets, trade mispricing, under-invoicing, offshore investments, currency externalisation, money laundering and international bribery.[217] The most prominent method of siphoning funds in cases of corruption and tax evasion are the involvement of intermediaries (third parties), especially in procurement processes, to disguise the origin of funds and the owners. This method is prominently employed because it prevents early detection.

An emerging trend is the rise of fraud-related offences linked to virtual assets that result in the illicit outflow of funds from South Africa. Some of the perceived risks of crypto-assets include an increase in undetected illicit financial flows, money laundering and terrorist financing risk, as well as market manipulation and tax evasion.[218]

While there is no clear data on the main destinations of IFFs from South Africa, one useful proxy is the volume of FDI from the country.[219] According to data from the Tax Justice Network, the top destinations of outflows of FDI from South Africa in 2018 include China (48 per cent), Hong Kong (10 per cent) and Germany (12 per cent) (see Figure 10).

According to interviewees, destinations of IFFs from South Africa tend to be small islands such as the Cayman Islands, Bermuda, Mauritius and Malta, as well as the City of London. Recently, Dubai has emerged as a destination, while China is considered the main destination for South African trade-related illicit financial flows.[220]

South Africa is also considered a destination for illicit financial flows, especially in relation to foreign bribery matters, foreign criminals and politically exposed persons purchasing assets in the country.[221] For example, a South African estate agency was accused in 2020 of contravening financial laws in facilitating the sale of properties to two politically exposed Mozambicans and of accepting the proceeds of fraud. The funds were sent through Privinvest, a Lebanon-based shipbuilding company that was identified by US prosecutors as part of a probe into Mozambique's US$2 billion fishing project scandal that triggered an economic crisis in the country.[222] In another example, James Ibori, the former governor of Delta State in Nigeria, had a mansion and luxury car purchased with the proceeds of crime seized in South Africa as part of his conviction for laundering more than US$200 million from Nigeria's state budget.[223]

The role of the banking system in facilitating IFFs

The case of the Gupta brothers, accused of paying bribes in exchange for lucrative state contracts and influence over ministerial appointments in South Africa, is one the most notorious cases of grand corruption on the continent.[224] It has been estimated that the Guptas secured at least US$3.2 billion worth of business through a vast network of corporations and government connections.[225] The Guptas had fled South Africa in 2018 following the accusations, and in April 2023, it was reported that the UAE had denied South Africa's request to extradite the brothers.[226] Among other things, the Gupta case shines a light on the role of professional enablers and the international banking system in enabling IFFs. Many professional service firms supported the Guptas in their dealings. Their involvement helped to undermine and infiltrate state institutions and provided cover for questionable contracts awarded to the Guptas and their network of firms. Although the availability of South African Reserve Bank data on foreign exchange flows and STRs was useful in tracking the departure of Gupta-related illicit finance from South Africa, it proved difficult to track their onward journey. Once the funds arrived in offshore banking secrecy centres, they were quickly dispersed, and the South African authorities were unable to track the movement of money beyond this point.[227]

Prevention efforts to curb IFFS

Since February 2023, South Africa has been included in the FATF's list of jurisdictions subject to Increased Monitoring due to gaps in access to timely and adequate beneficial ownership information, access to information for LEAs, limitations in capacity for investigations and prosecutions of serious and complex cases of money laundering, among other issues.[228]

The FATF noted that South Africa should continue to address its strategic deficiencies, including by: [229]

1. demonstrating a sustained increase in outbound MLA requests;
2. improving risk-based supervision of DNFBPs;
3. ensuring that competent authorities have timely access to accurate and up-to-date beneficial ownership information;
4. demonstrating a sustained increase in LEAs' requests for financial intelligence from the Financial Intelligence Centre;
5. demonstrating a sustained increase in investigations and prosecutions of serious and complex money laundering cases; and
6. enhancing its identification, seizure and confiscation of proceeds and instrumentalities of a wider range of predicate crimes in line with its risk profile.

South Africa's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Correspondent banking	Largely compliant
Money or value transfer services	Partially compliant
Wire transfers	Largely compliant
Internal controls and foreign branches and subsidiaries	Partially compliant
Higher-risk countries	Largely compliant
Reporting of suspicious transactions	Largely compliant
Tipping-off and confidentiality	Compliant
Designated Non-Financial Businesses and Professions (DNFBPs)	Partially compliant
Transparency and beneficial ownership of legal persons	Partially compliant
Transparency and beneficial ownership of legal arrangements	Partially compliant

Capacities to curb IFFs

South Africa's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Assessing Risks and Applying a Risk-Based Approach	Partially compliant
National cooperation and coordination	Partially compliant
Financial intelligence units	Largely compliant
Powers of law enforcement and investigative authorities	Compliant
Responsibilities of law enforcement and investigative authorities	Compliant
Cash couriers	Partially compliant

South Africa does not have a dedicated strategy on illicit financial flows, and the understanding of associated risks is mostly approached from a tax-related perspective. The main domestic money laundering threats are consistently understood by the key authorities, but the understanding of their relative scale, vulnerabilities and the threats from foreign predicate offences is limited.[230]

According to the FATF, South Africa's sustained period of state capture helped not only to generate substantial proceeds of corruption but also to undermine key agencies with roles in combatting such activity. Government initiatives from 2018/19 have started to address the situation, including by replacing key staff and increasing resources at key law enforcement and judicial agencies.[231]

Furthermore, South Africa has established a coordination body to deal with IFF-related matters: the Inter-Agency Working Group on IFFs (IAWG), which brings together and coordinates relevant agencies in the fight against illicit financial outflows.[232] This Group reports to the Cabinet of Ministries and the South African Parliament. In addition, since 2019, the Financial Intelligence Centre has partnered with the private sector to establish the South African Money Laundering Integrated Task Force, a multi-stakeholder forum aimed at combatting illicit financial flows and money laundering. Despite these efforts for a coordinated response against illicit finance, the relevant agencies still work in silos, and lack capacity.

International cooperation to curb IFFs

According to the FATF, South Africa does not prioritise seeking international cooperation in investigations, and follow-up on requests made is in need of major improvement. South Africa has achieved some good results in proactively pursuing the confiscation of criminal proceeds, especially using civil forfeiture powers, but has had less success recovering assets from state capture and proceeds which have been moved to other countries.[233]

South Africa's compliance with selected FATF ratings

FATF recommendation	FATF rating
Mutual legal assistance	Largely compliant
Mutual legal assistance: freezing and confiscation	Largely compliant
Other forms of international cooperation	Largely compliant

9. ZAMBIA

Estimated scope & sources of the IFFs

According to GFI, Zambia cumulatively lost US$9.3 billion to IFFs from trade mis-invoicing and leakage in the balance of payments between 1970 and 2008[234] and an annual average of US$2.9 billion between 2004 and 2013.[235]

Zambia's first NRA in 2017/2018 identified the five highest proceeds-generating predicate offences in Zambia as corruption, tax evasion, theft, fraud and drug trafficking.[236] Public procurement is also deemed to be significantly vulnerable to corruption according to a trend report from 2018 by the Financial Intelligence Centre.[237] Interviewees indicate that contract-overpricing and bribery are the leading sources of IFFs related to corruption, and politically exposed persons have been targeting extractive industry contracts and infrastructure projects, such as road construction, due to the volume of funds involved and the availability of willing foreign nationals.[238] Zambia's extractive sector is also considered a key risk due to its large informal and largely unregulated artisanal or small-scale sub-sector. The sector is seen as a source of IFFs generated through the sale of precious stones and other minerals across borders.[239]

Suspected IFF methods & routes

According to the FATF, the channel most vulnerable to money laundering activity appears to be through the banking sector, based on the fact that it occupies 78 per cent of the financial sector's assets, the range and types of products offered, the transaction volumes handled and the connection of the banking sector with the international financial system. The legal profession in Zambia is also vulnerable to abuse, mainly due to its involvement in activities exposed to high risk (e.g., real estate transactions, creating legal persons and arrangements). Other entities vulnerable to money laundering include casinos, precious stones and metal dealers and second-hand motor vehicle dealers. The widespread use of cash was seen to further increase the risk of money laundering.[240] Structured payments where people make a series of small cash payments for a good or service as well as cash couriers are common methods used to launder and transfer cash outside the country.[241]

Those we interviewed also noted that people seeking to move illicit funds often purchase precious stones and precious metals such as gold and then smuggle them across borders to places like India and Dubai, where they are in high demand. Upon arrival, the stones are sold on the black market or semi-formal markets which do not require sellers to produce a certificate of origin. Finally, the proceeds of the sale are then directly transferred back to Zambia or masked as investments.[242]

While there is no clear data on the main definitions of IFFs from Zambia, one useful proxy is the volume of FDI from the country.[243] According to data from the Tax Justice Network, the top destinations of outflows of FDI from Zambia in 2018 include China (23 per cent), the UK (19 per cent), the USA (16 per cent) and South Africa (16 per cent).

Prevention efforts to curb IFFs

Zambia is compliant or largely compliant with seven out of ten IFF-related preventive measures, with the exception of wire transfers and beneficial ownership information, where it is only partially compliant. Both of these are of concern given the inherent risks in the banking sector noted above.

In 2019, Zambia enacted the regulations to the Companies Act, which obliges companies to provide their beneficial ownership information at the time of registration. In 2020, an amendment to the Companies Act stated the creation of a centralised and public beneficial ownership register under the Patents and Companies Registration Agency. As for trusts and similar arrangements, the Lands and Perpetual Succession Act of 2020 requires the submission of a declaration containing beneficial ownership information of all parties associated with the trust. One important gap is the lack of a comprehensive money laundering risk assessment on all forms of legal persons.[244]

Zambia's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Correspondent banking	Compliant
Money or value transfer services	Largely compliant
Wire transfers	Partially compliant
Internal controls and foreign branches and subsidiaries	Largely compliant
Higher-risk countries	Largely compliant
Reporting of suspicious transactions	Compliant
Tipping-off and confidentiality	Compliant
Designated Non-Financial Businesses and Professions (DNFBPs)	Largely compliant
Transparency and beneficial ownership of legal persons	Partially compliant
Transparency and beneficial ownership of legal arrangements	Partially compliant

Capacities to curb IFFs

Zambia does not have a national risk assessment of IFFs as a phenomenon and the country does not have a single strategy against illicit financial outflows.[245] Zambia also does not have a national AML policy or strategy in place, although the authorities indicate that they have a draft policy which is yet to be approved by the Cabinet. Nevertheless, according to the FATF, the authorities in Zambia have a relatively good understanding of money laundering risks, informed by the results of the NRA, and there is good cooperation and coordination both at policy and operational levels, which include all relevant competent authorities.[246]

However, there is no cooperation and coordination between authorities to ensure the compatibility of AML requirements with data protection and privacy rules, although there has been progress on the exchange of information between national institutions, such as the LEAs, tax authorities, the Bank of Zambia and financial institutions. Other factors that hinder institutional capacity in Zambia are the lack of technological solutions to deal with financial crime, insufficient funding, high employee turnover and limited communication between the Financial Intelligence Centre and reporting entities.[247]

Nevertheless, LEAs in Zambia effectively use financial intelligence from the Financial Intelligence Centre and other sources, which has reasonably contributed to the investigation and prosecution of all types of money laundering. The quality of financial intelligence and analysis reports is considered useful to effectively support the operational needs of LEAs.[248] However, with the exception of the Anti-Money Laundering Investigations Unit and the Anti-Corruption Commission, authorities do not effectively investigate money laundering or carry out parallel financial investigations. As a result, the number of investigations and prosecutions relative to the predicate offences reported and processed is low.[249]

Zambia's compliance with selected FATF recommendations

FATF recommendation	FATF rating
Assessing Risks and Applying a Risk-Based Approach	Largely compliant
National cooperation and coordination	Partially compliant
Financial intelligence units	Compliant
Powers of law enforcement and investigative authorities	Largely compliant
Responsibilities of law enforcement and investigative authorities	Largely compliant
Cash couriers	Compliant

International cooperation to curb IFFs

Zambia has in place a good legal and institutional framework to cooperate and exchange information with foreign counterparts with respect to MLA and other forms of international cooperation. However, the effectiveness of cooperation is hindered by the lack of an effective case management system that enables effective monitoring and accounting for cases. Without a case management system, it is difficult to determine the time within which requests are handled, the number of requests handled and the quality of information received.[250]

Zambia's compliance with selected FATF ratings

FATF recommendation	FATF rating
Mutual legal assistance	Largely compliant
Mutual legal assistance: freezing and confiscation	Largely compliant
Other forms of international cooperation	Largely compliant

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ANNEX

ANNEX 1. CALCULATION METHOD LEGAL ENTITIES CONTROLLED FROM RISKY JURISDICTIONS

The measure of legal entities in risky jurisdictions expresses the degree to which citizens of the country under analysis appear as shareholders or beneficial owners of companies registered in countries and jurisdictions with a low level of financial and corporate transparency. Financial and corporate secrecy varies across countries and jurisdictions. IFFs are more likely to flow toward tax havens and offshore jurisdictions with high levels of financial secrecy.

To produce this variable, the share of shareholders and beneficial owners of each nationality is multiplied by a variable representing the risk score of each country:

$$Signal\ Proxy\ 1_i = \sum_{j=1}^{J} \frac{x_{ij}}{\sum_{j=i}^{J} x_j} z_j$$

Where:

- *x* = number of shareholders or beneficial owners
- *j* = nationality of shareholders (natural persons) or country where shareholders are registered (legal persons)
- *i* = country of registration of companies
- *z* = financial and corporate transparency

For shareholders and beneficial owners who are resident in the country, the risk score (z) is set to zero. The assumption is that competent authorities have more tools to check natural or legal persons resident in the country, while it is more difficult to do so with non-domestic shareholders or beneficial owners. Thus, the final proxy variable ranges from 0 (only domestic shareholders or beneficial owners) to the maximum value of the risk score capturing financial and corporate transparency at the country level.

Data on shareholders and beneficial owners is taken from Bureau van Dijk's ORBIS: https://www.bvdinfo.com/it-it/le-nostre-soluzioni/dati/internazionali/orbis. Data on financial and corporate transparency is taken from the Financial Secrecy Score of the Tax Justice Network's Financial Secrecy Index: https://fsi.taxjustice.net/.

ANNEX 2. CALCULATION METHOD OF OWNERSHIP LINKS WITH RISKY JURISDICTIONS

The measure of ownership links with risky jurisdictions expresses the degree by which citizens of the country under analysis hold firms which are registered in countries with a low level of financial and corporate transparency. The idea is that a higher incidence of shareholders or beneficial owners who own companies registered in high-risk countries and jurisdictions is a plausible signal of IFFs leaving the country. The algebraic representation of the variable is as follows:

$$Signal\ Proxy\ 2_j = \sum_{i=1}^{I} \frac{x_{ij}}{\sum_{j=i}^{J} x_j} z_i$$

Where:

- *x* = number of individual shareholders or beneficial owners
- *j* = nationality of individual shareholders or beneficial owners
- *i* = country of registration of companies
- *z* = financial and corporate transparency

The score is presented on a scale of 0-100, where the lower the score, the weaker the links with risky jurisdictions.

Data on shareholders and beneficial owners is taken from Bureau van Dijk's ORBIS: https://www.bvdinfo.com/it-it/le-nostre-soluzioni/dati/internazionali/orbis. Data on financial and corporate transparency is taken from the Financial Secrecy Score[251] of the Tax Justice Network's Financial Secrecy Index: https://fsi.taxjustice.net/.

ENDNOTES

[1] UNODC and UNCTAD. 2020. *Conceptual Framework for the Statistical Measurement of Illicit Financial Flows*. Available at: https://unctad.org/system/files/official-document/IFF_Conceptual_Framework_EN.pdf

[2] Based on the Secrecy Score of the Tax Justice Network's (TJN) Financial Secrecy Index https://fsi.taxjustice.net/.

[3] World Bank's Informal Economy Database. Available at: https://www.worldbank.org/en/research/brief/informal-economy-database

[4] For example, Mauritius is ranked 15th on the Tax Justice Network's Corporate Tax Haven Index. Available at: https://cthi.taxjustice.net/en/cthi/profiles?country=MU&period=21

[5] According to the UK Government's Economic Crime Plan (2023-2026), a professional enabler is an individual or organisation that is providing professional services that enable criminality. Their behaviour is deliberate, reckless, improper, dishonest and/or negligent through a failure to meet their professional and regulatory obligations. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1147515/6.8300_HO_Economic_Crime_Plan_2_v6_Web.pdf

[6] Maslen, C. and Bergen J. 2023. *Evidence on the transit and destination financial centres used for the proceeds of corruption, U4*. Available at: https://knowledgehub.transparency.org/helpdesk/evidence-on-the-transit-and-destination-financial-centres-used-for-the-proceeds-of-corruption.

[7] Specifically, we analysed compliance with the following FATF recommendations for each of the target countries (see Country Profiles): Assessing Risks and Applying a Risk-Based Approach; National cooperation and coordination; Correspondent banking; Higher-risk countries; Money or value transfer services; Reporting of suspicious transactions; Wire transfers; Tipping-off and confidentiality; Internal controls and foreign branches and subsidiaries; Designated Non-Financial Businesses and Professions; Transparency and beneficial ownership of legal persons; Transparency and beneficial ownership of legal arrangements; Financial intelligence units; Powers of law enforcement and investigative authorities; Responsibilities of law enforcement and investigative authorities; Cash couriers; Mutual legal assistance; Other forms of international cooperation; freezing and confiscation.

[8] FATF: *Jurisdictions under Increased Monitoring – 23 June 2023*. Available at: https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Increased-monitoring-june-2023.html

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[14] Transparency International (n.d.): Illicit Financial Flows. Available at: https://www.transparency.org/en/corruptionary/illicit-financial-flows.

[15] UNCTAD and UNODC. 2020. *Conceptual Framework for the Statistical Measurement of Illicit Financial Flows*. Available at: https://unctad.org/system/files/official-document/IFF_Conceptual_Framework_EN.pdf.

[16] UNCTAD and UNODC. 2020. *Conceptual Framework for the Statistical Measurement of Illicit Financial Flows*. Available at: https://unctad.org/system/files/official-document/IFF_Conceptual_Framework_EN.pdf.

[17] UNCTAD and UNODC. 2020. Conceptual Framework for the Statistical Measurement of Illicit Financial Flows. Available at: https://unctad.org/system/files/official-document/IFF_Conceptual_Framework_EN.pdf.

[18] Specifically, the World Bank's Residual model and the IMF Direction of Trade Statistics.

[19] Global Financial Integrity (n.d.) *Illicit Financial Flows from Africa: Hidden Resource for Development*. Available at: https://34n8bd.p3cdn1.secureserver.net/wp-content/uploads/2014/05/gfi_africareport_web.pdf?time=1695422353.

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[21] UNCTAD. 2020. *Tackling Illicit Financial Flows for Sustainable Development in Africa*. Available at: https://unctad.org/system/files/official-document/aldcafrica2020_en.pdf.

[22] Okamura, K. and David-Barrett, E. 2023. *Measuring Illicit Financial Flows from Grand Corruption*. IACA. Available at: https://www.iaca.int/measuring-corruption/wp-content/uploads/2023/02/GPMC_IFFs_20022023_online.pdf.

[23] Global Financial Integrity (n.d.) *Illicit Financial Flows from Africa: Hidden Resource for Development*. Available at: https://34n8bd.p3cdn1.secureserver.net/wp-content/uploads/2014/05/gfi_africareport_web.pdf?time=1695068503.

[24] A country's AML regime, including efforts to facilitate mutual legal assistance (MLA) and other forms of International cooperation are considered the main mechanisms to help prevent, detect, investigate, prosecute and repatriate illicit flows. See: Reed, Q. and Fontana A. 2011. Corruption and illicit financial flows the limits and possibilities of current approaches. Available at: https://www.u4.no/publications/corruption-and-illicit-financial-flows-the-limits-and-possibilities-of-current-approaches-2.pdf.

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[28] Bureau Van Dijk: Orbis database. Available at: https://www.bvdinfo.com/it-it/le-nostre-soluzioni/dati/internazionali/orbis.

[29] Tax Justice Network: Financial Secrecy Index 2022. Available at: https://fsi.taxjustice.net/.

[30] In all nine countries, FATF assessments have either been completed or updated between 2021 and 2023.

[31] Specifically, we analysed compliance with the following FATF recommendations for each of the target countries (see Country Profiles): Assessing Risks and Applying a Risk-Based Approach; National cooperation and coordination; Correspondent banking; Higher-risk countries; Money or value transfer services; Reporting of suspicious transactions; Wire transfers; Tipping-off and confidentiality; Internal controls and foreign branches and subsidiaries; DNFBPs; Transparency and beneficial ownership of legal persons; Transparency and beneficial ownership of legal arrangements; Financial intelligence units; Powers of law enforcement and investigative authorities; Responsibilities of law enforcement and investigative authorities; Cash couriers; Mutual legal assistance; Other forms of international cooperation; freezing and confiscation.

[32] Interviews were carried out in: Congo-Brazzaville (8), Côte d'Ivoire (8), Ethiopia (8), Kenya (6), Mauritius (6), Morocco (3), Nigeria (16), South Africa (6), and Zambia (15). Due to the sensitive nature of the research, we have anonymised the interviews.

[33] Maslen. C. and Bergin, J. 2023. *Evidence on the transit and destination financial centres used for the proceeds of corruption*. U4. Available at: https://www.u4.no/publications/evidence-on-the-transit-and-destination-financial-centres-used-for-the-proceeds-of-corruption.pdf.

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[39] A shell company or corporation is a defined as a "limited liability entity having no physical presence in their jurisdiction, no employees and no commercial activity." It is usually formed in a tax haven or secrecy jurisdiction and its main or sole purpose is to insulate the real beneficial owner from taxes, disclosure or both. Shell companies are also referred to as international business companies, personal investment companies, front companies, or "mailbox"/"letterbox" companies. Available at: https://www.transparency.org/en/corruptionary/shell-company.

[40] A secrecy jurisdiction is defined as a "tax haven that specialises in enabling individuals to hide their wealth and financial affairs from the rule of law, for the purpose of underpaying tax and for other financial crimes like money laundering and funding terrorist groups." Available at: https://taxjustice.net/faq/what-is-a-secrecy-jurisdiction/.

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