

Illicit Financial Flow (IFF) in Extractive Sectors : Available Tools to Curb

Definitions :

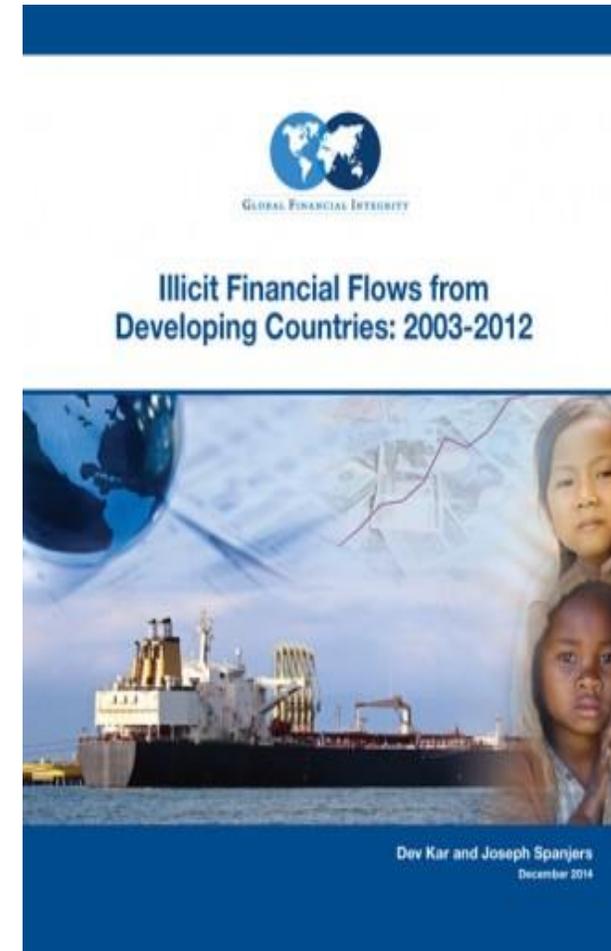
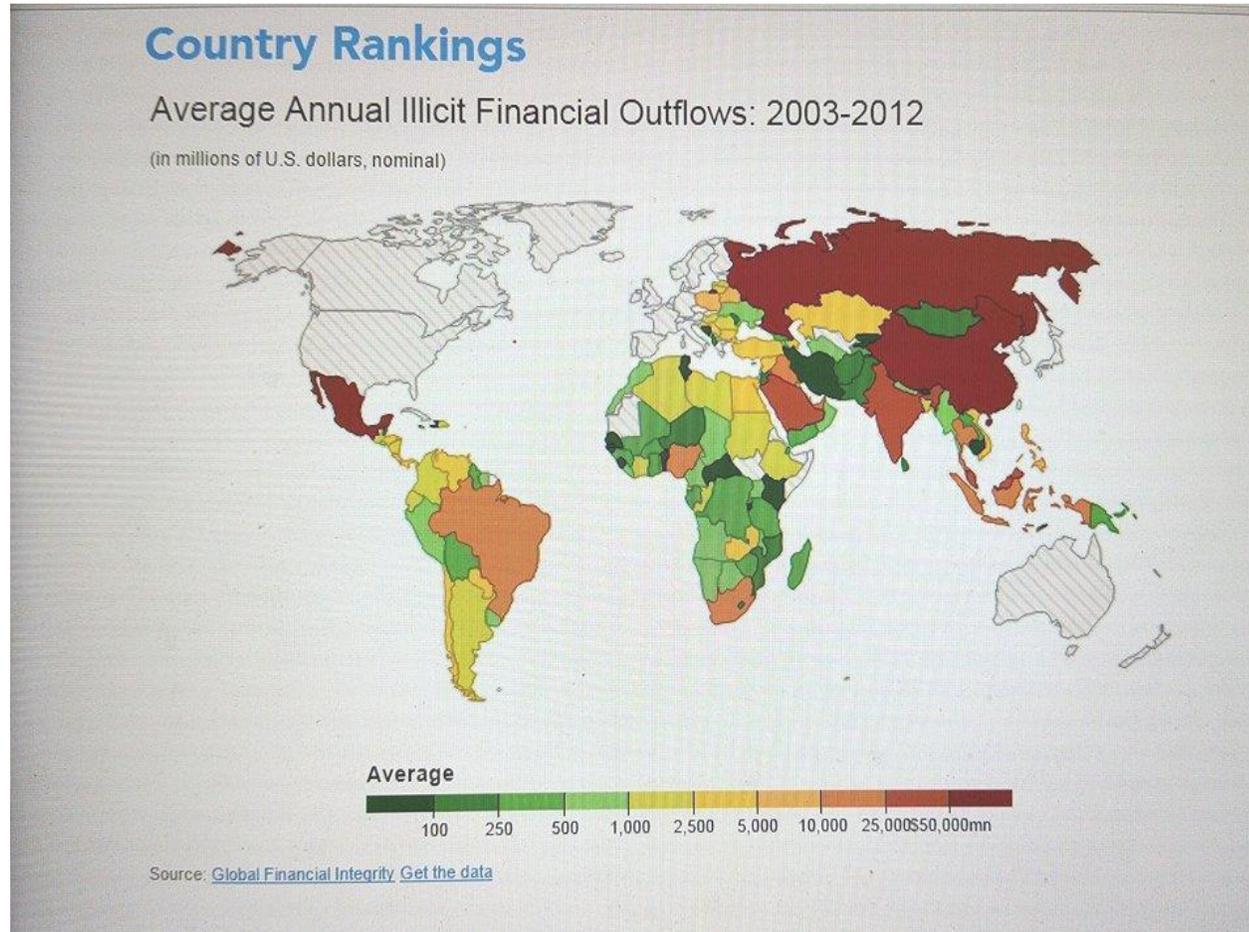
- “Money that is illegally earned, transferred, or utilized somewhere at its origin, movement, or use the money to broke laws and hence it is considered illicit.” (Dev Kar, 2010)
- “Illicit [financial] flows include, but are not limited to, cross-border transfers of the proceeds of tax evasion, corruption, trade in contraband goods, and criminal activities such as drug trafficking and counterfeiting.” (UNDP, 2011)
- In extractive sectors, these flows mostly originate from corruption, illegal resource exploitation, and tax evasion.

IFF Risk Levels for Different Extractive Sectors

(P. Le Billon, 2011)

	Corruption	Illegal Exploitation	Tax Evasion
Oil	High, due to confidentiality and concentration of decision making and monitoring	High, due to biased metering, siphoning, and bunkering	Medium, due to homogeneity of international prices according to oil quality
Gas	Medium, due to limited market options	Low, since gas theft is very difficult expect at transit hubs between markets	High, as gas prices vary widely because of fragmented markets
Industrial Mining	High, due to confidentiality and concentration of decision making and monitoring	Low, expect in measurement and ore grading	High, due to transfer mispricing
Artisanal Mining	Medium for grand corruption but high for petty corruption, due to diffuse resource flows expect at official export channel	High, due to accessibility of deposits and in monitoring	High, due to smuggling

Illicit Financial Flows from Developing Countries: 2003-2012 (GFI)



Some Tools for Detection and Curbing IFF : RGI and EITI

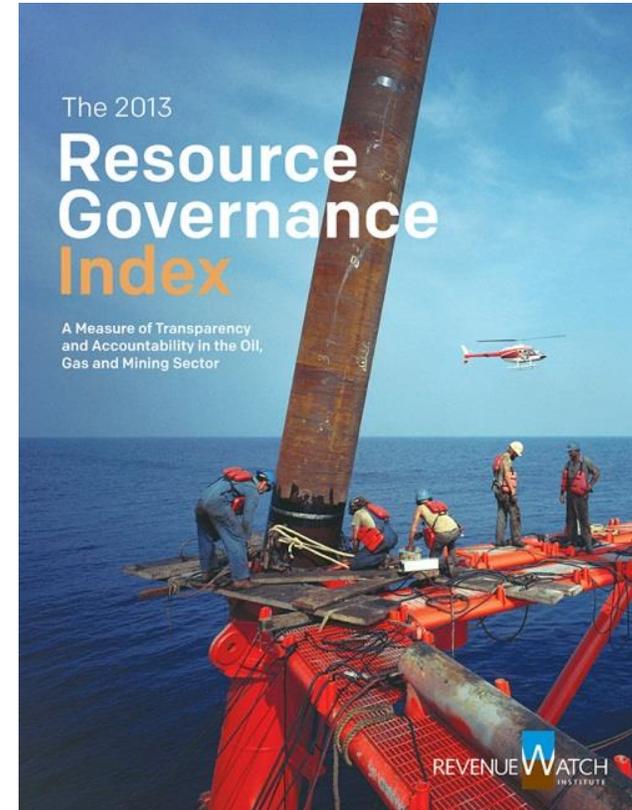
A measure of transparency and accountability of the oil, gas and mining sector in 58 countries.

2012 data

173 questions

50 indicators

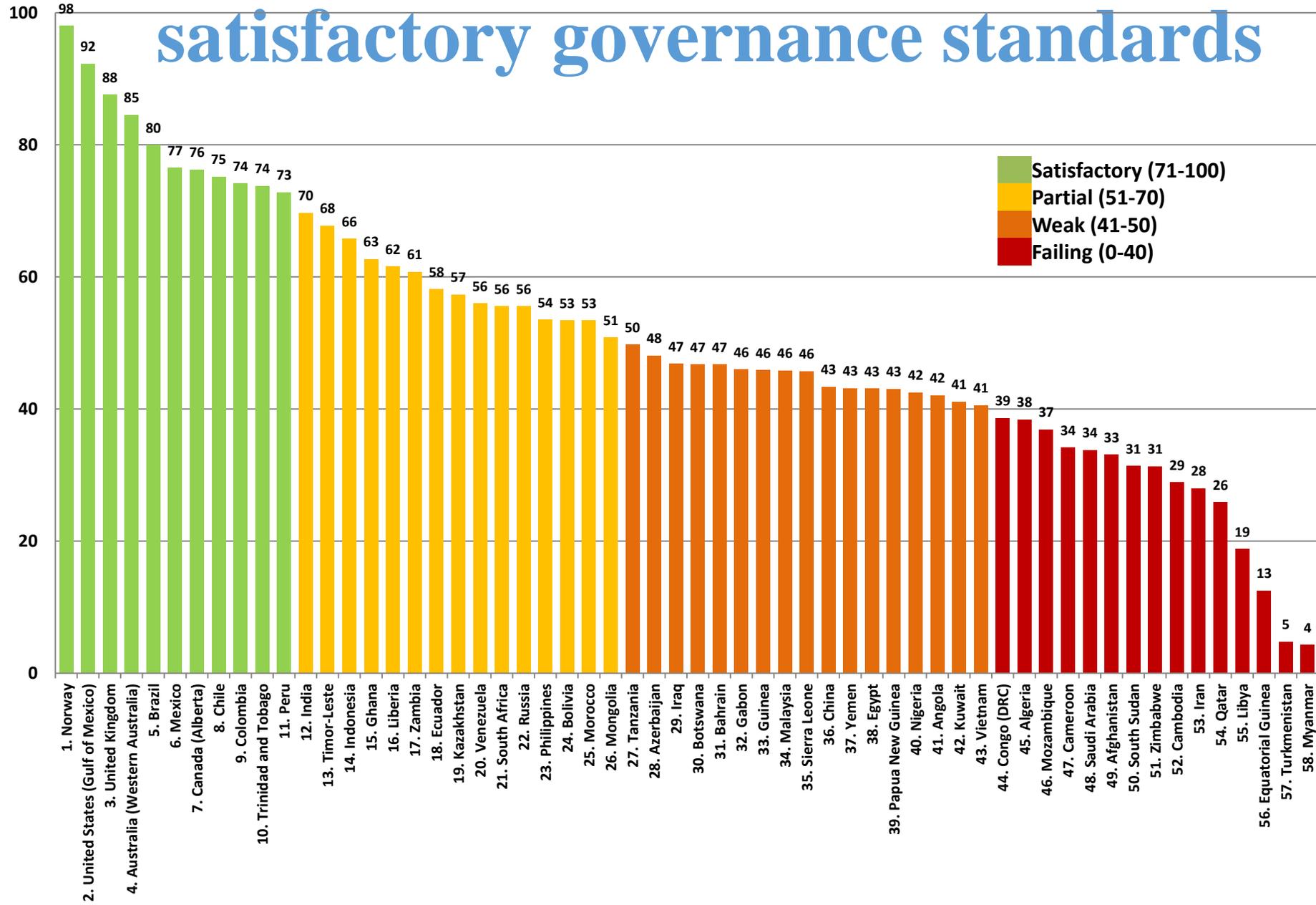
>100 researchers



Index structure

Institutional & Legal Setting (20%)		Reporting Practices (40%)		Safeguards & Quality Controls (20%)		Enabling Environment (20%)	
10 Indicators		20 Indicators		15 indicators		5 Indicators	
<i>Indicator</i>		<i>Indicator</i>		<i>Indicator</i>		<i>Indicator</i>	
1	Freedom of information law	1	Licensing process	1	Checks on licensing process	1	Accountability & democracy (EIU Democracy Index & WGI voice and accountability)
2	Comprehensive sector legislation	2	Contracts	2	Checks on budgetary process	2	Open Budget (IBP Index)
3	EITI participation	3	Environmental and social impact assessments	3	Quality of government reports	3	Government effectiveness (WGI)
4	Independent licensing process	4	Exploration data	4	Government disclosure of conflicts of interest	4	Rule of law (WGI)
5	Environmental and social impact assessments required	5	Production volumes	5	Quality of SOC reports	5	Corruption (TI Corruption Perceptions Index & WGI control of corruption)
6	Clarity in revenue collection	6	Production value	6	SOC reports audited		
7	Comprehensive public sector balance	7	Primary sources of revenue	7	SOC use of international accounting standards		
8	SOC financial reports required	8	Secondary sources of revenue	8	SOC disclosure of conflicts of interest		
9	Fund rules defined in law	9	Subsidies	9	Quality of Fund reports		
10	Subnational transfer rules defined in law	10	Operating company names	10	Fund reports audited		
		11	Comprehensive SOC reports	11	Checks on Fund spending		
		12	SOC production data	12	Government follows Fund rules		
		13	SOC revenue data	13	Fund disclosure of conflicts of interest		
		14	SOC quasi fiscal activities	14	Quality of subnational transfer reports		
		15	SOC board of directors	15	Government follows subnational transfer rules		
		16	Comprehensive Fund reports				
		17	Fund rules				
		18	Comprehensive subnational transfer reports				
		19	Subnational transfer rules				
		20	Subnational reporting of transfers				

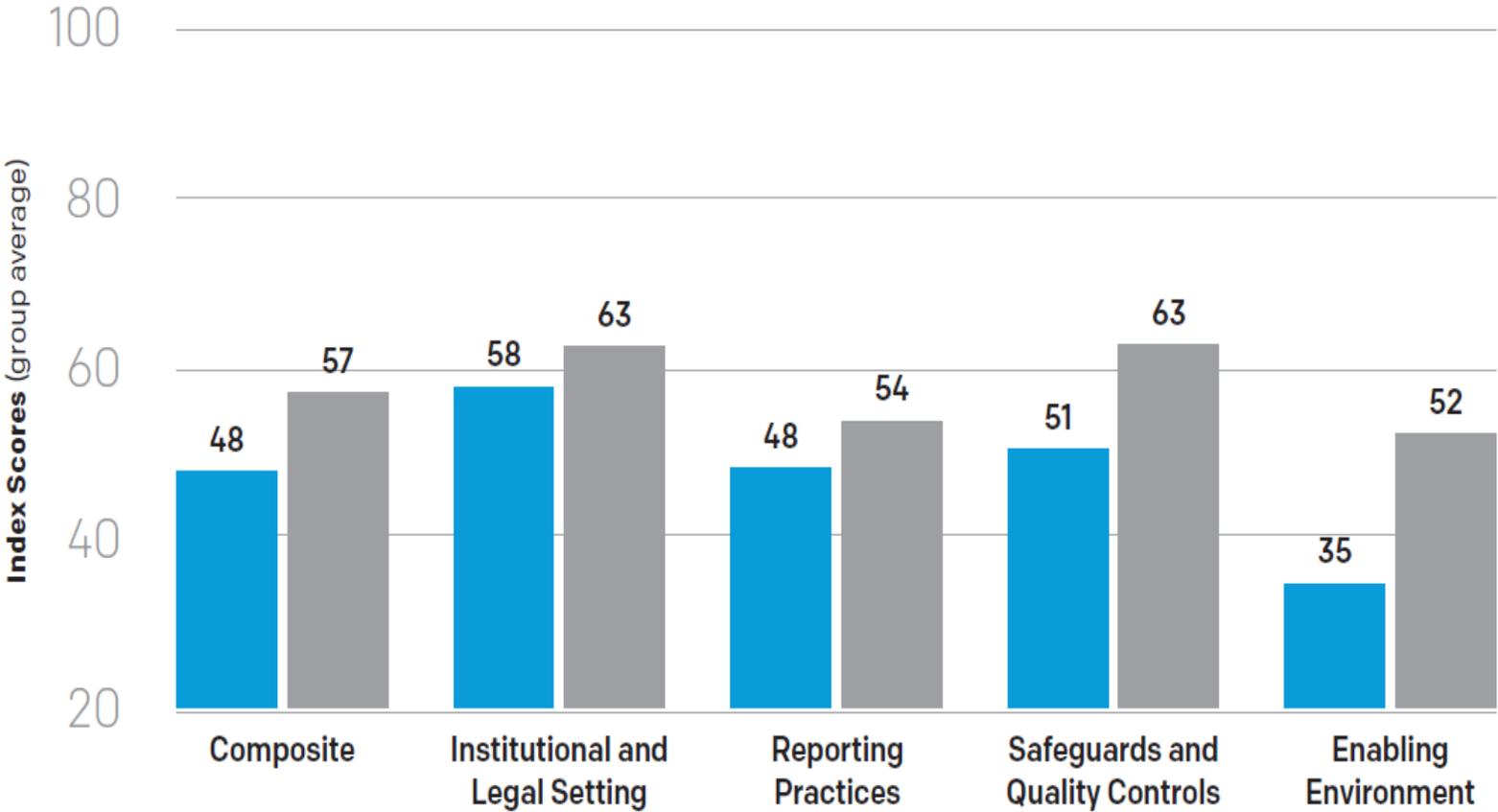
80% of countries do not meet satisfactory governance standards



Transparency is missing where it is needed most

Index Scores by Resource-dependency

Resource-dependent countries
Non resource-dependent countries



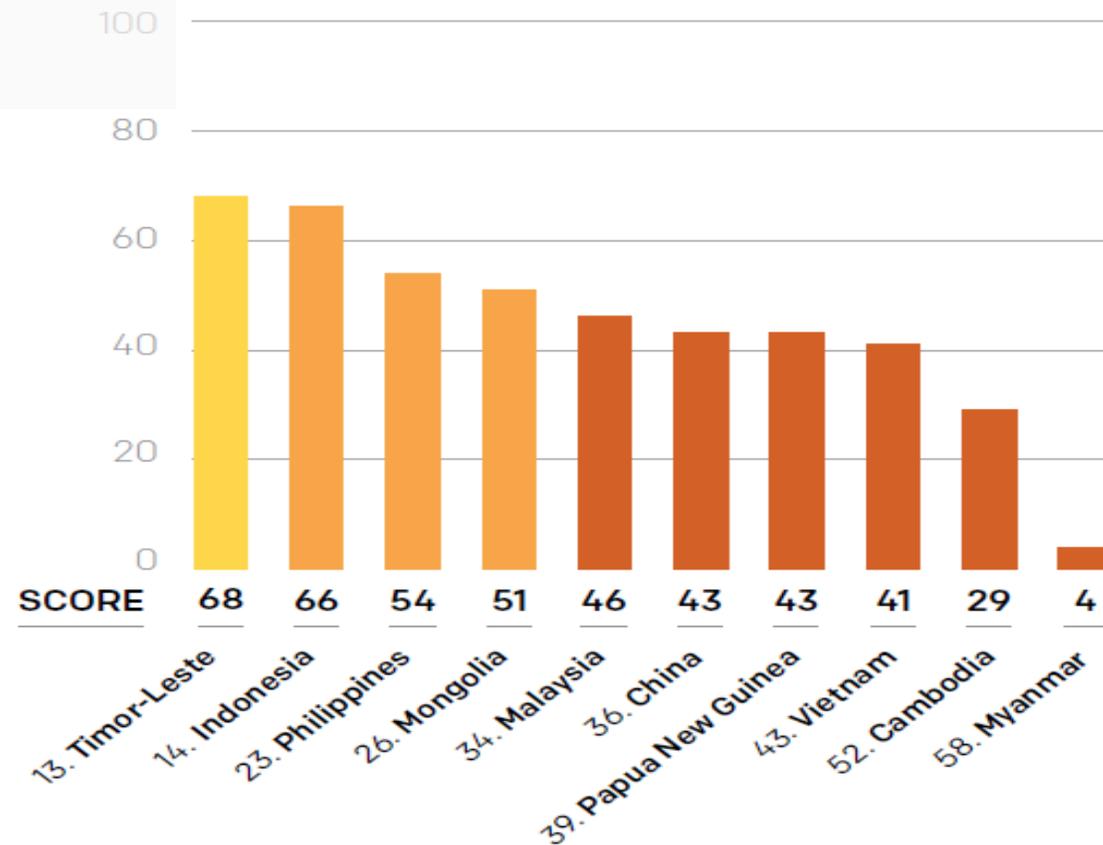
2013 Resource Governance Index

Regional Performance



2013 Resource Governance Index

Asia-Pacific Regional Assessment



Extractive Industries Transparency Initiative (EITI)

Global Standard to promote open and accountable management of natural resources

It seeks to strengthen government and company systems, inform public debate, and enhance trust.

In each implementing country it is supported by a coalition of governments, companies and civil society working together

How is value captured?

Where do benefits go?



NRGI New Frontiers

- Research on beneficial ownership
<http://www.resourcegovernance.org/publications/owning-options-disclosing-identities-beneficial-owners-extractive-companies>
- Corruption in SOE
<http://www.resourcegovernance.org/publications/inside-nnpc-oil-sales>
- Ongoing Researches on the mechanics of corruption in the oil, gas and mining industry

Thank you

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