TAX JUSTICE NETWORK AFRICA

THE PRINCIPLES OF TAX JUSTICE FOR CLIMATE ACTION IN AFRICA

A Pocket Guide for Tax and Climate Justice Champions

APRIL 2024

Acknowledgements

This pocket guide was compiled by the Tax Justice Network Africa for its policy advocacy and influencing work on tax justice and sustainable climate financing in Africa. Authors and contributors to this pocket guide include Mukupa Nsenduluka, Rachel Etter-Phoya, Idriss Linge, and Luke Holland. This paper benefitted from the editorial reviews of Chenai Mukumba, Isaac Danso Agyiri, Franziska Mager and Liz Nelson.

This work is the culmination of the lessons learned from the work done over the past two years on tax justice, domestic revenue mobilisation, climate finance, and the extractive industries in Africa. The insights, reflections and lessons learned on the principles of tax justice for climate action are drawn from the work done in partnership with Tax Justice Network, Policy Forum Tanzania, and Centro para Democracia e Direitos Humanos Mozambique with financial support from the African Climate Foundation.

If you have any questions, inquiries, or feedback, do reach out to us at: info@taxjusticeafrica.net

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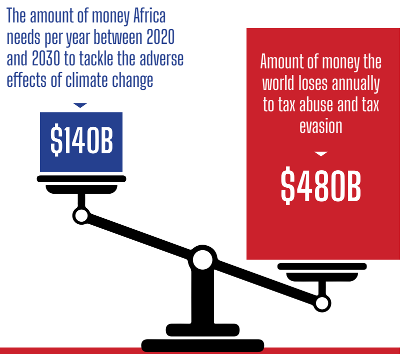
1.0 Introduction

Collaboration between tax justice and climate justice advocates, researchers and campaigners has never been more crucial, given the shared vision and common objectives to mobilise financing to address the climate crisis. For Africa, particularly, the climate financing gap remains a major challenge despite being resource-rich and contributing the least to the climate crisis. Recent research from the Global Centre on Adaptation shows that climate adaptation finance flows to Africa must increase up to tenfold to over US$ 100 billion per year by 2035 to build resilience against the growing impacts of climate change. At the same time, Africa loses an estimated US$50-$89 billion each year due to illicit financial flows. The enablers of tax abuse are the wealthiest countries in the world and their overseas territories; the countries that have caused the climate crisis.

Over a decade ago, developed nations promised to provide US$100 billion in climate financing each year. This pledge has remained unmet year after year, and even if this earlier commitment were honoured, it would be inadequate to meet Africa's challenges. In 2020, Africa accounted for just 3 per cent of total climate funding, and the African Development Bank estimates Africa needs at least $140 billion per year between 2020 and 2030 to finance Nationally Determined Contributions to tackle the adverse effects of climate change. Notably, the State of Tax Justice 2023 exposes how fixing the international tax system could help plug this gap, as the world loses US$480 billion per year to corporate tax abuse and wealth tax evasion – almost five times the financing pledge of US$ 100 billion.



As tax justice advocates, we believe that taxes can contribute to addressing Africa's climate financing gap. Furthermore, we believe that taxes can be effective for climate financing only if structural and systemic reforms in the international tax system are realised to curb illicit financial flows.

Continental conversations on the tax and climate nexus

It's against this backdrop that in 2022, the Tax Justice Network Africa set out to advance the conversation on climate and tax justice with campaigners and policymakers across Africa in partnership with the Tax Justice Network, the Centro para Democracia e Direitos Humanos in Mozambique and the Policy Forum in Tanzania, and with the financial support of the African Climate Foundation. The Tax Justice Network Africa and the Tax Justice Network hosted two virtual roundtables bringing together over fifty (50) participants working on climate and/or tax justice in West, East and Southern Africa to find common ground. Two country-level studies were also conducted in Mozambique and Tanzania.

As African tax justice advocates, we stand with many others seeking ways to build tax and climate solutions together. In 2022, the UN General Assembly was urged to "Explore legal options to close down tax havens as a means of freeing up taxation revenue for loss and damage" by the Special Rapporteur on the promotion and protection of human rights in the context of climate change. Alongside this, many civic groups, researchers, and policymakers are making a concerted effort to explore the nexus between tax and the climate crisis.

Overview of the Pocket Guide

This pocket guide highlights the key questions and areas of learning during project implementation. It draws on country-level studies to illustrate the broader tax and climate justice issues at the national level in countries with extractive industries. Based on this collective work over the last two years, project collaborators put forward a framework of tax justice principles, known as the '5Rs of tax justice', to guide the way ahead in advocating for tax justice for climate action. We draw on these principles of tax justice and suggest several questions that can serve as touchpoints for climate and tax justice CSO advocates, researchers, and campaigners at a national level in exploring domestic and external climate financing options.

More synergy and tactical advocacy are required if both tax justice and climate justice are to be realised on the resource-rich African continent. As such, this pocket guide is a helpful reflection tool and framework to enhance collaboration between the tax and climate justice movements.

2.0 THE PRINCIPLES OF TAX JUSTICE AND CLIMATE ACTION

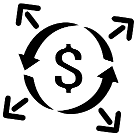
PRINCIPLE ONE
Raising Revenue

Raising revenue is the principle to set the right fiscal policy and ensure taxpayers (i.e. Multinationals) pay their fair share of taxes. This requires significant changes in the tax architecture at the international level, in line with the recent resolution successfully tabled by the Africa Group and passed at the United Nations to introduce a UN framework convention on tax. At the domestic level, among other opportunities to tackle tax-motivated illicit financial flows and unnecessary tax incentives, governments must revisit and renegotiate double tax treaties that reduce the taxes multinationals generally pay, particularly in the countries where they do business.

Reflection Questions on Raising revenue

- What are your country's main sources and sectors, and what are their contributions to domestic resource mobilisation?
- What is the scale (estimates) of abusive tax practices, including corporate tax abuse? Where are the major leakages?
- What are the human rights impacts of tax abuse?
- What government measures exist (such as anti-abuse clauses in tax and investment treaties and beneficial ownership disclosure rules), and what measures are needed to address corporate tax abuse?
- How effectively is beneficial ownership transparency enforced?
- Are multinational companies reporting publicly on a country-by-country basis?
- What are the prospects for transition minerals, including domestic value addition and linkages per the Africa Mining Vision? What impacts may this have on domestic resource mobilisation?
- Has the potential shift in demand for fossil fuels and commitments to reduce emissions been considered in energy, minerals, and domestic resource mobilisation strategies?
- What climate financing options have already been accessed, and what is the impact?
- Do tax/revenue administrations have the technology, capacity, and political space to enforce tax laws and regulations to raise the maximum available resources?
- Are mining and petroleum contracts disclosed to allow the assessment of fiscal terms, forecasting and benchmarking, and monitoring government and corporate compliance?

PRINCIPLE TWO
Redistribution

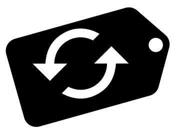


Redistribution is fundamental to redress inequalities between and within countries. Tax plays a role in enabling the state to ensure higher earners and the wealthy pay their fair share, reducing the burden on lower-income households and redressing historic inequalities within regions of the country or specific groups of people. The revenue can be used to target public services and welfare programmes. At an international level, tax can redistribute wealth or distribute it more fairly by clamping down on wealth tax evasion and profit shifting.

Reflection Questions on Redistribution

- What is the gap between budget allocation and expenditure for climate action? How does this compare to national plans, including Nationally Determined Contributions?
- Are any social welfare programmes (such as social cash transfers) connected with climate impacts, including disasters?
- What revenue-sharing mechanisms exist in the extractive sector, for example, between mining and non-mining regions and for areas affected by the negative impacts of mining?
- What wealth, capital gains, and inheritance taxes are in place or being discussed?
- Does the current taxation framework in the extractive sector effectively consider the social and environmental cost on local communities, and how are these aspects incorporated into the extractive sector tax system and budget allocation?
- Is a robust mechanism in place to ensure that multinational extractive companies are transparent about their profits and tax payments, contributing their fair share to the national economy?
- Does the current tax regime in the extractive sector adequately capture the actual value of extracted resources, ensuring fair revenue for national development, including climate initiatives?
- Is your government currently investing in renewable energy initiatives? How much has been allocated, and is there an impact?
- What percentage of your national budget annually is invested in Nationally Determined Contribution plans to cut emissions and adapt to climate impacts? Is it a sufficient allocation?

PRINCIPLE THREE
Repricing



Repricing gives us a tool to design taxes to reduce carbon emissions progressively. It helps us to analyse global repricing tools (such as the EU Carbon Border Adjustment Mechanism) that may negatively affect African industry and business. Carbon pricing is a relatively new and emerging area in Africa, though based on a history of taxation to influence consumer behaviour and potentially fund related services. Where using products like tobacco or alcohol leads to a more significant burden on public health services, increasing prices may disincentivise use and generate further revenue for the public health budget. Similarly, repricing carbon at the consumer level can influence purchasing behaviours that better align markets with the Paris Agreement goals and raise revenue.

Reflection Questions on Repricing

- What environmental taxes are applied, and how effective are these in changing behaviour?
- What carbon taxes are applied, and to which industries? Are they progressive? Are they passed on to the end consumer? Are they part of robust social protection programmes?
- How do carbon taxes set in other regions impact domestic industry and exports, such as the Carbon Border Adjustment Mechanism?
- How can African countries collaborate to develop a unified stance or policy response to external carbon pricing mechanisms that might affect their transitional resources extractive sectors?
- What are the opportunities and challenges for carbon taxes as a climate financing tool in Africa?
- What are the opportunities and challenges for Emissions Trading Schemes/Cap and Trade in Africa? What lessons can be learned from the EU's Carbon Border Adjustment Mechanism (CBAM)?
- Are there any concerns and contestations around on carbon credits/markets in your country? If yes, what are they?
- Do carbon markets as a financing option cause more harm than good in your country? Are there policy safeguards that governments can be put in place to make this financing option more progressive and beneficial to the African continent?

PRINCIPLE FOUR
Representation

Representation is needed at national levels, where governments are held accountable, operate transparently, uphold strong institutions, invest in the right policy frameworks for climate action and deal with revenue leakages from the public coffers. The representation of our elected leaders and policymakers will improve if governments rely more heavily on taxes rather than rents from resources, loans, or development assistance. It strengthens democratic processes and supports our sovereignty. Internationally, citizens in the global south and north must hold leaders accountable for climate financing commitments and continue to challenge the power of the OECD in international tax rulemaking and its efforts to block progress at the UN. Citizens need to be involved and interested in global governance.

Reflections Questions on Representation

- What policies, laws and governance systems are in place for transparency and accountability to ensure effective domestic resource mobilisation from the extractive sector?
- How does the government oversee, raise revenue, and manage the impacts of carbon offsetting schemes that use natural resources (e.g. forests as carbon sinks) within their borders?
- What measures are implemented to protect public funds from revenue leakages and directed towards effective climate action?
- Does the government take meaningful steps to facilitate and ensure the participation of ordinary citizens in the development of tax policy to strengthen democratic processes in taxing extractives?
- Does a strategy exist to hold the international community accountable for their climate financing commitments?

PRINCIPLE FIVE
Reparations

Reparations are critical for redressing the historical legacies of colonisation and ecological damage. Here, the intersection between tax and the climate justice movements is clear. The countries enabling the most tax abuse are also, historically, the most highly polluting nations. Global North countries have a responsibility to pay for the loss and damage caused elsewhere, in line with their extra-territorial human rights obligations.

Reflection Questions on Reparations

- What is your country's most common form of climate finance (grants, loans, etc.)? How does this compare to the demands in Nationally Determined Contributions and other domestic plans and strategies?
- What commitments have been met by historically polluting nations on climate finance at the national level? Have these commitments been honoured?
- What is the estimate of anticipated annual loss and damage?

3.0 CONCLUSION

These pocket guide questions are not exhaustive but are meant to stimulate initial conversations and debates on the nexus between tax justice and climate action. We hope these questions will inspire tax and climate justice advocates, campaigners, and researchers in Africa and beyond to work more closely together and consider how tax justice can support and meaningfully contribute to climate action. We look forward to receiving your feedback.

4.0 KEY RESOURCES AND REFERENCES

This development of this pocket guide extensively drew from the following key reports and publications:

Centre for Democracy and Human Rights and Tax Justice Network Africa, Domestic Resource Mobilisation in Mozambique's Extractive Sector for Climate Financing, (October 2023) <https://www.taxjusticeafrica.net/sites/default/files/publications/WEB%20DRM%20TJNA.....pdf>

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The African Climate Foundation, Priorities for an Equitable Reform of the Global Financial System, (September 2023) https://africanclimatefoundation.org/wp-content/uploads/2023/08/Whitepaper_final3.pdf

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