



Youth Concern on Environment
and Development



Illicit
Financial
Flows

UGANDA'S TRILLION SHILLINGS LEAK

The Devastating Cost of Illicit Financial Flows.

Illicit Financial Flows (IFFs) are becoming a real challenge to resource mobilization for financing development in Uganda and Africa at large. IFFs refer to movements of money and value from one country to another that are illegitimately earned, illegitimately transferred, and/or illegitimately utilized. According to a report by Trust Africa and the Mail & Guardian, Africa is estimated to be losing over USD 40 billion in illicit financial flows every year. Uganda alone is estimated to be losing about UGX 2 trillion annually and it is feared that the situation could get worse with the commencement of commercial oil production.

Uganda has, since the confirmation of the existence of commercially viable oil in 2006, taken steps to ensure that; the resource is well governed; and the right revenues are generated from it and spent in a transparent and accountable manner. In this regard, the country has put in place a comprehensive legal and policy regime for the regulation of upstream and midstream petroleum operations as well as the management of oil revenues. An elaborate institutional framework has also been put in place to facilitate the collection, administration, and management of oil revenues for the benefit of all citizens. However, the challenge that the country must manage is with respect to guarding against and/ or minimizing external petroleum revenue leakages, and to ensure that oil companies pay their fair share of revenues as provided for under the law.

Failure to manage illicit financial flows will undermine the country's ability to generate the required revenue from its petroleum wealth which will perpetuate underdevelopment and poverty (Dutch disease).

The extractive industries sector is considered to be one of the most prone to illicit financial flows. To date, numerous instruments at the national, regional and international level have been adopted targeting the extractive industries sector or specifically combating illicit financial flows but the effectiveness of these instruments remains uncertain as highlighted with the recent scandals that tarnished this sector, in fact Africa is losing approximately \$40 billion every year to illicit financial flows (IFFs) in the extractive sector.

This is considered a development that continues to erode the continent's economic potential and deepen social and developmental disparities. These staggering financial losses are due to structural deficiencies within the continent's economic framework, rooted in a legacy of colonial-era practices, the extractivist economic model where raw materials are exported with minimal value addition as a major obstacle to sustainable development and inclusive growth across Africa, Exporting raw materials is essentially exporting jobs, and this is a luxury Africa cannot afford, The continent must generate at least 20 million jobs annually to meet the needs of its burgeoning youth population. Yet, the continued reliance on the raw export of natural resources without adequate local processing hampers job creation and industrial expansion.

IFFs perpetuate economic injustice, denying African citizens access to critical public services and infrastructure, this is linked

directly to the broader demand for reparatory justice, because IFFs effectively drain the continent of resources that should support healthcare, education, and industrialization.

The continental policy instruments such as the African Mining Vision and the African Green Minerals Strategy, advocate for resource-based industrialization and the retention of value within local economies, the challenge now lies in implementing these frameworks effectively to ensure that Africa's mineral wealth leads to tangible benefits for its people.

We need more reforms to the global financial and governance systems, which are currently enabling capital flight and profit-shifting by multinational corporations operating in Africa, there is also an urgent need for African countries to develop a unified stance on these matters and push for reforms at international forums.

Transformational change will only come when our mineral, trade, industrial, energy, and infrastructure development policies are aligned and implemented coherently, we must also ensure that our international engagements reflect our collective interest as a continent.

Mining companies, local communities, financial institutions, and governments must work together in bridging the perception gaps around the benefits of extractive activities, cooperation is critical to ensuring that mining serves as a catalyst for sustainable development rather than a source of division and disenfranchisement.

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Uganda and Africa largely need to strongly tackle systemic issues that allow IFFs to thrive alongside the implementation of reparatory measures, this will not only bring justice to the continent but also unlock Africa's full economic potential, Going forward we need prioritize sustainable development by tackling the systemic problems that perpetuate IFFs, along with reparatory measures, This will

serve as a crucial step to achieving justice for Africa. This will be a key enabler to unlock Africa's true capabilities and promote a more equitable global system.

The recent report by the Global Financial Integrity titled "Uganda's Mining Legal Regime: Addressing Illicit Financial Flows (IFFs) , Risks and Revenue Loss in the Mineral Supply chain looked at the pervasive enablers of IFFs within Uganda's mineral supply chain and these included, informal mining, corruption, insufficient funding for regulatory bodies, misuse of trade free zones, Double tax agreements, and limitations in the mineral database management. These systematic challenges create an environment conducive to various types of illicit financial activities occurring along Uganda's mineral supply chain such as tax evasion and avoidance, illegal mineral exploitation, money laundering, smuggling, informal trade and other forms of financial misconduct,

The above challenges can be extensively tackled with the implementation of Uganda's mining legal framework but Uganda's mining legal frameworks continue to face many obstacles limited inter-agency cooperation, resource limitations within regulatory bodies, insufficient alignment between Uganda's mining legislation and international best practices like the Extractives Industries Transparency Initiative(EITI) ,African Green Mineral Strategy (AGMS),Africa Mining Vision(AMV) and European Union Critical Minerals Act.

By boosting the capacity and ability of government agencies such as the URA, IG, BoU, OAG, and FIA, to detect and limit the extent of Illicit Financial Flows. This can be achieved through the skilling of existing staff and the hiring of staff specializing in the early detection of the different forms of IFFs, especially those that occur in the context of oil and gas operations.