



PRE-VALIDATION WORKSHOP OF THE STUDY ON ILLICIT FINANCIAL FLOWS

From 18 to 19 August 2020 at the CICM of Mvolyé



WORK REPORT

August 2020



The year two thousand and twenty, from 18 to 19 August, was held at the CICM in Mvolyé/Yaoundé, successively **the pre-validation workshop of the study on Illicit Financial Flows in trade and capacity building on tools for monitoring tax fairness and Illicit Financial Flows (IFFs).**

This workshop was organised by CRADEC, leader of the IFF theme and the Consortium Africa Development Interchange Network (ADIN), Afroleadership, Global Youth Dynamics (DMJ) and Transparency International-Cameroon (TI-Cameroon), within the framework of the action "Strengthening Budgetary Governance for the provision of basic services in a sustainable manner while respecting the preservation of the environment", financed by the Delegation of the European Union, as part of the cooperation between Cameroon and the European Union.

The pre-validation workshop of the study on IFFs and the capacity building sequence were attended by about fifteen people, including:

- Members of the Task Force on IFFs;
- PLANOSCAM ;
- Members of the Consortium and the project implementation team.

The work was prepared and facilitated by the Consultant for the study (Idriss Linge/Member of the TF/IFFs) and the Head of Policy Research and Advocacy of Tax Justice Network-Africa (Riva Jalipa), based in Nairobi.

The two days' work was marked by four stages, namely:

Pre-validation of the report:

- Introduction to the work ;
- The contributions and enrichment of the study;
- Synthesis and perspectives

Capacity building:

- Presentation of tax fairness and IFF monitoring tools;
- Interaction with stakeholders on the relevance and contributions of the tools to the TF/IFFs and Consortium missions,
- Synthesis and roadmap of the TF/IFFs

1. INTRODUCTION

The introduction was punctuated by two main points:

- Welcome address by Mr. **Mballa Mballa** Jean, Executive Director of CRADEC, Leader of the CSO Consortium on Budget Governance. In a word, the Executive Director recalled the context of this activity with reference to the Consortium's project and the different activities carried out during which participants had to contribute, including the setting up of the TF/IFFs, at the national workshop on FFIs in Douala, in March 2020;
- And, the Reminder of the Objectives by Mr. **Tsounkeu Martin**.

The general objective of the workshop was to set in motion the dynamics of work on IFFs in Cameroon from the TF/IFFs.



Specifically, it was about:

- Collecting inputs for the enrichment of the IFFs study; and
- Building the capacity of the TF and Consortium members on selected tools for monitoring tax fairness and IFFs in Cameroon.

2. Brief presentation of the study on Illicit Financial Flows in Trade by the consultant.

The consultant shared the key figure to remember, namely \$31.5 billion, which generally represents the estimated losses related to IFFs over a 10-year period from 2007 to 2018. He then went on to estimate the details of these losses in various sectors such as the import/export sector, oil and tax revenues from external activities. Then he presented the methodology by which he collected the figures and continued with cases of Cameroon's exposure to IFFs. The study concludes with recommendations to the Government, Parliament, Civil Society and Development Partners. Finally, he concluded by presenting the reasons why IFFs should be tackled: to enable better collection of tax revenues, to ensure tax equity, to reduce harmful exposure to debt and to have the means for development in order to achieve the SDGs.

Following the presentation of the study results, participants expressed several concerns, notably regarding the margin of error in the analysis of gaps between the various data analysed, the transparency of contracts in the extractive sector in relation to IFFs, the progress of the oil code in relation to the payment of commercial operations in offshore accounts, and the place and appropriateness of using traders in commercial oil operations, the inclusion in the study of certain aspects such as the ratification of international conventions, tax treaties with China, the involvement of banks as actors in the generation of IFFs, the concept and clarification of associative expenditure, the role of advocacy in accelerating the conclusion of tax treaties, the procedure for granting licences and exploitation titles, the credibility of the figure of \$31.5 billion in losses due to IFFs, the weak analysis of the legal framework in the study.

3. Contributions and suggestions to the study

The following contributions and suggestions were made:

- Include the methodology in the introduction not only by defining the terms illicit, fair, unjust, illegal, legal, immoral but also by emphasising the difficulties encountered in conducting the study;
- Break down the 31.5 billion figure for comparison with data from GFI (Global Financial Index), TJN or TJNA, OECD etc. to make it more credible in context and less contestable;
- Use the quantitative approach to differentiate quantities from values in trade,
- Make institutions understand that they are part of a chain,
- Identify opportunity losses, opportunity costs that constitute advocacy opportunities,
- Analyse the legal and institutional framework, identifying loopholes that may cause IFFs,
- Identify the players (passive and active) in IFFs,
- Make recommendations **SMART: SPECIFIC, MEASURABLE, ACCESSIBLE, REALISTIC, TIMELY**,
- Strengthen data references and analysis bases,
- Add to the list of recommendations the establishment of a structure to combat IFFs,



- Clarify the advantages and disadvantages of tax treaties signed by Cameroon with its trading partners,
- Put the perspective of IFFs in the guarantee of human rights.

Elements of a response:

- The Minister of Energy has communicated a new mechanism that should make Cameroon earn 150 million in 2020 on oil trading operations;
- Although there are advances in the mining code, there is still a clause that allows the old contracts to remain untouched;
- It is important for the government to clarify the association expenses in the management of the different oil contracts;
- There are certain agreements with China that are not made public;
- There are advances in the regulations on the principle of banking secrecy, so banks cannot be classified among the list of active IFFs actors, especially since they are subject to declarations of suspicion on financial transactions vis-à-vis the ANIF.

At the end of the exchanges and discussions, the general synthesis of the contributions is made as follows:

- Reread the document and correct spelling and grammatical errors,
- Clarify the methodology,
- Deepen the analysis of the legal and institutional framework;
- Evaluate and calculate the costs, especially the loss of opportunities generated by IFFs.

In short, structure and enrich the report in order to have an improved study to be presented to the public on 30 September.

To structure the study, the following work plan was defined:

- First week (24 to 29 August): send the consultant the elements that should enrich the report so that the latter can produce an improved version of the study and share it,
- Second week (31 August to 5 September): transmission of the improved framework together with the questions asked by the consultant, then structuring,
- Third week (7 September to 12 September): sharing the study with external stakeholders in preparation for the public presentation on 30 September.

4. Capacity building on tax fairness monitoring tools and IFFs.

1st Teaching: The Common Research Framework (CRF) developed by Riva Jalipa, Policy Research and Advocacy Officer, Tax Justice Networks Africa (TJNA) and presented by Mr **Jean Mballa Mballa**, Executive Director of CRADEC.

In his presentation on the Common Research Framework (CRF) theme, Jean MBALLA MBALLA presented 6 categories to be considered in observing or assessing the level of fairness in the national tax system, namely: (i) distribution and progressivity of the tax burden, (ii) revenue adequacy and tax leakage, (iii) governance and transparency of



corporate tax exemptions, (iv) efficiency of tax administration, (v) government expenditure and (vi) transparency and accountability of tax administration.

On the basis of these 6 elements we can check whether our tax system is fair or not, using an analysis grid of data collected through a questionnaire. He went on to give some examples of countries such as Cameroon, which is in its first edition, and of these examples, the following indexes can be used for monitoring: Personal Income Tax (PIT), Corporate Income Tax (CIT), Wealth Tax, VAT / Turnover Tax, Flat-rate Tax / Turnover Tax (taxes on the informal economy).

2nd Teaching: Financial Secrecy Index presented by Idriss Linge (Consultant)

The Financial Secrecy Index ranks jurisdictions according to their opacity and the extent of their offshore financial activities. It is a politically neutral ranking, a tool to understand the spheres of international financial opacity, tax havens (also called opaque jurisdictions), as well as illicit financial flows or capital flight.

The 2019 index was presented in February 2020.

The Financial Secrecy Index complements the so-called Tax Haven Index for Corporate Tax, which ranks the largest tax havens for multinational companies. It went on to rank 15 countries with financial opacity.

The TF has been strengthened on the index tool which is a value that indicates the extent to which countries hide information on wealth and financial transactions.

3rd Teaching: Corporate Tax Heaven Index presented by Idriss Linge (Consultant)

The Corporate Tax Heaven Index ranks the world's leading tax havens, based on the aggressiveness and extent to which each jurisdiction facilitates tax evasion by multinationals, and allows the erosion of the tax base of other countries in the world, particularly in countries where economic activity has generated income and profits for traders. The index also aims to measure the extent to which each country contributes to a global "[race to the bottom](#)" in corporate taxation. The index was launched on 28 May 2019 and is published every two years. These tax havens impact on the country's economy by making it poorer. This tool aims to draw attention to countries with which agreements are signed.

4th Teaching: Illicit Financial Tracker presented by Idriss Linge (Consultant)

Tax Justice Network recently launched its platform for tracking and identifying countries' vulnerability to illicit financial flows,

This tool does two things: it identifies the trading partners and channels that present the greatest risk of illicit financial flows for countries.

Previous research by Tax Justice Network has identified 8 main possible channels through which illicit financial flows can take place. They are subdivided into **4 main groups**: trade (exports and imports), bank positions (claims and liabilities), foreign direct investment (outbound and inbound) and portfolio investment (outbound and inbound).

For each of the eight different channels through which illicit financial flows operate, Tax Justice Network experts have calculated three types of measures: vulnerability, which shows the degree of fragility of a country in its international relations; intensity, which shows the level of impact on the country; and exposure, which shows the extent to which the country is exposed.



All in all, the TF/IFFs has been provided with knowledge, roles and possible contributions of instruments that will allow for regular monitoring and assessment of the levels of tax fairness, incidence of illicit financial flows at country level. This will facilitate dialogue and advocacy with public authorities.

5. SYNTHESIS AND CLOSURE OF THE WORK

The closing of the pre-validation workshop of the study on IFFs saw the presentation of the immediate perspectives of the TF/IFFs formulated by the participants, namely:

- Present experiences of good practice in the fight against IFFs and see how these practices can be adapted to Cameroon;
- That the TF gets to work and that the tools presented are implemented;
- Work in synergy and integrate the analysis of financial taxation;
- Multiply meetings within the TF/IFFs;
- Contribute to the improvement of the report to be presented on 30 September;
- Encourage the representatives of the administration to join the TF/IFFs;
- Based on the results of the study on IFFs, the TF can already consider a strategy to implement the recommendations;
- Consolidate the TF team;
- Define a strategy document to implement the fight against IFFs;
- The TF should have a work plan, make its action visible;
- Is it possible that the TF will soon focus on IFFs of certain minerals that are easily convertible into money, i.e. gold and diamonds etc.?
- Take the objectives for global analysis

- Although all human work is incomplete, the participants were keen to congratulate the consultant on the quality of his work;
- The participants committed to defend the study on IFFs during its presentation to the public on 30 September.

Yaoundé, 27 August 2020