ANNUAL CONTINENTAL MEETING
of the African Parliamentary Network on Illicit Financial Flows and Taxation

Theme: Tax Justice Amid Multiple Crises | A Legislative Lens

26 – 27 September, Lusaka, Zambia

APNIFFT

CONCEPT NOTE

Introduction

African Parliamentary Network on Illicit Financial Flows and Taxation (APNIFFT) is a flagship programme coordinated by Tax Justice Network (TJNA) with an overall objective to provide an opportunity for its members, the African legislators, to strategise, learn from each other and build their capacities in tackling Illicit financial flows and tax injustice in the continent. The platform facilitates its members to undertake advocacy-related dialogue and debates in a simplified manner on Illicit Financial Flows (IFFs), tax governance and domestic resource mobilisation (DRM) in Africa.

APNIFFT was first conceptualised and eventually launched in 2017 by TJNA. Since its inception, APNIFFT's operational strategy has focused on local-level legislative interventions to combat the continent's IFFs and DRM issues. This has been operationalised through country-based parliamentary caucuses that now serve as a basic unit of engagement and mobilisation of Members of Parliament. These basic units then combine to form regional caucuses, based on membership of regional economic councils, to then form the continental caucus. The continental caucus convenes annually through the 'APNIFFT Continental Conference', to review progress, share knowledge and build the capacity of its members on emerging issues relating to tax justice.

This year's continental conference is scheduled for Monday, 26th and Tuesday, the 27th of September 2022, in Lusaka, Zambia.

Background

Over the past few years, the world economy has been devastated by multiple crises. These have included the recent Covid-19 pandemic, the new and ongoing conflicts in Ukraine and other parts of the world, and the increasingly adverse impacts of climate change, among others.

The Covid –19 pandemic saw 30 million people pushed into poverty and 22 million lost jobs. Countries grappled to keep their citizens afloat amid festering problems of illicit financial flows, debt destresses, dwindling external financing and declining foreign direct investment. Following the worst of the crises, Africa began its path to a post-Covid-19 recovery, and Africa's gross domestic product grew by an estimated 6.9 per cent. However, just as African countries emerged from the pandemic, the region was confronted with another crisis as food, energy, and finance costs soared, triggered by the Ukraine conflict. Growth is subsequently expected to decelerate to 4.1 per cent in 2022 and remain there in 2023. The Ukraine War could also further impoverish 1.8 million African citizens into extreme poverty in 2022 due to escalating costs of food, fuel, and finance.

As African countries work to mitigate these external circumstances, Africa's illicit financial flows and debt crises continue to loom large. The AU/UNECA's High-Level Panel on Illicit Financial Flows (IFFs) Report 2015 brought to the world stage the scourge of IFFs on sustainable development and revealed that more than US$50 billion annually was being siphoned on the continent. Recent data from the UN's Conference on Trade and Development's Economic Development in Africa Report 2020 indicate that IFFs have nearly doubled, and Africa is now losing US$88.6 billion. Africa's mineral wealth continues to be the main emitter of IFFs, with 15 African countries classified as resource intensive according to IMF's Sub-Saharan Africa Economic Regional Outlook. In the midst of growing IFFs, African countries are found wanting concerning the implementation of the Africa Mining Vision (AMV) and the recommendations of the HLP Report on IFFs.

To compound matters, Africa's debt was a problem for African countries even before COVID-19. In the lead to the pandemic, African countries had been borrowing heavily from the global financial markets. Despite the strain, debt across the continent rose a further US$45 billion or 8% in 2020. Public debt ratios are at their highest level over two decades, and many low-income countries are either in or close to debt distress. Unfortunately, as debt levels have risen, these have corresponded with rising debt service costs, but countries have not necessarily improved their ability to finance such obligations. Even as the continent also seeks to address this, Africa also faces the challenge of rising inflation. Indeed, with rising inflationary pressures and output levels below pre-pandemic trends in most countries, central banks face a difficult balancing act between curbing inflation and supporting growth.

The importance of domestic resource mobilisation

These crises have had a dual negative effect on African countries. Governments are confronted with the challenge of increased immediate expenditures to cushion their citizenry against the impact of these crises while navigating the shrinking fiscal space caused by the negative impact of the crises. Tackling illicit financial flows and enhancing domestic resource mobilisation will be key to states' efforts to address these challenges. According to the African Tax Outlook, however, the continent's average tax to GDP ratio is 14.84 per cent. This is significantly below the OECD average of 33.5%, indicating that African countries must do more to improve their domestic resource mobilisation efforts. Part of this is due to illicit financial flows estimated at USD 88.6 billion. This amounts to 3.7 per cent of Africa's GDP, leaving the continent as illicit capital flight. It shows that these outflows are nearly as much as the combined total annual inflows of official development assistance, valued at $48 billion, and yearly foreign direct investment, pegged at $54 billion, received by African countries. Africa will need at least USD 432 billion to address the effects of Covid-19; as of today, the climate finance gap sits at up to $127.2 billion annually till 2030; and the economic disruptions stemming from the Ukraine War are set to further increase Africa's financing gap. To address this, African governments similarly need to take a dual approach to improve their domestic resource mobilisation. At the national level, governments will need to address the issues that exist within their economies, and in addition to this, African countries will need to cooperate to address the global issues that hinder their domestic resource mobilisation efforts as well.

As it stands, the current global tax system is unfavourable towards developing countries and, as such, requires reform. The current negotiations to fix the global system are being spearheaded by the OECD Inclusive Framework; however, they have fallen short of a solution that addresses the key tax issues facing Africa. At the 2020 Extraordinary Specialised Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration, the AU Briefing of the African finance ministers stated:

“…developed countries are not listening to the concerns of developing countries and have no intention of redressing the balance of taxing rights in any significant way. Africa must mobilise itself at a political level if it is to change the stance of developed countries and address these key tax issues.”

Even as African countries explore both domestic and global levels to raise domestic resources, it is important to note that one of the most important socio-economic effects of these crises has been an increase in inequality. For example, during Covid-19, the wealth of the world’s ten richest men doubled, and the incomes of 99 per cent of the global population declined. This widened inequalities both within and between countries. As a result, as governments explore ways of increasing their domestic resource mobilisation efforts, governments must explore avenues that do not exacerbate inequality and shift the tax burden to the poor.

The urgent need for policy coherence

The measures to combat IFFs and promote DRM are innately complex and multi-dimensional covering multiple disciplines and areas of law and public policy involving many disparate actors across a variety of governmental and non-governmental organisations, across continents, with competing interests. Coupled with the current crises, there is therefore a high risk that laws and policies regarding IFFs, and DRM will be rushed, incoherent or badly developed and that their effectiveness will suffer as a result. The legislature has the important role of not only making coherent laws, but also oversighting its implementation, approving budgets to finance its related projects and programmes and voicing the needs of the ordinary people. The legislators’ understanding and grasp of the emerging issues from the current crises and available policy options to combat them is therefore critical in the fight against IFFs and tax injustice. There is also need for the legislators to collaborate and coordinate interventions at both national and at regional levels.