

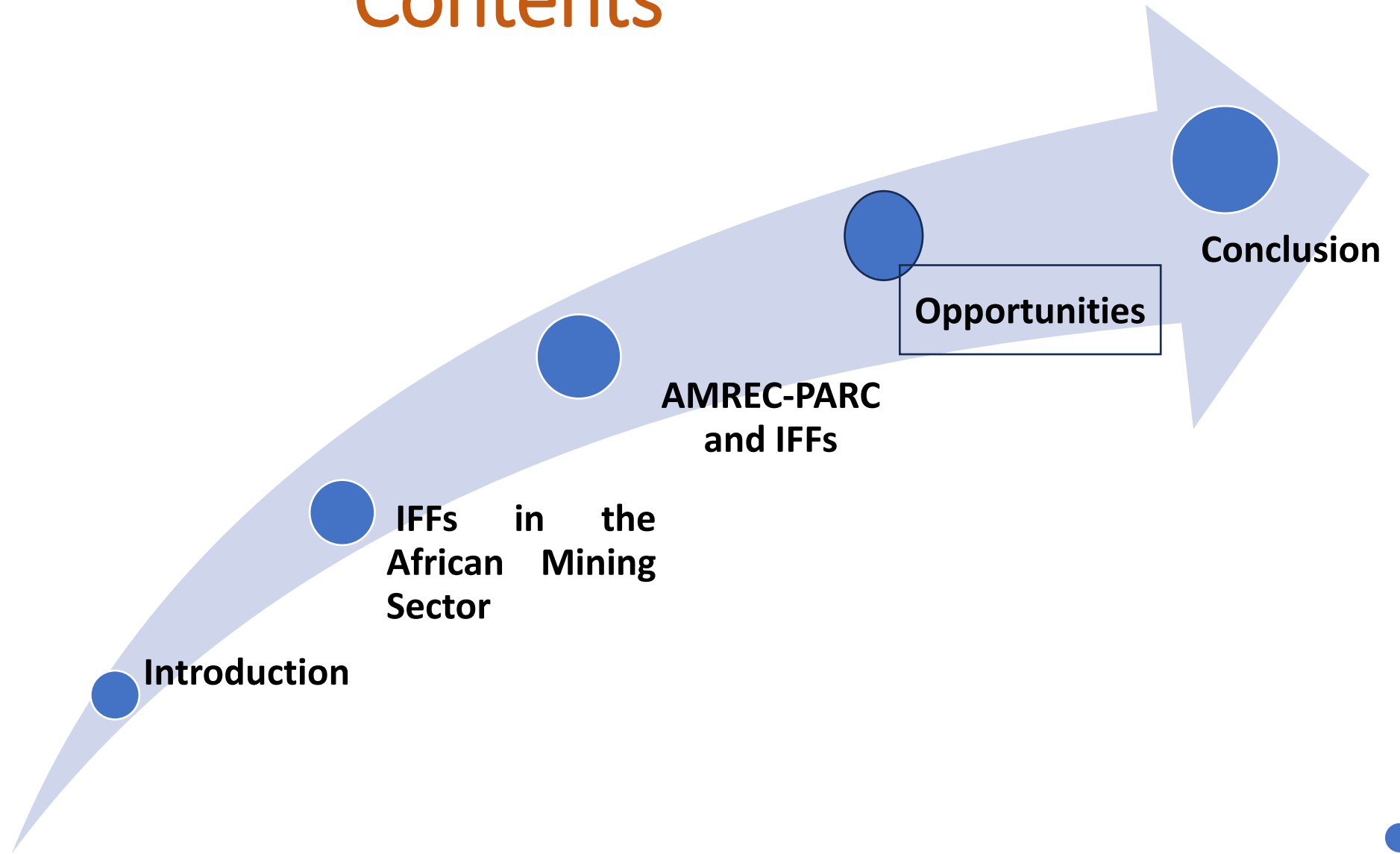
# Introduction to AMREC-PARC and Illicit Financial Flows

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**AMREC-PARC Sensitization and AGJEC Expansion Workshop.**

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**IFFs in the  
African Mining  
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# Introduction (1)

- Africa is **rich in minerals** and energy resources, yet **financial sustainability remains a challenge** due to **Illicit Financial Flows (IFFs)**, a major issue in the continent's mining industry.
- IFFs in Africa's mining sector include **tax evasion, mispricing of minerals, smuggling, and corruption**. These activities **drain government revenues**, hinder economic development, and **perpetuate poverty**.
- The **African Mining Vision** offers a **strong framework** to fight IFFs, but **implementation remains a challenge** due to weak enforcement, corruption amongst others.
- Addressing IFFs requires **stronger law enforcement**, Improved **tax transparency**, **harmonized geological data** and **Technology-driven tracking of mining revenues**.
- **AMREC-PARC** provides an effective **mapping and reporting** of Africa's mineral and energy resources to improve **investment**, governance, **revenue mobilization** and sustainable economic growth.

# Introduction (2)

Second 10-Year Implementation Plan of Agenda 2063 (2024-2033).

## Seven moonshots



### PROSPEROUS

Every AU MS to attain at least middle-income status



### INTEGRATED

Africa to be more integrated and connected



### DEMOCRATIC

Public institutions to be more responsive



### PEACEFUL

Africa to resolve conflicts amicably



### PAN-AFRICAN

African values to be explicit and promoted



### PEOPLE-DRIVEN

Africa citizens to be more empowered and more productive



### INFLUENTIAL

Africa to be a strong and an influential global player

## Key Enablers

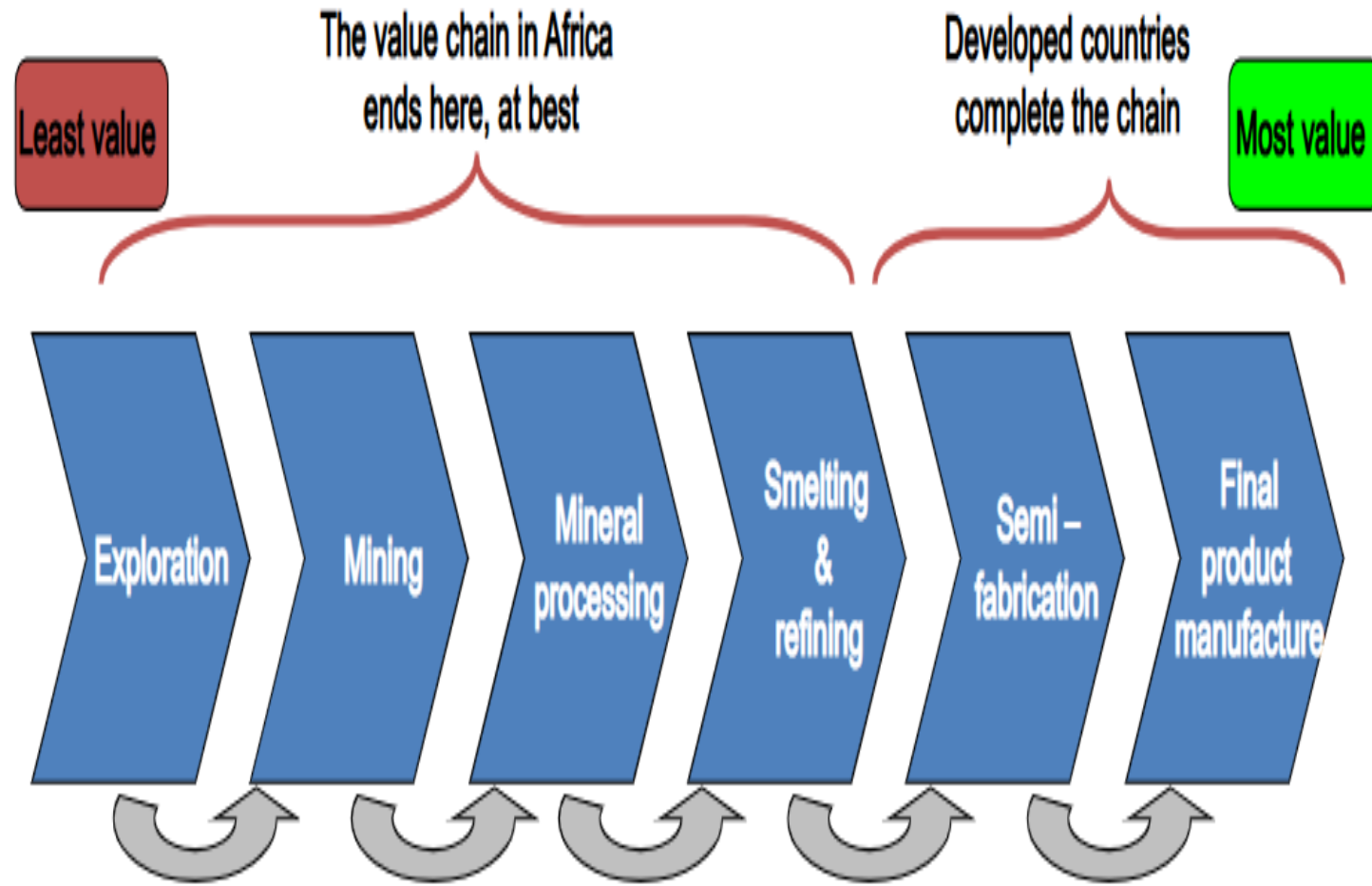
- **Coordination**
- **Financing**
- **Monitoring**
- **Evaluation**
- **Accountability**
- **Transparency**
- **Capacity Building**

## AMV ACTION PLAN

The Action Plan was also approved by AU policy organs in 2011. It includes the following clusters:

- (i) mineral rents and management
- (ii) geological and mining formation systems
- (iii) human and institutional capacities
- (iv) artisan and small-scale mining
- (v) mineral sector governance
- (vi) research and development
- (vii) environmental and social issues
- (ix) linkages and diversification and infrastructure investment

## The mining value chain and Africa



Fourth Strategic Plan of Activity of the GMIS



African Mineral Development Centre (AMDC)



Geological and Mineral Information System (GMIS) Strategy Plan of Activities

PURPOSE

Strengthen the African Union (AU) Members States capacity to produce, manage and disseminate geological and mineral information

OBJECTIVES

- 1- Coordinate and provide strategic operational support for AU Members States to improve geological and geospatial information and its use in mining and broad development processes in Africa
- 2- Set direction, create alignment, build commitment, promote collaboration; establish trust and mobilize supporters from different GMIS initiatives in Africa

AREAS OF ACTIVITIES

1.- National level (domestication of the CMV)

2.- Regional and continental levels implementation of the AMV)

3.- Areas of special interest

4.-Legal and regulatory framework

Background and feasibility studies, recommendations and guidelines

Capacity building of the national GSOs in connexion with the domestication of the CMV

Strengthening of GMIS at African Universities

Capacity building of and activities from the AMGC

Strengthening of GMIS facilities at the RECs

Strengthening of the OAGS

Standardization, harmonization of nomenclatures, resource

PPP and South-South and triangular cooperation

Strengthening of the African:  
  
Blue Economy; Artisanal Mining; Industrial minerals; underground water, natural hazards, infrastructure, geo-heritage, geo-tourism, agriculture, environment, waste management, among others

Elaboration of GMIS Principles

Background studies, draft recommendations and guidelines for financing GSOs from mineral revenue; production of information for contract negotiation, taxation and elaboration of tenders; transfer of corporate geodata to national GSOs; and mechanisms for data sharing and distribution among others

PROJECTS AND ACTIVITIES

Strengthening of African Centres of Excellence

EXPECTED RESULTS

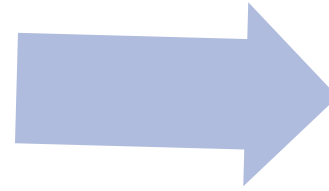
Improved geological and geospatial information and its use in mining and broad development processes in Africa

# **IFFs in the African Mining Sector**

# IFFs in the African Mining Sector (1)

## Causes

- Lack of harmonized **geological data** and technological constraints.
- **Weak regulatory frameworks and policy inconsistencies.**
- Lack of local capacity in **tax administrations** and inter-agency **coordination.**



## Impact

- **Illicit Financial Flows:** Financial loss from tax avoidance schemes and smuggling.
- **Mining and Extractive Industries:** Losses of about **\$40 billion annually** due to IFFs (UNECA 2020).
- **Oil and Gas:** Losses of about **\$12.9 billion annually** (GFI 2021).

# Out of Africa

Cumulative illicit financial flows from top countries, 1970-2008, in billions



Source: AU/ECA Conference of Ministers of Finance, Planning and Economic Development  
The Wall Street Journal

# ILLICIT FINANCIAL FLOWS (IFFs) & NIGERIA

Cumulative illicit financial flows from Africa by region, 1970-2008



**\$217.7bn**  
Cumulative amount lost by Nigeria to IFFs from 1970 to 2008.  
This is equal to 30.5% of entire IFFs in Africa from 1970 to 2008.  
Nigeria also accounts for 79% of the entire share of IFFs for West Africa

- 870,000** standard schools in Nigeria at N50m each
- 400,000** world class hospitals. At 100m each, enough for 500 primary hospitals for each local council
- Clean water system for every street in Nigeria at N10m each

**13** If Nigeria stops IFF at current rate and uses funds efficiently for MDG 4, numbers of years needed to reduce infant mortality can be cut from 23 years to 10 years

**12** Regulatory agencies and institutions have been established with responsibilities that cut across various dimensions of IFFs.

## OIL AS A PROBLEM



**92.9%** 92.9 per cent of the total IFFs in Nigeria are related to oil  
**76.4%** In 2008, 76.4 per cent of the IFFs in oil from Nigeria benefited only the United States, Spain, France, Japan and Germany

Source: Track It! Stop It! Get It! Illicit Financial Flows (IFF). Report of the High Level Panel of Illicit Financial Flows from Africa, Commissioned by the AU/ECA Conference of Ministers of Finance, Planning and Economic Development in 2015.

# ILLICIT FINANCIAL FLOWS (IFFs) & AFRICA

Illicit Financial Flows (IFFs) originates mostly from commercial activities as follows:

**\$50bn**

Currently, Africa is estimated to be losing more than \$50 billion annually in IFFs.



**\$1 trillion**

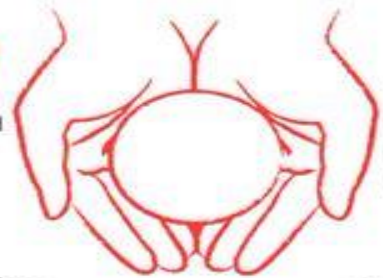
Over the last 50 years, Africa is estimated to have lost in excess of \$1 trillion in illicit financial flows (IFFs).



This sum is roughly equivalent to all of the official development assistance received by Africa during the same timeframe.

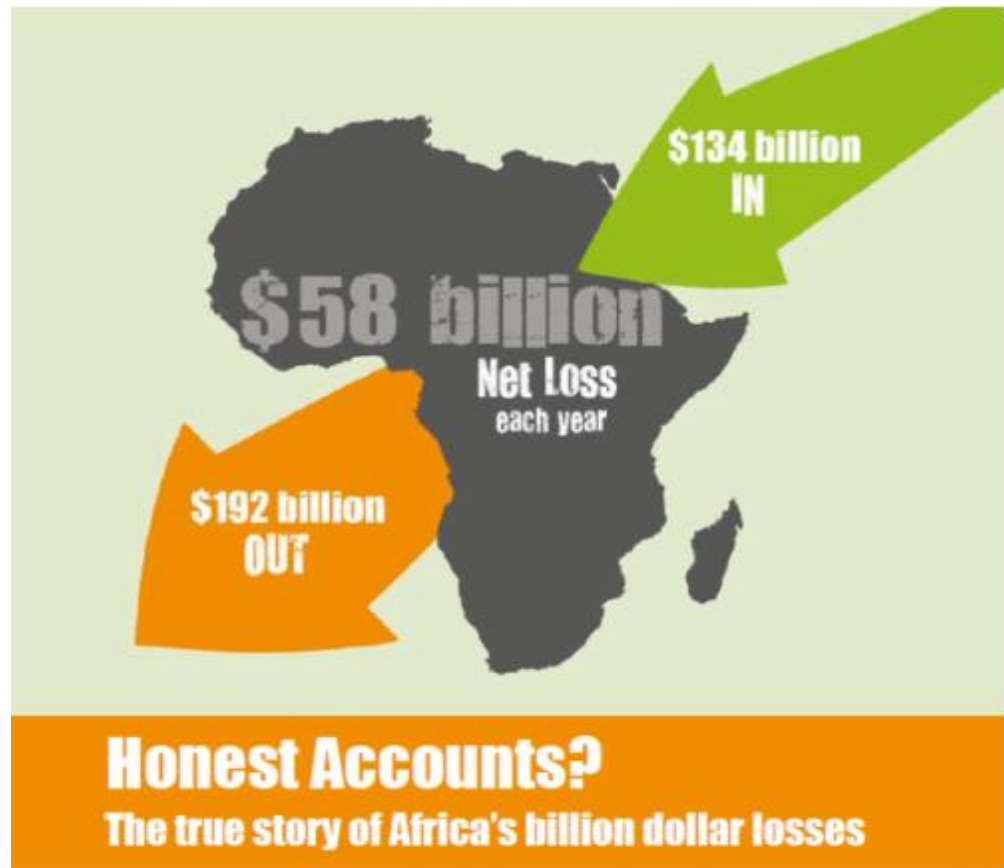
**414 million**

The number of people living on less than \$1.25 a day in Africa is estimated to have increased from 290 million in 1990 to 414 million in 2010



The resource needs of African countries for social services, infrastructure and investment also underscore the importance of stemming IFFs from the continent.

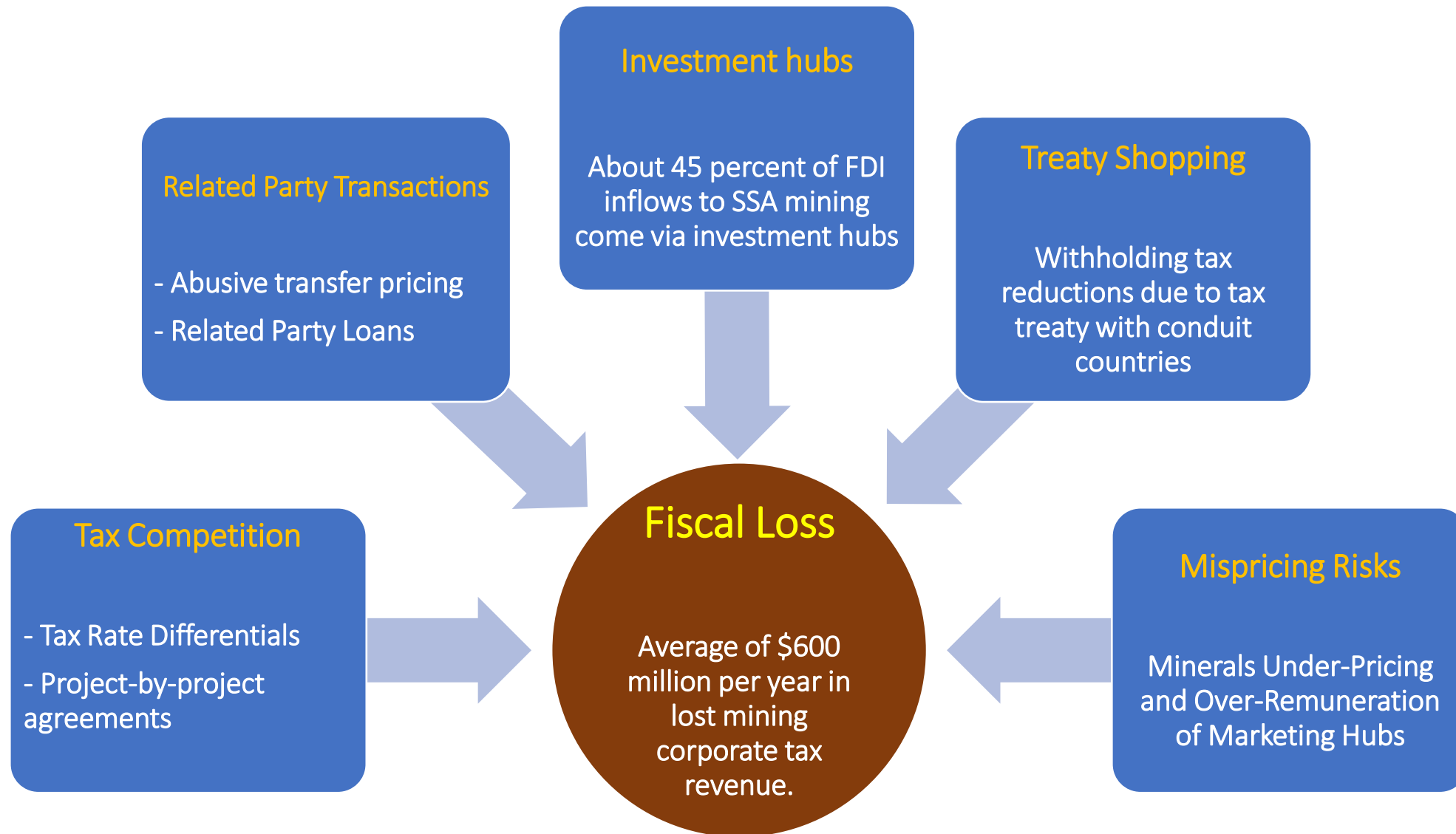
Source: Track it Step it Get it Illicit Financial Flows (IFF). Report of the High Level Panel of Illicit Financial Flows from Africa. Commissioned by the AU/EECA Conference of Ministers of Finance, Planning and Economic Development in 2015



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# IFFs in the African Mining Sector

## International Profit Shifting in the African Mining Sector



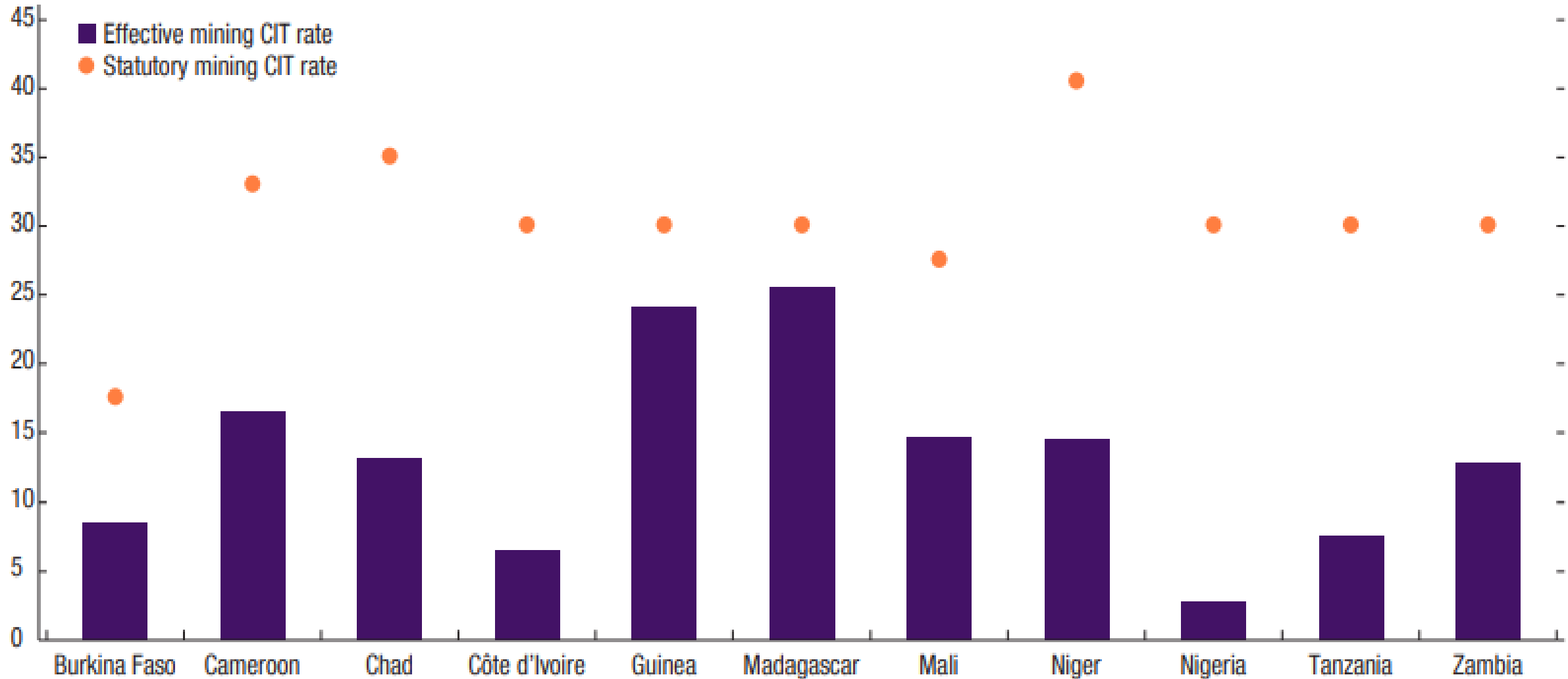
Source: IMF, 2021

# IFFs in the African Mining Sector

## International Profit Shifting in the African Mining Sector

### Pressures of Tax Competition

Statutory CIT Rates on Mining and Implicit Tax Rates (EITI Countries) 2014 -2016



Sources: Extractive Industries Transparency Initiative (EITI); IMF Fiscal Affairs Tax Rate Database; and IMF staff estimates.

## International Profit Shifting in the African Mining Sector

### Tax Treaty Shopping

Once withholding tax rates are reduced in one treaty, it creates pressures in subsequent negotiations for other countries to be afforded the same treatment, and for MNEs to use that revised treaty to divert profits to a location where they will not be taxed.

**Key:**

- **Peach/ Light Orange-shaded** = reduced tax rate relative to that country's legislated withholding tax rate.
- **Light pink - shaded rates** = the country has afforded a zero-tax rate to a treaty partner.
- **White-shaded rates** = treaty rates are equal to the legislated rate.

### Withholding Taxes in SSA – Reductions Relative to Domestic Law

	Dividends	Interest	Royalties
	Lowest Treaty Rate	Lowest Treaty Rate	Lowest Treaty Rate
Botswana	5	7.5	5
Cameroon	10/15	10	0
Côte d'Ivoire	10	10	5
Equatorial Guinea	n/a	n/a	n/a
Gabon	15	10	0
Ghana	10	0	8
Guinea	0	0	0
Guinea-Bissau	10	10	10
Kenya	5	10	10
Liberia	15	20	20
Mali	5	5	0
Mauritania	10	10	0
Mozambique	0	0	5
Namibia	10	10	0
Niger	10	15	0
Nigeria	7.5	7.5	7.5
Republic of Congo	0	0	0
Senegal	0	0	0
Sierra Leone	0	0	0
South Africa	0	0	0
Tanzania	0	0	0
Togo	10	15	0
Uganda	0	10	10
Zambia	0	5	5
Zimbabwe	7.5	5	7.5

Source: IMF based on IBFD.

**Note:** This table shows the lowest withholding tax rate afforded by each country in the region to at least one of its treaty partners

# IFFs in the African Mining Sector

## International Profit Shifting in the African Mining Sector

### Tax Treaty Shopping

#### Foreign Direct Investment Sources and Tax Treaty Coverage

	Domestic Law	Major Inbound Investment Sources and Tax Treaty Dividend Withholding Rates							
	Rate (percent)	#1 Source	Rate (percent)	#2 Source	Rate (percent)	#3 Source	Rate (percent)	#4 Source	Rate (percent)
Botswana	0	United Kingdom	5	South Africa	10	Mauritius	5	Australia	—
Burkina Faso	12.5	Barbados	—	Canada	—	Russian Fed.	—	Australia	—
Central African Republic	0	Canada	—	Mauritius	—	Morocco	—	Korea	—
Democratic Republic of the Congo	0	Mauritius	—	South Africa	5	Zambia	—	France	—
Ghana	0–8	United Kingdom	7.5	Belgium	5	France	7.5	Cayman Island	—
Guinea	15	United Kingdom	—	United Arab Emirates	0	France	15	Senegal	—
Liberia	15	China PR - HK	—	United States	—	Norway	—	Spain	—
Mali	7–10	Canada	—	American Samoa	—	United Kingdom	—	British Virgin Island	—
Namibia	10	South Africa	5	Mauritius	5	United Kingdom	5	Canada	—
Niger	10	France	10	China PR	—	Turkey	—	India	—
Sierra Leone	10	France	—	Mauritius	—	Luxembourg	—	Italy	—
South Africa	20	United Kingdom	5	Netherlands	0	Belgium	5	Japan	5
Tanzania	10	United Kingdom	—	South Africa	20	Canada	20	Norway	20
Zambia	0	Canada	15	Switzerland	5	China PR	5	United Kingdom	5
Zimbabwe	0–15	South Africa	5	Mauritius	10	Luxembourg	—	France	10

Source: IBFD tax treaty database; and IMF, Coordinated Direct Investment Survey (2019 or latest available).

Source: IMF, 2021

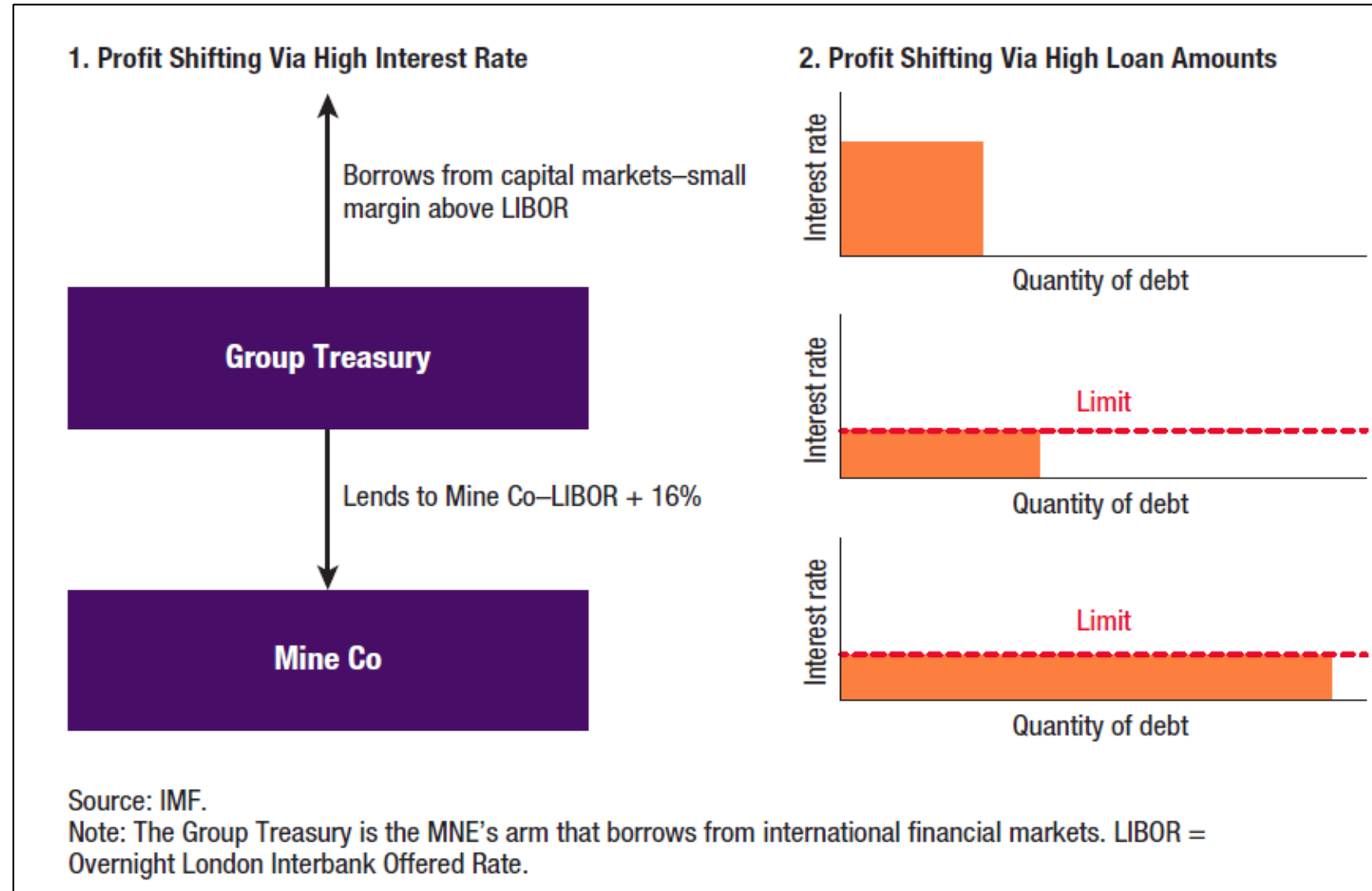
# IFFs in the African Mining Sector

## International Profit Shifting in the African Mining Sector

### Related Party Loans

Authorities in Mali had imposed a **limitation on the interest rate** that could be used to calculate allowable interest deductions—effectively closing off the arrangement outlined in panel 1.

However, with **no associated limitations on the size** of the intra-group loans, the MNE restructured its financing to reduce the interest rate, but **increase the quantity borrowed**, maintaining the amount of tax deduction (Panel 2).

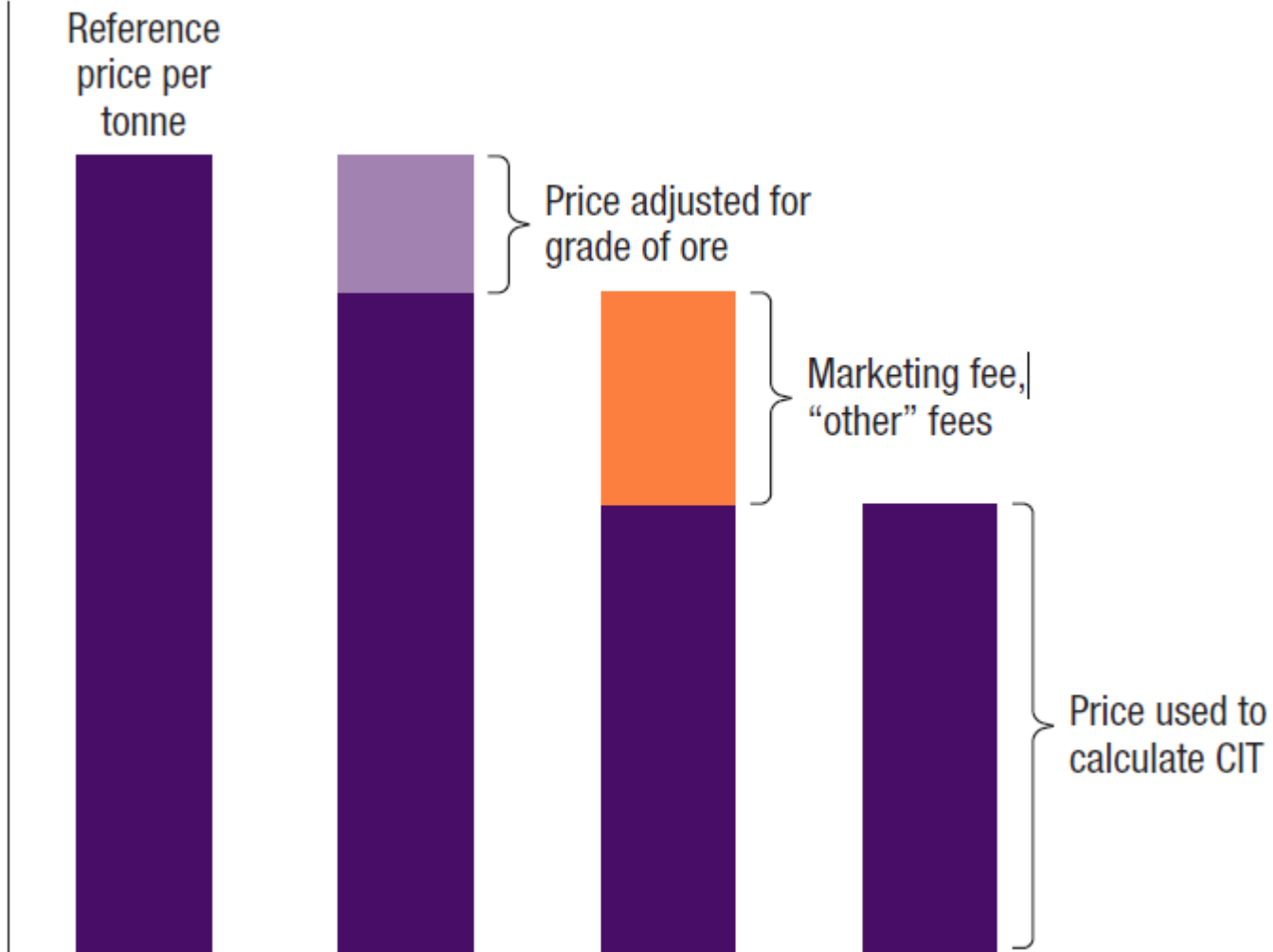


Source: IMF, 2021

# IFFs in the African Mining Sector

## International Profit Shifting in the African Mining Sector Mineral Underpricing

### Profit Shifting using mineral prices



Source: IMF, 2021

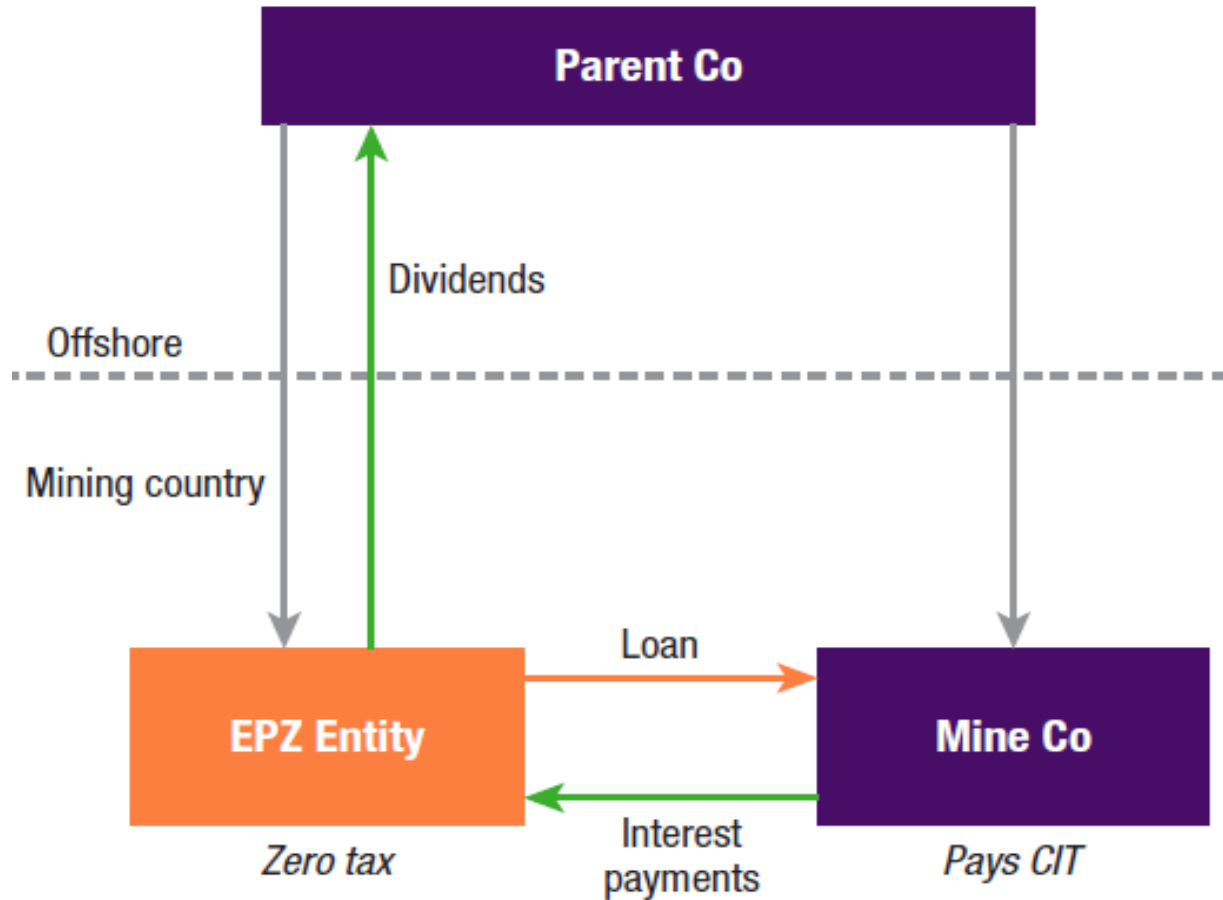
- In Africa, there is a **lack of open market transactions** for many mineral products. Firms need **not process the minerals** into grades that would be widely traded in **transparent markets**, making it more difficult to price.
- **In Liberia**, a mining MNE sold all production via a related party in a low tax country. In its sales contract, the company made quality adjustments (as is standard practice) but then also applied **additional discounts on the price for marketing and other costs** that were not explained or justified.
- These adjustments and fees **reduced the value of shipments by more than 10 percent, transferring about \$500 million in profits offshore** over several years.

# IFFs in the African Mining Sector

## International Profit Shifting in the African Mining Sector

### Unintended Effects of Tax Incentives

#### Export Processing Zones and Domestic Profit Shifting



In **Mozambique**, one MNE was able to adopt simple **internal company transactions** to **shift profits** from its mining business (which paid tax) to another entity in the **same country** that was tax-exempt, operating in an export processing zone (EPZ).

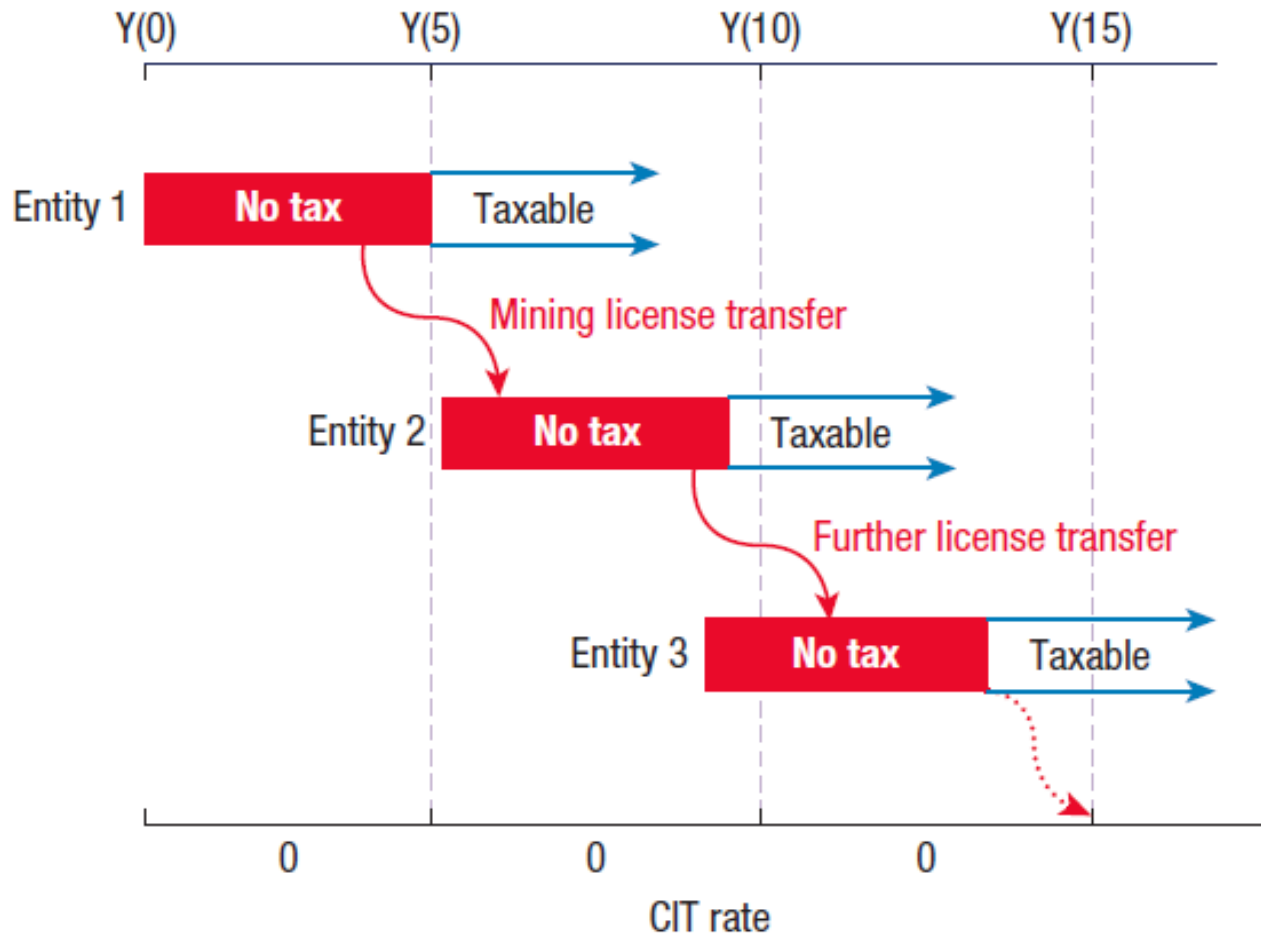
Using a loan arrangement, the two companies were able to generate **tax deductions** for the mining company and **interest income** for the zero-taxed EPZ entity. The tax cost of the arrangement was estimated at **EUR 20 million per year**.

# IFFs in the African Mining Sector

## International Profit Shifting in the African Mining Sector

### Unintended Effects of Tax Incentives

#### 2. Design Flaws in Incentive Policy

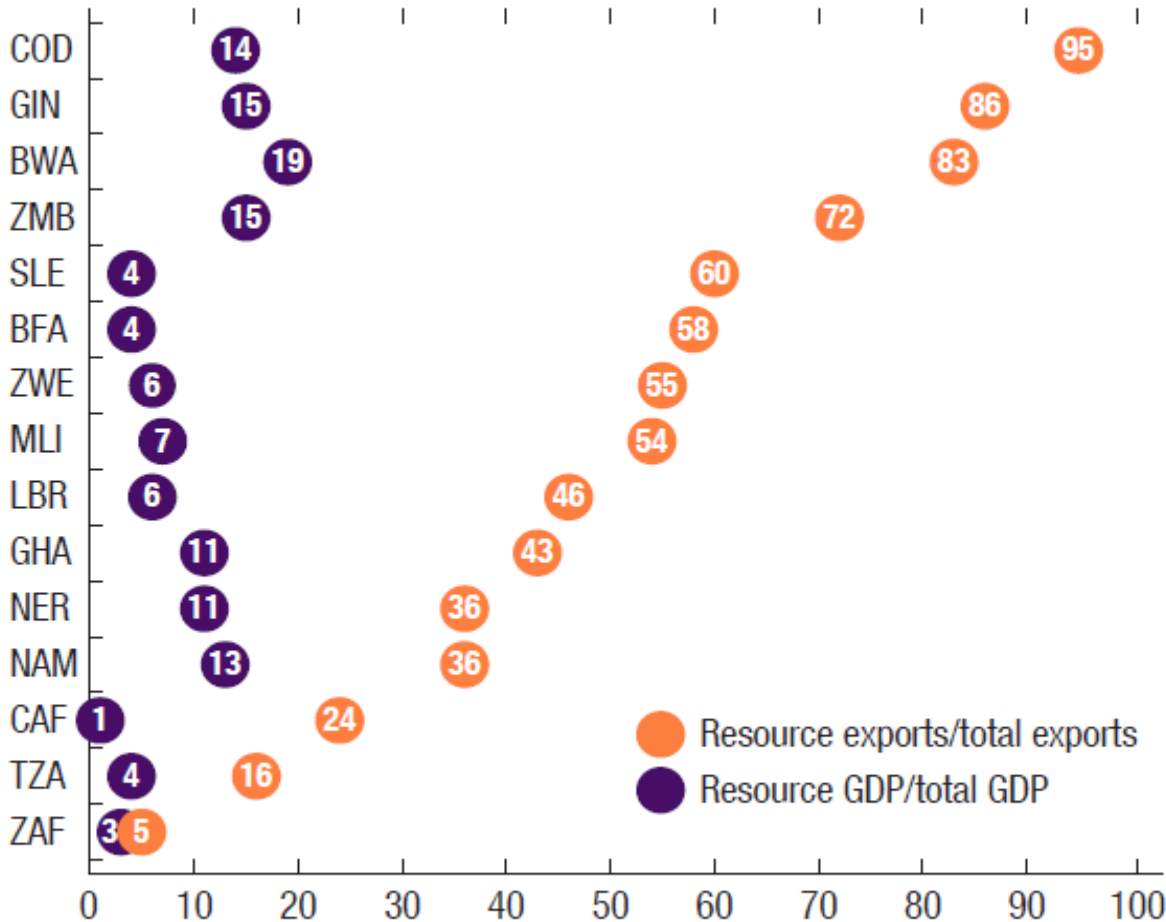


- In **Guinea**, **CIT holidays** were afforded to mining investments but **not tied to a particular project** or project license.
- This meant companies could restructure their affairs as the holiday was set to expire, **transferring the mining license** to another local entity with the same owners, **restarting the tax holiday** for another 5 years.
- In effect, projects could be **shielded from CIT indefinitely**.

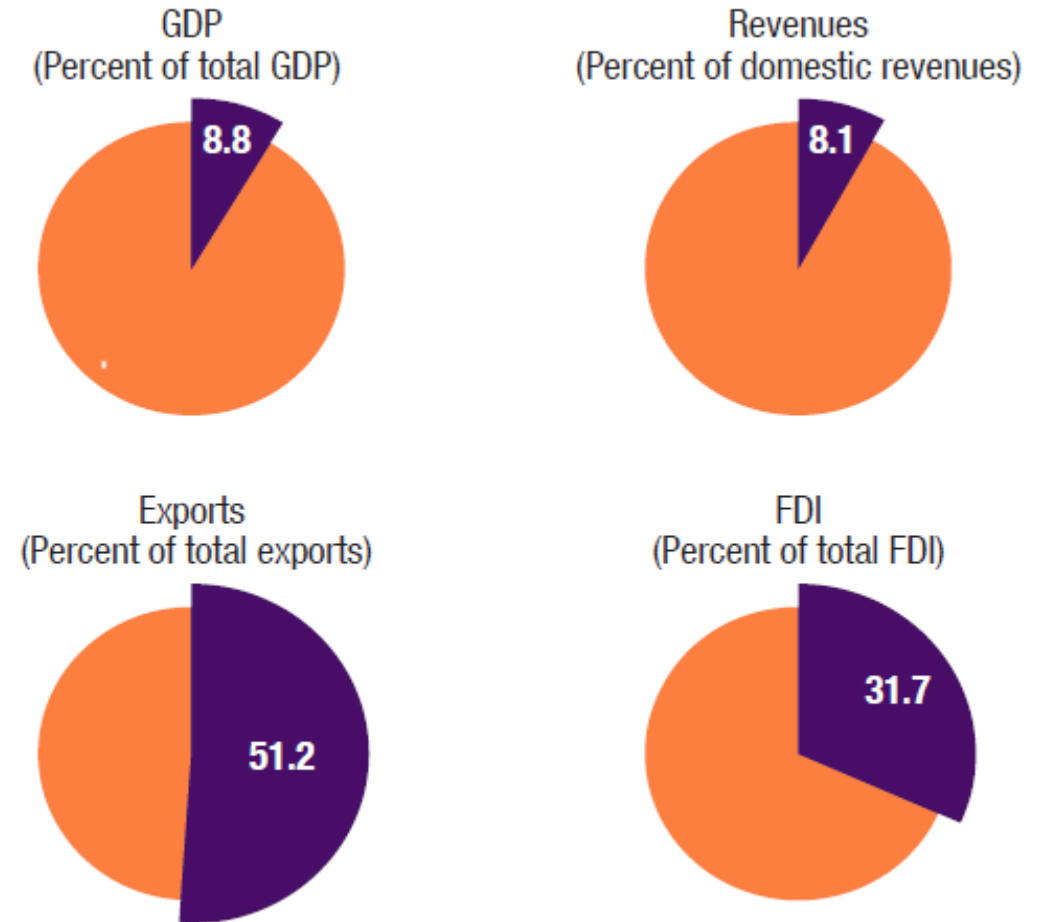
# IFFs in the African Mining Sector

## Mining Contribution to Africa's Economy

1. Mining Contribution of GDP and Exports in Sub-Saharan Africa, Average 2014–19 (Percent)



2. Mining Contribution to GDP, Domestic Revenues, Exports, and Foreign Direct Investment, Average SSA Resource-Rich Countries 2009–19 (Percent)



Sources: Country authorities; FAD Resource Revenue Tax Database; FDI markets; and IMF staff estimates.

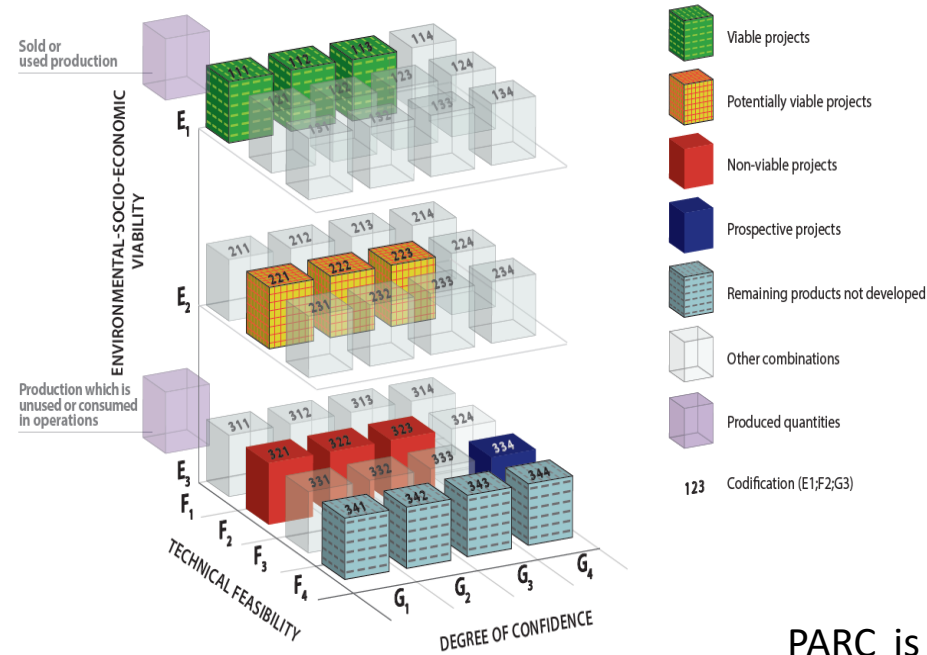
# AMREC- PARC and IFFs



## What is AMREC-PARC?

### AMREC

- AMREC is the African Mineral and Energy Resources Classification and Management System.
- A principles-based classification system which uses numerical codes to classify the products of a resource project on the basis of the three fundamental criteria:
  - Environmental-socio-economic viability (E)
  - Technical feasibility (F)
  - Degree of confidence in the estimate (G)



### PARC

PARC is the Pan African Resource Reporting Code that provides the rules and guidelines for public disclosure.

PARC is the AMREC based code for public reporting for resources under relevant financial and security regulations in Africa.

## Transparency and standardization

- **Public Beneficial Ownership Registers:** Companies disclose their ultimate owners, preventing shell company abuse.

## Bilateral & Multilateral Agreements

- **Automatic Exchange of Information** with mining jurisdictions to detect hidden revenues.
- **Double Tax Treaties (DTTs) Revision** to prevent companies from exploiting loopholes.
- **African Tax Administration Forum (ATAF):** collaboration on Cross border tax issues.



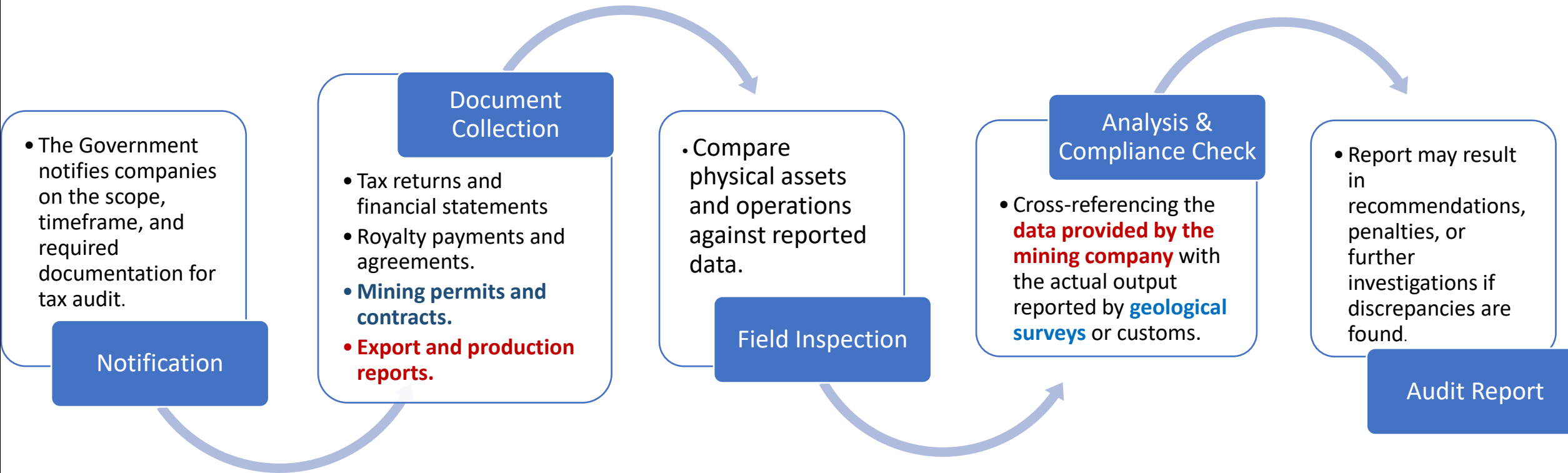
## Digital and AI technologies

- Harmonized Geological and Mineral Information System (GMIS) for a Digital & AI-Based resource inventory and Tax Audits.

## Implementation of OECD BEPS Action Plan

- **Country-by-Country Reporting:** MNE report profits, revenues, and taxes paid in each country.
- **Transfer Pricing Rules:** Prevents artificial profit shifting to low-tax jurisdictions.
- **Limiting Interest Deductions:** Restrictions on excessive interest payments to related entities.

## Tax Audit Process



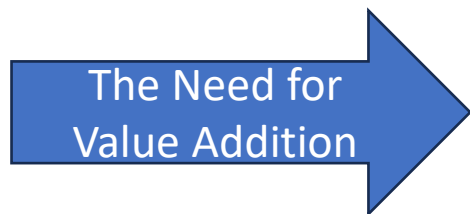
# OPPORTUNITIES

**Table 1. Sub-Saharan Africa: Estimated Cumulated Real Revenues from Production of Selected Critical Minerals and Fossil Fuels, 2024–50**

	Historical, 1999–2022		Under Net Zero Scenario, 2024–50	
	(2023 Billion US\$)	(SSA Percent of World Total)	(2023 Billion US\$)	(SSA Percent of World Total)
<b>Selected Minerals</b>	<b>297</b>	<b>8</b>	<b>1,934</b>	<b>12</b>
Copper	200	8	662	10
Nickel	38	5	293	5
Cobalt	56	54	880	66
Lithium	3	3	99	5
<b>Fossil fuels</b>	<b>3,523</b>	<b>5</b>	<b>625</b>	<b>3</b>
Oil	2,805	6	508	4
Natural gas	279	2	52	2
Coal	438	4	65	3

Sources: International Energy Agency; and IMF staff calculations.

Note: Price projections (in real terms, deflated by US CPI) are based on analysis from the October 2021, World Economic Outlook, Special Feature on Commodities Markets, which assume \$30 per barrel of oil, \$1.50 per million British thermal units for natural gas, and \$40 per metric ton of coal. The selected critical minerals are: copper, nickel, cobalt, and lithium. Mineral price projections based on Boer, Pescatori and Stuermer (2023). Quantity projections are based on IEA (2023) net zero energy transition scenario. The Sub-Saharan Africa share is inferred from data on mineral and fossil fuel reserves.

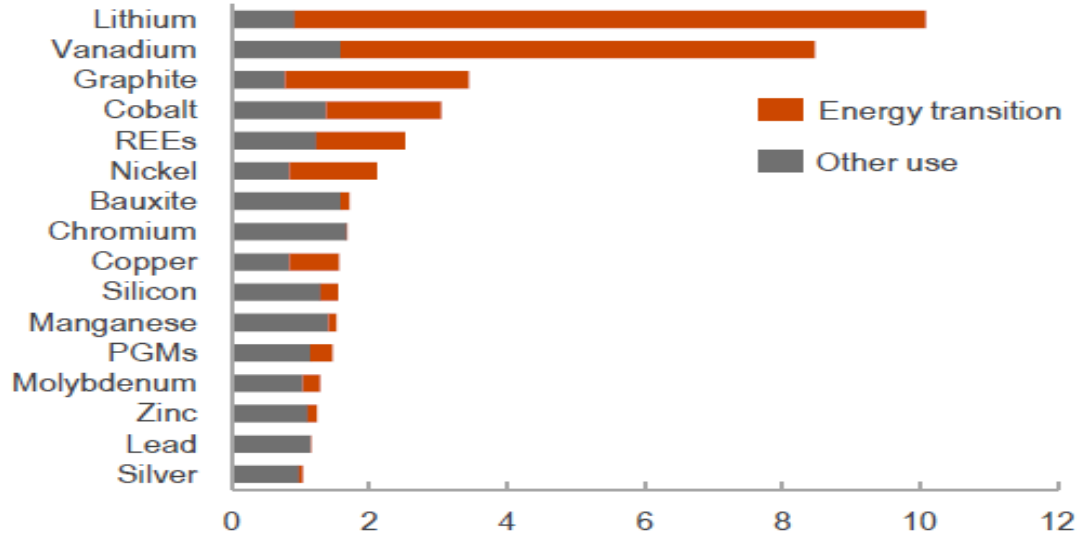


**Economic disparity in a simple market value comparison:**

Raw bauxite = \$65 per ton,  
 Aluminum = \$2,335 per ton as of end 2023.

**Figure 1. Increase in Global Demand of Energy Transition Minerals**

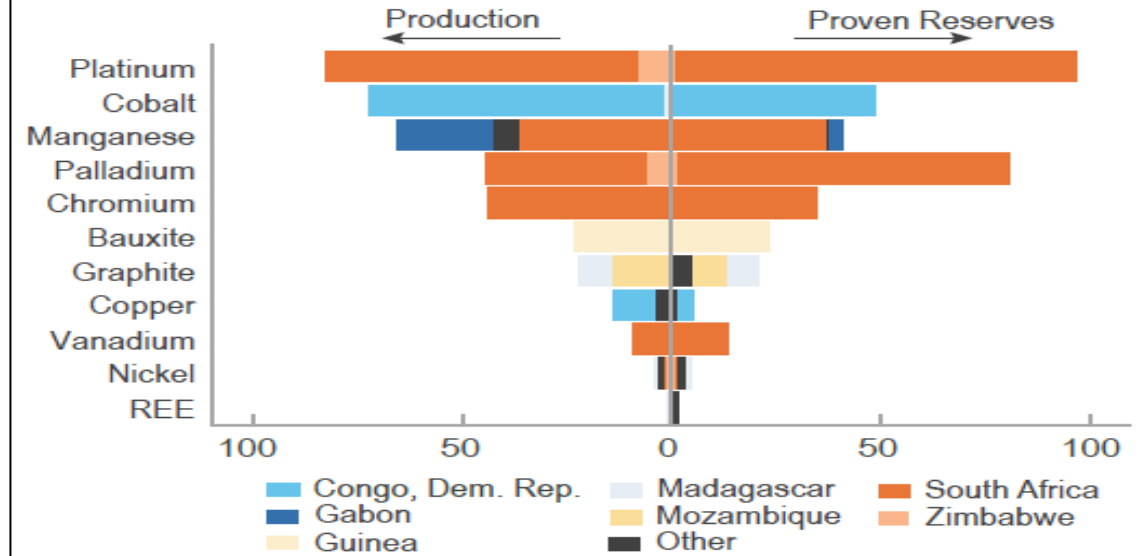
(Ratio of 2050 to 2022 demand under a net zero emissions scenario)



Sources: International Energy Agency (IEA) World Energy Outlook (2023); and IMF staff calculations.

**Figure 2. Sub-Saharan Africa: Share in World Production and Reserves, 2022**

(Percent of global)



Sources: United States Geological Survey (USGS); and IMF staff calculations.

## Copper, Nickel, Cobalt, and Lithium

- **Global** revenue = \$16 trillion over the next **25 years**.
- **Africa**: over 10% of \$16 trillion = nearly \$2 trillion

- **Cobalt**: The DR Congo has over **70% of global output** and about **50% of the world's proven reserves** (Figure 2).
- **Manganese**: South Africa, Gabon, and Ghana, collectively accounting for **over 60 percent of global production**.
- **Lithium**: Zimbabwe, alongside the DR Congo and Mali, holds substantial yet-to-be-explored lithium deposits.

# Recommendations

- **Harmonize fiscal regimes** and other policies and laws that promote transparency in the Extractive sector in Africa. E.g; Contract disclosures and **beneficial ownership** disclosure.
- **Mineral audit capacities** should always match consistent and **evolving** illicit financial flows strategies.
- Promote collaboration with the AMDC in the **negotiation of mineral concessions** and double **taxation agreements**.
- Promote **cross sector collaboration** to strengthened linkages between the mining industry and other sectors of the economy.
- Governments must continue to **carry out period assessment** on the level of implementation of the AMV and take corrective actions.

# Conclusion

- Resource classification and reporting is **crucial for financial sustainability** in Africa so AMREC-PARC as a **harmonized** framework will improve investment and governance for long-term financial **prosperity**.
- Leveraging technology can enhance a **centralized database** on mining transactions across African countries ensuring classification accuracy and the **tracking of mining revenues** for financial sustainability.
- Financial Sustainability in the mining sector in Africa requires **political will**, as well as real investments in **capacity building**, **data gathering**, and **information exchange**.

**Thank  
you**